



Department for
Communities and
Local Government

Transparency in Social Housing Assets Value

Summary of Consultation Responses and Government
Response



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Introduction

To help deliver greater transparency about the value of councils' housing stock, a public consultation exercise was carried out by the Department for Communities and Local Government on *Transparency in Social Housing Asset Value*, published on 11 July 2014. This is part of the Government's commitment to place more power into citizens' hands to increase democratic accountability and make it easier for local people to contribute to the local decision making process and help shape public services.

Seeking greater transparency and accountability in the way councils manage their social housing stock is a key measure of localism. This will allow local communities to hold local councils to account on how they are managing their stock to ensure they are making the best possible use of their social housing assets.

Many councils are already being proactive and planning how they can use their housing assets better in the interest of their communities, including considering whether higher value, vacant properties can be used to fund more affordable house building, increasing supply and helping reduce social housing waiting list.

These proposals are also part of a wider commitment to make better use of social housing stock which includes work to tackle tenancy fraud. This includes £19million to councils to combat social tenancy fraud, which is now a criminal offence punishable by up to two years' imprisonment and a fine as stipulated under the Prevention of Social Housing Fraud Act 2013.

The consultation aimed to seek views on the proposal to introduce a requirement to publish the more recent and subsequent valuation of their housing assets every year. The consultation also aimed to gather information on how local authorities are already utilising their assets to deliver more homes, and what information they collect on land held in their Housing Revenue Accounts.

The consultation posed sixteen questions related to the proposed changes as set out in the consultation document:

Question 1: Do you agree with a proposed start date of 1 April 2015 for local authorities to have to publish their stock valuations?

Question 2: Do you agree with the proposal to introduce a mandatory requirement for local authorities to publish their stock valuations, through a transparency code?

Question 3: Should a publication requirement be implemented by revising of the existing Code or the introduction of a separate Code for social housing?

Question 4: Do you agree that the valuations to be published should use the Existing Use Value for Social Housing when valuing their housing stock?

Question 5: Do you believe that local authorities should also be required to publish the market value of their housing stock?

Question 6: What valuation method does your local authority currently use?

Question 7: If you use the Beacon method, how many beacons do you set?

Question 8: Do you consider that there are any alternative valuation methods to arrive at market value? Please provide brief details (including the costs involved) and set out reasons why that method is your preferred option.

Question 9: Which publication option do you think is best?

Question 10: Regarding the proposed postcode method, what do you think should be the lowest postcode level at which this information should be published and not disclose individual properties?

Question 11: How does your local authority currently collect information on Housing Revenue Account land?

Question 12: How does your local authority currently assess which Housing Revenue Account land is suitable for housing or other purposes?

Question 13: How does your local authority account for the value of its land in the Housing Revenue Account?

Question 14 – Does your authority already have a policy on disposal of high value, vacant properties, or are you considering introducing such a policy?

Question 15 – How are you using high value, vacant properties to fund new homes?

Question 16 – What future plans do you have in this area?

About the Responses

The closing date for receipt of responses was 8 August 2014.

A total of 34 responses from a variety of organisations, mainly local authorities, were received by the deadline and an analysis of these responses is contained in this report.

Not all respondents commented on, or responded to, every question raised as part of the consultation exercise.

Summary of Responses to the Transparency in Social Housing Asset Value

Generally respondents agreed with the Government's aim to increase transparency in the value of the social housing stock held by local authorities as in their view this builds on the existing requirements under the Housing Revenue Account (Accounting Practices) Direction 2011. A summary of responses to each question and the government's response are outlined below:

Question 1: Do you agree with the proposed start date of 1 April 2015 for local authorities to have to publish their stock valuations?

There was a mixed view regarding the proposed start date of 1 April 2015 for local authorities to publish their stock valuations. Although some respondents recognised that they already publish stock valuations as part of their Annual Statements of Accounts and could therefore meet the proposed date, they felt this was conditional on having more clarity on the type and level of information required. About 42% of the respondents indicated 1 April 2016 as a more realistic date given the technical nature of the proposals.

A few respondents suggested that the date for publication should meet the timing for publication of Annual Accounts.

Government response:

We recognise that some respondents felt that the information should be published from April 2016. However, given the importance of this information to local communities and as the underpinning information is collected as part of the valuation of stock we consider that publication by April 2015 is preferable. This should be based on councils' most up to date valuation at the time of the publication of the information

DCLG guidance indicates that the last full valuation should have been carried out in 2011-12 and councils should have revalued all of their stock by 2016-17. Councils are currently required to carry out a full revaluation of their stock every five years. Individual local authorities have the discretion to decide if they wish to do this as part of a rolling programme, carrying out revaluations of different parts of the stock annually.

Question 2: Do you agree with the proposal to introduce a mandatory requirement for local authorities to publish their stock valuations through a transparency code?

Question 3: Should a publication requirement be implemented by revising of the existing Code or the introduction of a separate Code for social housing?

A large proportion of respondents (about 40%) were supportive of the proposal to introduce a mandatory requirement for local authorities to publish their stock valuations through a transparency code.

However, some (55% of respondents were of the view that the Housing Revenue Account (Accounting Practices) Direction 2011 already requires them to publish their valuation of the social housing stock (including the total balance sheet value of their land, houses and other property and the vacant possession value of dwellings within the authority's Housing Revenue Account). Hence, they questioned the need and added value of introducing a new mandatory requirement through a transparency code. In their view, this will lead to duplication of information, with the attached administrative burden and costs.

With regards to Question 3, there was an even split between respondents advocating the publication requirement to be implemented by a revision of the existing Code (on the basis that this will provide a single point of reference for local authorities) and those supporting the introduction of a separate Code for social housing (which was felt more appropriate given the particular nature and issues affecting the social housing sector).

Some respondents suggested an alternative implementation option through a revision of the Housing Revenue Account (Accounting Practices) Directions 2011. It was their view that any additional information requirement on the value of social housing stock should be integrated in the annual statement of accounts as they considered that this would avoid duplication and reduce reporting burdens.

Government response:

In view of the consensus among respondents with the Government's aim to increase transparency in the value of local authorities social housing stock, we will start the legal process for introducing through a separate Code, issued under section 2 of the Local Government, Planning and Land Act 1980, and make regulations to make this a mandatory requirement for councils to publish their stock valuations to ensure that information is published in a timely and comprehensive way. This will require that valuations are published annually with a proposed start date of 1 April 2015 for local authorities to publish their stock valuations.

Responses raising views on the duplication of information argued that under the Housing Revenue Account (Accounting Practices) Direction 2011 councils are already required to reflect the total value of their social housing stock as part of the Annual Statement of Accounts. This responds to separate specific accountancy requirements as stock-holding councils are under a statutory duty to account separately for the housing stock in their Housing Revenue Account. We considered it preferable to publish information in a separate Transparency Code to separate this information from accountancy practices and to ensure that it is seen as an element of the Government's transparency agenda.

We believe that requiring stock-holding councils to publish this information will enable more transparency for local communities and, in doing so, provide the means for better long term asset management by encouraging councils to manage their housing assets more effectively in the interest of their residents. This will include considering whether using the capital receipts from the disposal of higher value, vacant properties could be used to fund the building of new homes for local people. This will help increase the supply of affordable housing within their areas as well as reduce social housing waiting lists, without affecting the rights of existing tenants.

As highlighted in the consultation paper, the intention is for councils to take a strategic approach to their assets with no intention to focus on the sale of tenanted properties.

Question 4: Do you agree that the valuations to be published should use the Existing Use Value for Social Housing when valuing their housing stock?

Question 5: Do you believe that local authorities should also be required to publish the market value of their housing stock?

There was a general support for the proposal for asset valuations to use the Existing Use Value for Social Housing. Most respondents indicated that this methodology, which is in line with current accounting practice governing annual accounts, better reflects the value of the social housing stock than any other valuation basis. This method is used by most local authorities and will, therefore, provide a consistent approach.

Under the Existing Use of Value for Social Housing methodology market value of the social housing stock is already taken into account. On this basis, a large proportion of respondents (about 40%) indicated that they already provide information on vacant asset value as part of their annual statements of accounts and, hence, were content with the proposal. However, it was also suggested by some that market value valuations should be accompanied by a narrative explaining the difference between the two valuations and the use of adjusted value calculation.

However, a larger proportion of respondents (58%) felt cautious about publishing the market value of their social housing. They felt that vacant possession market values

provide an artificially high valuation that cannot be realised by councils as most stock is tenanted (subject to secured tenancies) and hence with conditions affecting their disposal. Hence they were concerned that this could lead to misinformed debates about the real cost of their social housing stock rather than increase transparency.

Government response:

In view of the responses, the Code will require that the publication of assets valuations should use both the Existing Use Value for Social Housing and market value. This information will enable local communities to understand better the value of the social housing stock their council owns, if tenanted compared to a value based on vacant sale. But it will also allow local communities to hold their councils to account about how they are managing their stock and about whether they are making the best possible use of their social housing assets.

In recognition of some respondents' concerns about publishing the market value of the social housing stock, the Code will also include a requirement that all valuations are published with an explanatory note explaining the difference between the two valuations (i.e. vacant market sale versus social housing tenanted sale value), and assurance that the publication of this information is not intended to suggest that tenancies should end to realise the market value of properties.

Question 6: What valuation method does your local authority currently use?

Question 7: If you use the Beacon method, how many beacons do you set?

Question 8: Do you consider that there are any alternative valuation methods to arrive at market value? Please provide brief details (including the costs involved) and set out reasons why that method is your preferred option.

All stock holding local authorities that have replied to this consultation use the Beacon method as main approach for calculating the value of their housing stock.

The majority of respondents agreed that the Beacon method provides the most cost-effective and accurate statistical base for calculating stock values, providing consistency across the sector. However councils vary in the number of beacons they set ranging from the highest 1,000 to lower level of 17.

Just four respondents suggested the Discounted Cashflow Method as alternative valuation method. In their view, this methodology may provide a reasonable proxy of market value as it uses future rental income projections and likely liabilities (such as management costs like repairs, improvements and voids) to arrive at net income, which are used to evaluate the potential market value. As such, this analysis reflects the business and performance of

the stock. While one authority currently uses both the Beacon and Discounted Cashflow method (the latter for high rise flats and certain types of non-traditional/system built houses).

One respondent suggested, as a potential alternative, the Depreciation Replacement Costs method. It was their view that this approach will enable to reflect the rebuilding costs of an equivalent asset; although it does not recognise the status of the tenancy.

However, there was a consistent view that proposal for any alternative model will need proper consideration.

Government response:

In view of respondents' consensus over the use of the Beacon valuation method, which in their view provides the most effective and accurate statistical base for the valuations, we are not proposing to advocate the use of any alternative valuation model.

Question 9: Which publication option do you think is best?

Question 10: Regarding the proposed postcode method, what do you think should be the lowest postcode level at which this information should be published and not disclose individual properties?

Publication of stock valuations by number and types of property and size within 'price bands' was supported by 42% of respondents on the basis that this is easy to understand and also easy for local areas to apply. This was followed by the 'Beacons' and 'type of property' options.

There was not strong support for the post code option as respondents were concerned about the careful choice needed on the level at which data should be published to manage the risk of identifying individual properties. Most respondents were of the view that if required to publish valuations by postcode this should be at the highest level, i.e. postal district level (e.g. SW1).

Government response:

Although responses to Question 9 showed a preference for publication by 'price bands', the Government considers that publication by postcode will enable to get a better understanding of volume of social housing stock and value within any given area. However, the Government also recognises the concerns raised in the consultation about the need not to enable individual property values to be disclosed.

Following this model, each council would be required to publish individual valuation data

(i.e. a list of values without the full addresses) at postal sector level within set bands of value which properly reflect the current housing market within their area, and indicating whether these are occupied or vacant. While allowing councils discretion in defining their own bands, we envisage valuation bands to be set within some general parameters (e.g. optimal number of bands and standard band values within bottom and top bands) in order to ensure that valuation data published by all stock holding councils is published in line with consistent valuations bands that are clear to understand and enable comparisons to be drawn. More detailed guidance will be set out in the Code.

To manage concerns that the published information is not disclosive of individual properties it is proposed that data should be published at postal sector level (i.e. full 'outbound' code (first part of the postcode) and first digit of the 'inbound' code (second part of the postcode)). This provides an average cell size of 2,500 households, which, based on the Information Commissioner's Office's Code of Practice on data protection, should be large enough to prevent identification of personal information. However, in particular areas where the postcode sector gives a number of households below 2,500 we will propose the postcode level be set higher, that is at postcode district level (e.g. PO1 ***). In publishing the Code, we will provide further guidelines on data adjustment measures in order to mitigate the possibility of data becoming disclosive.

As stated in the consultation paper published valuations should not indicate individual property values.

In publishing valuation data by postcode, local authorities will need to assess their current license arrangement with the Royal Mail with regards to the terms of use of the Postcode Address File (PAF).

Question 11: How does your local authority currently collect information on Housing Revenue Account land?

Question 12: How does your local authority currently assess which Housing Revenue Account land is suitable for housing or other purposes?

Question 13: How does your local authority account for the value of its land in the Housing Revenue Account?

The large majority of stock holding councils that have responded to the consultation use land terrier systems (an operational records system used to manage their land and property holdings) and/or assets register as main tools to record information regarding all land, including that held under housing powers within their Housing Revenue Accounts and property assets. A few respondents support these with Housing Management databases and electronic mapping of assets.

Most respondents carry regular reviews and testing of the information contained in their terrier system and/or asset register. Land suitability for housing is generally assessed on a case by case basis with options appraised against a series of factors including, among others: site size, current land use, (re)development potential (access and potential costs), future or alternative use requirements, value, local priorities and local community' views.

Most respondents have indicated that their councils are actively managing their housing stock, including land and assets. Decisions on the future of their land holdings are generally considered in line with their respective council's strategic priorities for housing, as set out in their housing and regeneration strategies, and their Housing Revenue Account Business Plan. Although based on the evidence provided not all councils seem to have in place a stand alone an asset management strategy for their Housing Revenue Account.

With regard to Question 13, most respondents account for the value of their Housing Revenue Account land following current accountancy guidelines issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Code of Practice for Local Authority Accounting requires operational land to be valued on an existing use basis, and surplus land to be valued on the basis of the last operational use.

Question 14 – Does your authority already have a policy on disposal of high value, vacant properties, or are you considering introducing such a policy?

Question 15 – How are you using high value, vacant properties to fund new homes?

Question 16 – What future plans do you have in this area?

As outlined above, most councils that responded to the consultation are being proactive and are considering how they can use their housing stock, including land and high value, vacant properties to help fund new affordable homes. To that effect they have in place asset management processes to consider vacant assets and decide on the most appropriate options, including disposal.

Just a few councils do not have in place a specific policy on disposal of high value, vacant properties or are considering introducing such a policy. The reasons advocated range from those respondents who argued that their stock holds relatively low property values (making not cost-effective to dispose of stock when assessing sales proceeds against the cost of a replacement dwelling), to those whose policy is to protect existing stock given the high housing pressure within their area and to ensure they deliver mixed communities. A few respondents suggested that high value, vacant properties is a localised issue affecting mostly London and the south east and therefore not able to yield as great opportunity to finance new build for all councils as the consultation document seems to suggest.

But in general, most respondents indicated that their councils take a pragmatic approach to asset disposal in order to maximise the use and value of assets, while seeking to meet housing needs and mixed communities.

When high value, vacant assets are sold capital receipts are generally held within the Housing Revenue Account for the purpose of re-investment in social housing (either through the provision of new affordable housing or to improve the existing stock to Decent Homes Standard), or to reduce ongoing revenue costs.

One respondent suggested the value of issuing guidance for local authorities on long-term asset management assessment and how this should be incorporated into councils' self-financing business plans. Establishing the financial values of assets could be one part of this.

Government response:

The responses to questions 11 to 16 reflect many councils proactive approach in the way they account and manage the land and assets they own under their Housing Revenue Account - ensuring these are best used to the benefit of their local communities, including helping fund more affordable house building.

Good strategic asset management enables councils to align their resources with local priorities, to improve the delivery of public services, make effective use of capital investment as well as providing land for housing building to meet local housing needs and drive local economic growth.

All stock holding councils will be aware of the need to understand the value of their housing assets (including land and high value, vacant property) as part of the Housing Revenue Account. Government is also keen that councils should have active asset management strategies, which should include being proactive about considering whether the sale of high-value vacant stock (both within and outside the social housing sector) is appropriate in order to support the delivery of new affordable homes, increasing supply and reducing social housing waiting lists.

As highlighted in the consultation paper, the intention is for councils to take a strategic approach to their assets with no intention to focus on the sale of tenanted properties. It is ultimately for local authorities, accountable to their local communities, to make any decision regarding how best to use their land and assets, taking into account the needs of the local community and any local asset management strategy that the council may have.