

AFFORDABLE HOMES STRONG COMMUNITIES



THEMATIC REVIEW

Decent Home Standard

June 2007

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Introduction

The answer to the question ‘will housing associations meet the Decent Home Standard on target in 2010?’ lies with housing associations¹ – in their planned maintenance programmes, in their business plans and financial provisions; and most of all, in their commitment and determination not just to meet national policy objectives, but to provide decent homes for their tenants to live in.

Housing associations overwhelmingly report that they will meet the target set by the Decent Home Standard.

In this Thematic Review of housing association progress towards the Decent Home Standard (DHS), we reviewed the data that housing associations supply to us about DHS performance. We carried out an in-depth analysis of one set of data, the statistics from the Regulatory and Statistical Return (RSR). We have scrutinised the data in order to reach a conclusion about whether housing association claims stand up. We conclude that the data indicates that they do.

The Thematic Review describes those aspects of asset management that affect DHS performance and gives an indication of likely future performance and outcomes. It presents the findings from our analysis. It corroborates and is corroborated by the findings of the Sector Study, Meeting the Decent Home Standard (Housing Corporation 2007).

The Review gives some idea of the challenges housing associations face in the field of maintenance – the complexity of asset management and of measuring stock condition. In spite of these, there is evidence that housing associations are making significant progress towards the Decent Home Standard and that they have now reached a rate of improvement that will carry them through to 2010. It is no more than we would expect of a housing association sector that consistently achieves the targets that we set it.

¹ ‘Housing association’ is used as a generic term for registered social landlord throughout this Review.

Terms of reference

The Thematic Review addresses the following questions:

- Will the sector deliver the 2010 target, and what is the trajectory for reduction of the failure rate from its current level?
- Is our risk assessment of ability to deliver DHS and broader asset management capability sound and does it provide an acceptable basis for reporting to central government?

A further aim of this Review was to contribute to a basis for updating the risk assessment model and identifying requirements for regulatory engagement with individual associations.

The Review sought to exploit and co-ordinate knowledge and information about housing associations at field level. It was therefore decided to co-ordinate field level data analysis and to consciously adopt a common framework. This was augmented by national data analysis. The result was a comprehensive and rigorous data analysis at field level that both informed the national level and gave regulation specialists and account managers sophisticated information to inform their assessment of housing association performance. A further benefit

was the ability of regulators to contribute to enhancing the field level analysis with their own knowledge of associations.

Executive summary

This Housing Corporation Decent Home Standard Thematic Review considers housing associations' progress to date toward the DHS, and implications for meeting the 2010 target. The review analysed Decent Homes data supplied to the Housing Corporation both nationally and at field level. This report considers the national picture.

In analysing association performance we used these dimensions of the housing association sector:

- type of association – traditional or stock transfer (LSVT);
- association size – measured by number of properties owned;
- performance by association and by group; and
- performance of associations selected as preferred investment partners.

The analysis considered these factors:

- detailed analysis of performance 2004–2006;
- asset management factors: tenant refusals, demolitions and disposals;

- analysis of extent and impact of tenant refusals;
- percentage of stock identified as awaiting demolition; and
- analysis of Right to Buy and market disposals.

The Review did not consider housing associations with less than 250 units². These are subject to a separate review of progress towards DHS.

Between 2004 and 2006, the number of associations providing data increased by 36 to 547; total stock size of these has increased by 234,284 to 1,893,799; and the number of homes failing the DHS decreased from 327,462 to 293,556. The percentage of properties failing DHS fell from 19.7% to 15.5%.

Reporting of DHS fails is affected by a number of variables, including changes in the total stock number caused by new stock transfers, sales to sitting tenants and market sales, demolitions and completion of new homes. In addition, the overall level of DHS failure is affected by stock transfer 'imports' and by ageing of the stock.

² The total stock owned by the 1,200 housing associations with less than 250 homes is 54,000. These are subject to different regulatory engagement from the 400 associations with more than 250 homes, see How We Regulate.

Finally the status of associations' stock condition data is a significant factor in the reporting of DHS compliance.

Analysis indicates that larger associations face greater DHS failure rates than smaller ones. It is likely that this is because of the greater concentration of stock transfer units in larger housing associations and it is more likely that most associations with older (pre-1975) stock are larger³.

We found that stock transfer associations tend to make faster progress towards DHS targets than 'traditional' associations. We would expect this: stock transfers since 2000 have transferred with a business plan focussed specifically on bringing properties up to a locally determined standard in excess of the Decent Home Standard (DHS+), with the aim of sustaining this into the future.

Traditional associations are more likely to incorporate DHS into their existing planned maintenance programmes. Some stock transfer associations registered prior to 2001 face particular problems.

Housing associations' strategies to achieve DHS are affected when tenants do not wish to have DHS work carried out in their homes. Such tenant refusals mean that associations may need to subsequently carry out DHS upgrades out of sequence.

There is concern that tenant refusals may have been under-reported in this first year of collecting data. They amounted to 1.4% of the stock of those associations that reported refusals.

Housing associations' asset management practices include demolition of stock that is obsolete and not in demand; properties earmarked for demolition by 2010 under regeneration proposals do not have to be brought up to DHS or reported as DHS fails⁴.

Associations also dispose of properties – to tenants under Right to Buy and other purchasing arrangements, and to other social or non-social landlords. In addition, associations' asset management strategies may include the disposal of properties that are uneconomic to repair.

³ With the exception of almshouses, which usually have older stock. Most have fewer than 250 properties and are therefore not included in this study.

⁴ [www.communities.gov.uk>Public Service Agreement Target>Technical Notes>PSA Target 7 – Decent Homes](http://www.communities.gov.uk/Public Service Agreement Target/Technical Notes/PSA Target 7 – Decent Homes).

Our analysis of asset management factors found:

- low levels of demolition, indicating that demolition is used strategically;
- sales to tenants are higher in stock transfers, market disposals are higher for traditional associations; and
- overall, levels and patterns of disposal activity indicate healthy asset management practice.

Nearly half of groups with more than 1,000 properties that are expected to fail to reach DHS are located in the North and Midlands. Most are either LSVT associations or hybrids of traditional and stock transfer.

Thirteen of the Corporation's investment partners have greater than 15% failure rates. For four of these, reported failure rates increased by over 15% between 2004 and 2006, and five other investment partners returned increased failure rates.

The analysis carried out by Corporation field offices has produced reports which are invaluable in explaining variations between associations at field level.

Background

Thematic Reviews

In 2006, the Housing Corporation introduced Thematic Reviews, a new regulatory product. These reports use existing sources of data we hold on housing associations to examine performance by specific sections of the housing association sector.

The Reviews enable our regulators to come to an overview of sector performance and to identify outliers. They may be used to influence proportionate and targeted regulatory engagement. They also enable associations to use the analysis to benchmark their own performance against their peers. In *How We Regulate 4: Our Overall Approach* we outlined how the Corporation's corporate priorities and emerging risks will determine the topics that we select for Thematic Reviews.

The Housing Corporation has carried out a Thematic Review of housing association progress towards meeting the Decent Home Standard. Housing associations make annual statistical returns to the Housing Corporation in the Regulatory and Statistical Return (RSR). This Review is an in-depth analysis of data supplied in the 2006 RSR.

The Decent Home Standard

In 2000 the Government made a commitment to bring the fabric of all public sector homes up to a minimum standard by December 2010. The Decent Home Standard (DHS) was established as this minimum standard. The Housing Corporation is responsible for ensuring that housing associations meet the standard within the required timescale.

The Decent Home Standard was first introduced in 2001. The RSR asked associations how many properties failed the standard for the first time in 2002. It was a voluntary question, allowing time for associations to adjust their data collection systems in order to assess stock condition against the DHS. The DHS has been in place now for five years⁵. Research carried out for Housing Corporation sector studies indicated that there were teething troubles associated with the introduction of the Standard (Sector Study 19: Decent Homes) and that the situation subsequently improved (Sector Study 32: Housing Association Progress Towards the Decent Home Standard). In 2006 evidence suggests that the sector has fully incorporated the

⁵ This is correct for the 2006 RSR data which was analysed for the Thematic Review.

DHS into stock condition surveys. The Thematic Review confirms that the sector has a grasp of the task involved and is geared up to meet it.

Definition of the Decent Home Standard

The Decent Home Standard Guidance was revised in February 2002, February 2004 and June 2006. The relevant version at the time when the 2006 RSR data was collected was the February 2004 version⁶ published by Communities and Local Government. For reference this is reproduced at Appendix C together with the June 2006 amendments.

Purpose

The purpose of the Review is to analyse all the information available to the Housing Corporation, in order to assess what progress associations have made.

The review is based on statistical information obtained from RSR data submitted by associations for the years ending 31 March 2004, 2005 and 2006. Information is obtained for stock holding

associations owning more than 250 homes⁷. As a number of stock holding associations are also part of larger groups, these groups' performance has also been considered.

Housing associations, without exception, report that they will meet the 2010 deadline. More significantly, housing associations have made commitments to their tenants to meet the target. For some housing association tenants, whose kitchen consists of some shelving, a counter and a Butler sink, four years is a long wait for an improvement. This report is intended to highlight progress made by associations.

Approaches to achieving the Decent Home Standard

Associations approach works required to meet the DHS in different ways. Work can be undertaken in either a holistic or an incremental manner. i.e. all the work necessary to meet the DHS is completed on each property in turn, or individual elements such as new heating systems are completed over a period of time. Some associations adopt a combination of these approaches.

⁶ A Decent Home: Definition and Guidance for Implementation February 2004 Communities and Local Government p7.

⁷ 1,085 housing associations own fewer than 250 homes. These smaller associations own a total of 45,613 homes, amounting to just over 2% of total housing association stock. The scope of their asset management activity is necessarily much smaller than that of larger associations and they face particular challenges which the housing corporation is considering separately from this review.

The first method will mean that some properties may have no work undertaken for some time, but that the DHS performance will improve as each property is completed. The second method is the most commonly adopted system, as almost all tenants will benefit from some work within a relatively short period of time and tenants can then expect additional improvements to be completed on a regular basis. Using the second method means that the DHS may not be achieved until a number of repairs have been completed, and as a result, DHS compliance for a large element of the housing stock may not occur until the total repairs programme is nearing its completion.

Research commissioned by the Housing Corporation for the 2007 Decent Homes Sector Study looks into how associations are programming works to achieve DHS⁸.

⁸ Meeting the Decent Homes Standard, Sector Study, Housing Corporation 2007 is available on www.housingcorp.gov.uk

Detailed analysis of performance 2004-06

Overview

The total DHS failures reported in the sector rose by 12,954 to 340,416 (19.7% of total housing association stock) in 2005; this was followed by a fall of 46,860 in 2006 to a total of 293,556, which is 15.5% of total stock (Table 1).

Table 1: Summary of housing associations' DHS performance

Year	2004	2005	2006
No. of HAs providing DHS data ⁹	509	531	547
Number of properties failing DHS	327,462	340,416	293,556
Total stock	1,659,515	1,821,476	1,893,799
% failing DHS	19.7%	18.7%	15.5%

A number of variables other than stock condition affect both the total number and the percentage of DHS failures and make it difficult to monitor year-on-year trends:

- Changes in the total stock number – this is affected by the following factors:
 - new stock transfer associations which bring more properties into the housing association sector;

- new development completions – 25,256 in 2006;
- sales to tenants, including Right to Buy and Right to Acquire – 6,987 in 2006;
- disposals on the open market of stock which is not viable to repair – 3,227 in 2006 (this excludes disposals to other housing associations); and
- demolitions – 4,563 in 2005-06.

- Stock transfer 'imports' of properties failing DHS also increase the total number. This is to be expected, as improving stock condition is an important part of the rationale for stock transfer. In 2005–06 new stock transfers reporting for the first time recorded 44,033 properties failing DHS – out of 89,668 homes – a failure rate of 49.11%.
- The stock condition survey cycle: this affects the reporting of DHS failure. Comments supplied on the RSR returns indicate that levels of DHS failure reported are affected by the status of associations' stock condition data. Associations generally carry out stock condition surveys on a three-to-five-year cycle; surveys carried out as the

⁹ Of all associations with more than 250 general needs rented properties.

DHS was being introduced may not have been designed to accurately collect data in the format required to assess the extent of Decent Home Standard failure. This means that there can be a lead-in period of up to five years before stock condition surveys accurately reflect the performance of stock against the Decent Home Standard.

Both the above factors can impact to result in either under-reporting or over-reporting the level of DHS failure.

Different associations have different methodologies for assessing current failures, and for estimating the rate at which homes are becoming non-compliant. The number of associations supplying data has also increased because of new stock transfers: ten stock transfer associations reported for the first time in 2005, and nine in 2006.

Subject to these caveats, there has been a consistent net fall in the number of DHS failures reported by housing associations. The number fell from 340,416 in 2005 to 293,556 in 2006. Of these, 17,071 were owned

by stock transfer associations registered in 2006. Therefore housing associations reporting before 2006 report a reduction in the number of non-decent homes of 63,931. This is the highest reduction since the introduction of the Standard. It suggests a build-up of momentum and increased focus on full compliance.

We analysed RSR data to identify associations that had both more than 1,000 DHS fails and a failure rate above the average failure rate of 15%. Fifty-four of these were transfer associations, and 13 were traditional associations. Their total stock amounts to 506,769, 26.75% of the relevant sector total. They own 170,460 properties failing the DHS. The average of their failure rates is 36.6%. They own 58% of the non-decent homes in the sector.

Seven of these associations facing the greatest challenges are new stock transfers reporting for the first time in 2006. Between them they own 16,354 homes which fail the DHS, or 15% of all the homes failing DHS in this category.

However the position for associations with the worst problems is not static. The stock transfer association with the largest number of DHS fails (Graph 1) has reduced its DHS fails from 70.1% when it transferred in 2005 to 55.7% in 2006.

The field level analysis has looked at associations with more than 2,000 units failing the DHS in 2005 and 2006. In the North most of these are recently registered and the analysis flags up some larger associations where better performance would be expected, including one which recorded a small increase in spite of a reduction in the total stock number.

For the national analysis we have reviewed RSR comments made by some associations. Two hundred and fifty-two associations whose returns showed a decrease in DHS fails made comments; 41 of those comments referred to improvements in stock condition data. Forty-four of the 114 associations who made comments and whose DHS fails had increased, referred to stock condition data or surveys as a factor. Comments also included reference to age of stock, to tenant refusals and to acquisition of failing stock both on the open market and from local authorities, indicating that these factors also impact on levels of DHS failure.

Graph 1: DHS failures for the 50 worst-performing registered social landlords in 2006



Analysis by size of association

Data has been analysed by size of association. Categories of total stock numbers used were less than 1,000; 1,000–2,000; 2,000–5,000; 5,000–10,000; and over 10,000 properties.

Table 2 reflects the growth in the sector over the last three years. It shows that the number of associations in each size category has increased since 2004, with the exception of those with 1,000–2,000 properties.

The total number of associations providing data has also increased and it is probable that the decrease in the number in the 1,000–2,000 category is due to changes in stock numbers moving associations into different categories. This finding is repeated across all the fields.

The analysis reveals that:

- the number and the percentage of DHS failures fell in associations owning less than 5,000 homes in all three years;

Table 2: Percentage of stock failing DHS, broken down by size of association

Size of association	2004			2005			2006		
	HAs	DHS failures		HAs	DHS failures		HAs	DHS failures	
		Number	%		Number	%		Number	%
< 1000	177	8,494	10.4%	185	7,132	8.1%	189	5,898	7.0%
1000–2000	80	13,532	11.7%	75	11,485	10.3%	73	10,356	9.7%
2001–000	148	111,071	22.2%	157	94,643	18.0%	165	84,713	15.1%
5001–10,000	74	97,597	19.9%	80	102,160	18.8%	85	90,840	15.9%
10001+	30	96,768	20.6%	34	124,996	22.6%	35	101,749	17.9%
Total	509	327,462	19.7%	531	340,416	18.7%	547	293,556	15.5%

- both the number failing and the percentage of failures in associations owning 5,000–10,000 homes and more than 10,000 homes increased in 2005; and
- the percentage fell again in 2006 to below the 2004 level, but for associations with over 10,000 properties, the number failing in 2006 was still higher than in 2004, although it dropped below the 2005 level.

It is likely that this reflects the impact of stock transfer associations. In 2005 there were ten transfers, importing 44,033 properties failing the Decent Home Standard; in 2006, nine transfers imported 17,071 Decent Homes failures.

The rate of DHS failures increases consistently with the size category of associations, from 7% and 9.7% in the smallest size categories to 15.9% and 17.9% in the two largest categories. This compares

with the total failure rate in stock transfers of 21% and demonstrates the impact of LSVT stock which is concentrated in the largest associations.

Field level analysis of these categories has identified the worst cases in each category and will be a tool for field teams to focus their attention.

The impact of stock transfer for Decent Home Standard compliance

Table 3 shows the stock transfer picture for DHS since 2004. The number supplying data has increased by 19%; total stock owned by stock transfers has increased by over 24%, and DHS fails, after an increase in 2005, have fallen by nearly five percentage points. The percentage failing DHS fell from 27.2% in 2004 to 21% in 2006.

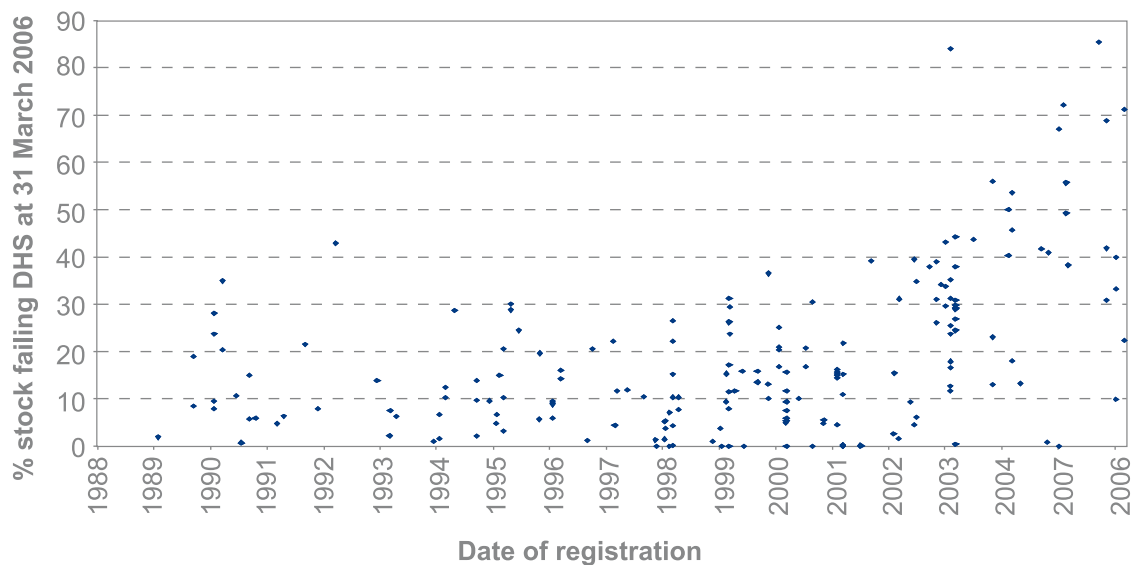
Table 3: Detailed analysis of LSVT associations

Year	2004	2005	2006
Number of associations providing DHS data	160	179	191
Number of properties failing DHS	195,030	217,965	187,210
Total stock owned	716,510	841,478	891,515
% failing DHS	27.2%	25.9%	21.0%
No. of tenant refusals of DHS work:	–	–	12,441
Tenant refusals of DHS work %	–	–	1.4%
No. of units awaiting demolition	–	–	4,612
% units awaiting demolition	–	–	0.5%

Graph 2 shows the percentage DHS failure against year of registration. This shows the expected trend for more recent transfers to have a higher percentage of DHS failures. It also demonstrates that among stock

transfers that transferred before 2001 when the Decent Home Standard was introduced, the trend is less marked, particularly between 1990 and 1995. These are useful pointers for regulation activity.

Graph 2: Relationship between LSVT registration date and % DHS failures



Analysis of traditional associations

There is a small increase in the total number of associations in the population supplying DHS data but the proportion of stock transfer associations is increasing. In 2004 and 2005 there were more than twice as many traditional associations as stock transfers in the sector. Traditional

associations owned 53% of the total stock in 2006, compared with nearly 56% in 2004. The percentage failing DHS is much lower, 10.6% compared with 21% for stock transfers. This includes some stock acquired from local authorities which typically has higher failure rates. This reflects the greater focus over time on stock condition that has been possible in the housing association sector.

Table 4: How picture has changed for traditional association since 2004

Year	2004	2005	2006
Number of housing associations providing DHS data	349	352	356
Number of properties failing DHS	132,432	122,451	106,346
Total stock owned	943,005	979,998	1,002,284
% failing DHS	14.0%	12.5%	10.6%
Stock where tenant has refused DHS work	–	–	1,810
% stock where tenant has refused DHS work	–	–	0.2%
Number of units awaiting demolition			1,090
% of units awaiting demolition			0.1%

Finally we should note that many of the larger traditional associations have taken on partial stock transfer units and these units now feature within their total stock. The Housing Corporation Sector Study, Meeting the Decent Home Standard (2007) indicated that one third of the 83 associations that responded to the survey were hybrid mixtures of stock transfer and traditional.

Underlying trend analysis

To compensate for the changes in total stock size the Housing Corporation carries out an underlying trend analysis of Performance Indicators (PIs) each year. This reviews PI data for associations that supplied data for the 2004, 2005 and 2006 datasets, where their total stock has not varied by more or less than 5% in the same period. By making the assumption that the DHS data provided is therefore based on the same stock, it allows us to assess these associations' real progress towards the DHS for a given set of properties. The report is included at Appendix D. The underlying trend analysis for 2005–06 covers over 90% of total stock owned by housing associations. It confirms both the overall reduction and the differential rate of reduction both between associations, and also between stock transfers registered in 2001 and in 2004.

Asset management factors: tenant refusals, demolitions, disposals

Performance against the Decent Home Standard target is affected by wider housing association asset management activities and by housing management issues as well as by the works that associations carry out to their stock.

The DHS Guidance states that where tenants refuse works necessary to bring their homes up to the DHS, then the works should be deferred (see Appendix E). In 2004 PSA target 7 was revised to state that properties where tenants have refused works should not be counted as non-decent.

The 2006 RSR was the first to ask about tenant refusals. The responses are analysed against DHS failure rates.

Tenant refusals are most likely where works include upgrades, such as new kitchens and bathrooms, which are very disruptive and would give rise to rent increases. In some cases, tenants who refuse where large programmes of work are underway may change their minds when they see the upgrades in their neighbours' homes. This factor has also been identified¹⁰ as a reason for associations adopting DHS-plus policies: e.g. fitting new kitchens and bathrooms to properties that do not technically fail the

Standard on this count. The implications of tenant refusals for housing associations are that they will have to carry out the works at a future date. Out of sequence, this is less cost effective, and the costs of these future works need to be included in business plan cost projections.

Housing associations may demolish stock as part of regeneration projects and demolition is likely to be more prevalent in pathfinder or low demand areas, concentrated in the North of England. Stock that is earmarked for demolition by 2010 does not have to be brought up to the Decent Home Standard and does not count as failing the DHS. The level of demolition activity is analysed in the context of the Decent Homes failure rate.

Disposal of stock which is not economical to repair is a normal part of housing association asset management practice. In addition, associations sell stock to sitting tenants under Right to Acquire, Preserved Right to Buy, Rent to Mortgage and Voluntary Purchase Grant arrangements.

Levels of disposal activity are relevant to DHS performance in two ways. Firstly disposals to sitting tenants reduce association income from rental streams

¹⁰ Meeting the Decent Home Standard, Sector Study, Housing Corporation, 2007.

and potentially therefore its capacity to fund Decent Homes programmes of works. Secondly high levels of disposals on the open market may indicate a reliance on the capital this raises to fund DHS programmes. This practice leaves associations open to the risk of fluctuations in the property market and this could compromise their ability to meet the target. This aspect is examined in the Disposals Thematic Review.

Tenant refusals

In 2006, associations were asked for the first time to produce figures for the number of tenants refusing DHS works. There is some indication from regulators' local knowledge and enquiries that the level of tenant refusals has been under-reported. Graph 3 shows analysis of tenant refusal rates and DHS failures:

Ninety-seven associations reported some tenants refusing works: 29 associations reported between 100 and 500 refusals and four associations reported over 500, with the highest number of tenant refusals being 1,252 and 837 (13.7% and 6.7% of stock) – reported by two stock transfer associations in a group registered in the Central field. The five associations in another group in Central

field together had 1,674 tenant refusals, amounting to 8.18% of the group's total stock.

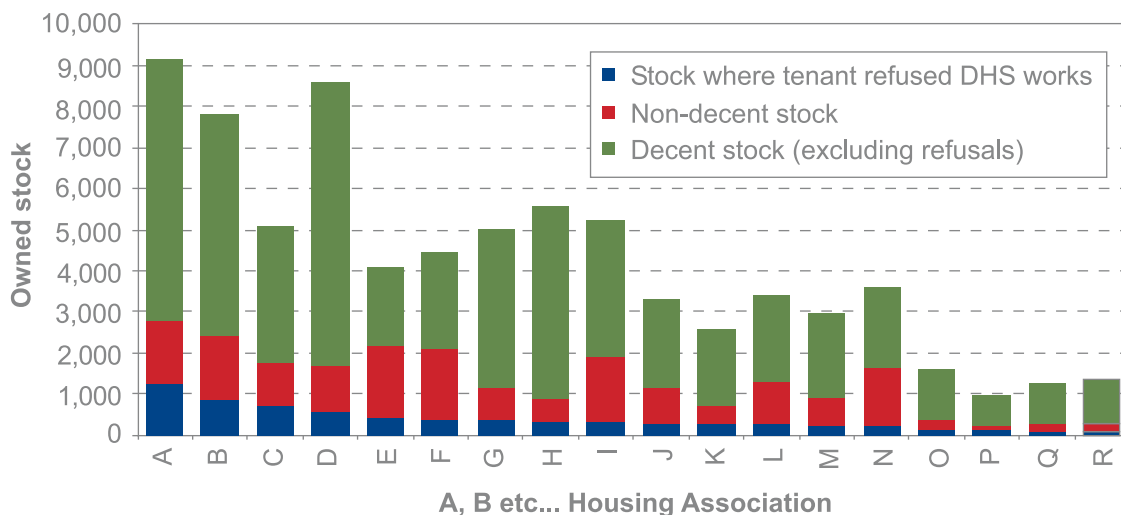
Two associations reported more than 10% refusals, one in the South East with 720 refusals (14.2% of their stock); and one in the South West with 268 (10.4%). An association in the North was one of the highest numerically at 578 refusals, but this only amounted to 2.7% of its stock. All these associations are stock transfer associations.

Tenant refusals on a significant scale are only reported by LSVT associations and associated with large-scale programmes of kitchen and bathroom renewal, work which is disruptive to tenants and associated with conditions which give rise to rent increases.

In total 14,251 tenant refusals were reported. This represents 1.8% of the total stock of those associations of 812,197 units; and 0.75% of the total stock subject to the DHS (1,893,799 units).

Graph 3 shows stock where tenants refused DHS work for associations with both over 50 refusals and where this represents more than 6% of DHS fails.

Graph 3: Stock where tenants refused DHS work (for HAs with over 50 refusals and more than a 6% refusal level)



Demolitions

Graph 4 shows demolition activity and Decent Homes failure rates.

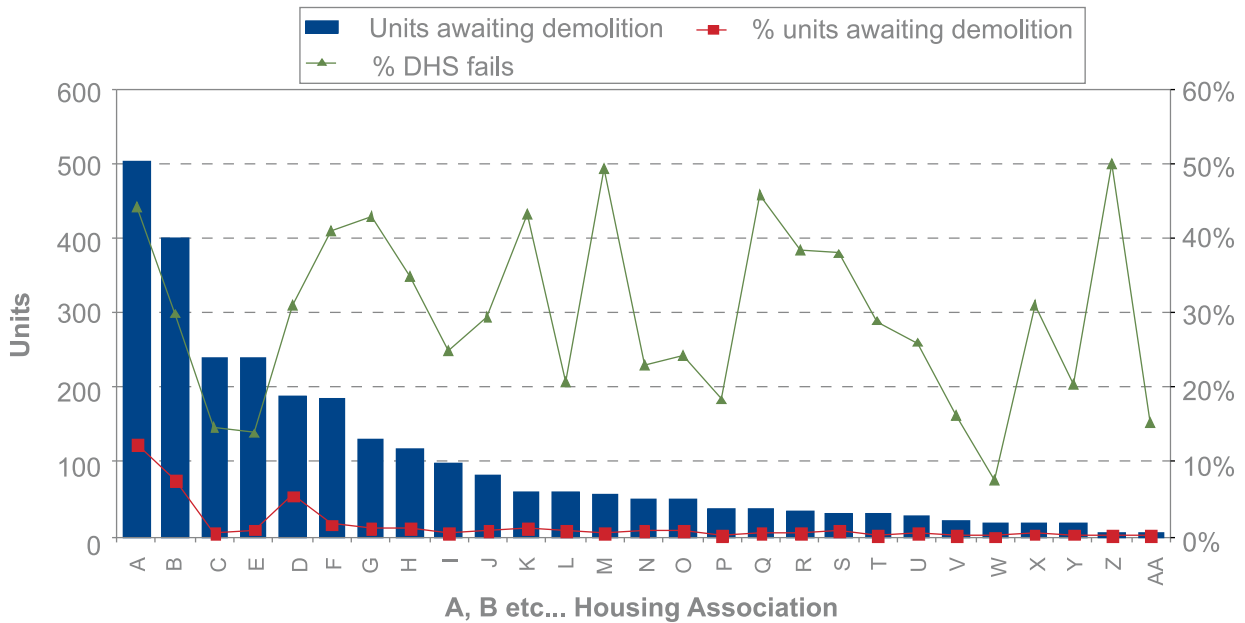
The highest levels of demolition activity are in associations registered in the North field – where there are demand issues – and by stock transfer associations.

Forty-six associations returned more than ten units awaiting demolition in 2006 and 13 of these plan to demolish over 100 properties. The highest level of demolition is

502 units by an association in the Midlands, representing 12.3% of its stock. It is one of five associations in a group that collectively plans to demolish 1,102 properties, 5.39% of its total stock. Added to tenant refusals, this amounts to 13.57% of its stock.

One northern stock transfer group’s activity is significant in that altogether it is demolishing 573 homes, 3% of its total stock (19,163). This leaves it with just six properties not meeting the DHS.

Graph 4: Units awaiting demolition as at 31 March 2006 (for HAs with over 1,000 non-decent units)



The highest percentage was an association which reported 407 demolitions which is 26% of its stock of 1,579. This association now has no homes failing DHS and has successfully implemented a strategy of dealing with poor quality high rise stock in inner city Birmingham by demolition and replacement.

The next highest were a Northern stock transfer which recorded 201 properties earmarked for demolition (8% of its stock)

and a Central stock transfer association which recorded 399 properties (7.6% of its stock). Another member of the same group had earmarked 189 properties or 5.5% of its stock for demolition.

Key facts about demolition are that 12 associations in total planned to demolish more than 100 properties, and 11 associations in total planned to demolish more than 2% of their total stock.

The numbers and proportions of units to be demolished are more significant in those associations with over 1,000 properties failing DHS: six of these will demolish over 100 properties, and three associations will demolish more than 2% of their stock. Graph 4 shows that a correlation between high levels of DHS failures and high levels of demolition occurs in fewer than five associations.

The total number of properties earmarked for demolition in 2006 was 4,612 and this amounted to 0.015% of the 313,808 total stock owned by those associations. The national level of demolitions is indicative that demolition is used strategically. Routine

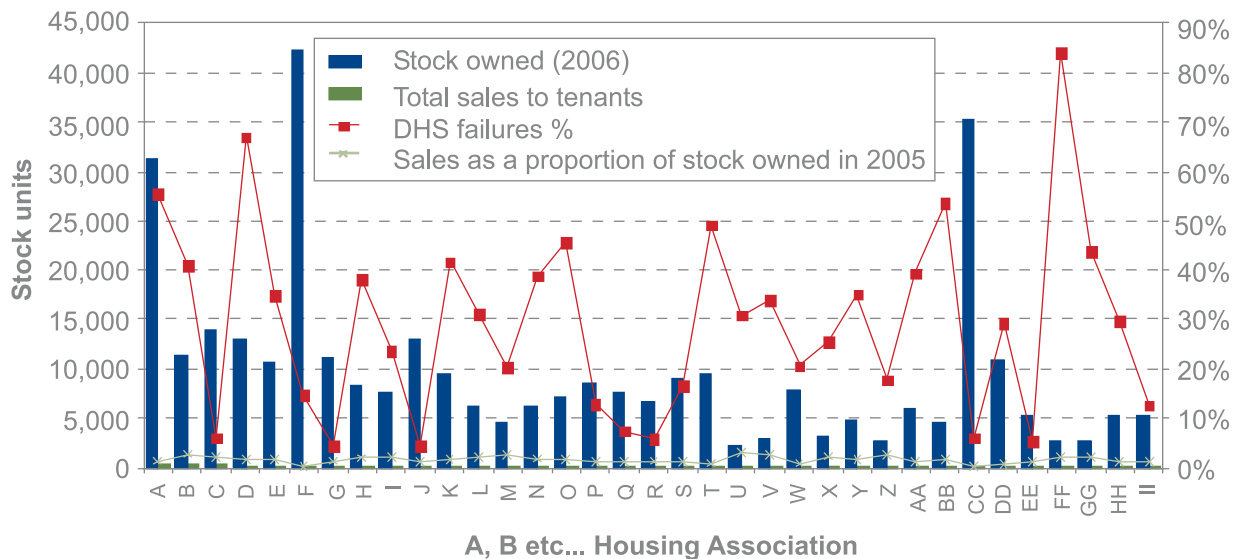
reporting on associations with high levels of properties earmarked for demolition both in numbers and percentages of stock and of DHS failures would be a useful addition to the information available to regulation staff in the fields.

Disposals

Sales to tenants

A total of 6,987 properties were sold to tenants in 2005–06 and this represented 0.4% of the total relevant stock. All but two of the associations that sold more than 50 properties to tenants were stock transfer associations (Graph 5).

Graph 5: Associations with more than 50 sales to tenants



The largest included one whose 450 sales to tenants represented 1.44% of its (remaining) stock; another which disposed of 2.3% of its stock to tenants and one whose 299 sales were 2.13% of stock. Sales to tenants by stock transfer associations were generally within 2–3% of their stock.

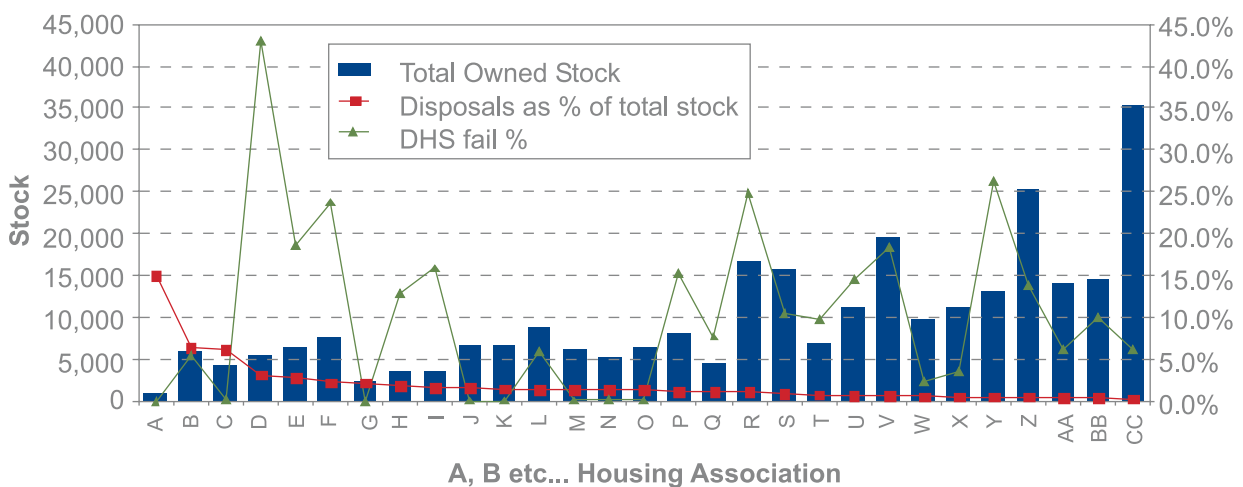
Private sales

We considered market sales for associations that had sold over 100 properties in 2005–06. We excluded a large disposal of over 2,000 properties by a stock transfer association that, with Housing Corporation agreement, transferred these properties to an unregistered subsidiary within the same group, to help meet a local demand for student accommodation.

The RSR private sector disposals data includes sales of properties built for outright sale, as well as student accommodation, NHS staff accommodation and residential care homes. Analysis of Housing Corporation disposals consents indicates that the actual level of market disposal of previously social rented properties was in fact less than 1,000 properties a year.

Even including these disposals, the RSR total (as amended above) of 3,227 disposals represented less than 0.2% of the total stock of 1,893,799 from associations with DHS fails. Introduction of the DHS is likely to have resulted in some increase of disposals of stock which is uneconomic to repair because of the increased focus on asset

Graph 6: Disposals for associations completing more than 100 disposals



management that it prompted. The levels of disposals indicate that associations are not relying on disposals as a means to achieve the DHS.

Twenty-eight associations had both more than 15% DHS fails and more than ten properties earmarked for disposal. Eleven of these were stock transfer associations and 17 were traditional associations.

Total disposals including sales to tenants, market sales and transfers to other social housing providers still amount to less than 1% of total stock. Overall, disposal activity indicates healthy asset management activity. At a field level, analysis of this data can indicate how associations are responding to local market conditions. At association level, it can help regulators identify and assess performance in the local context.

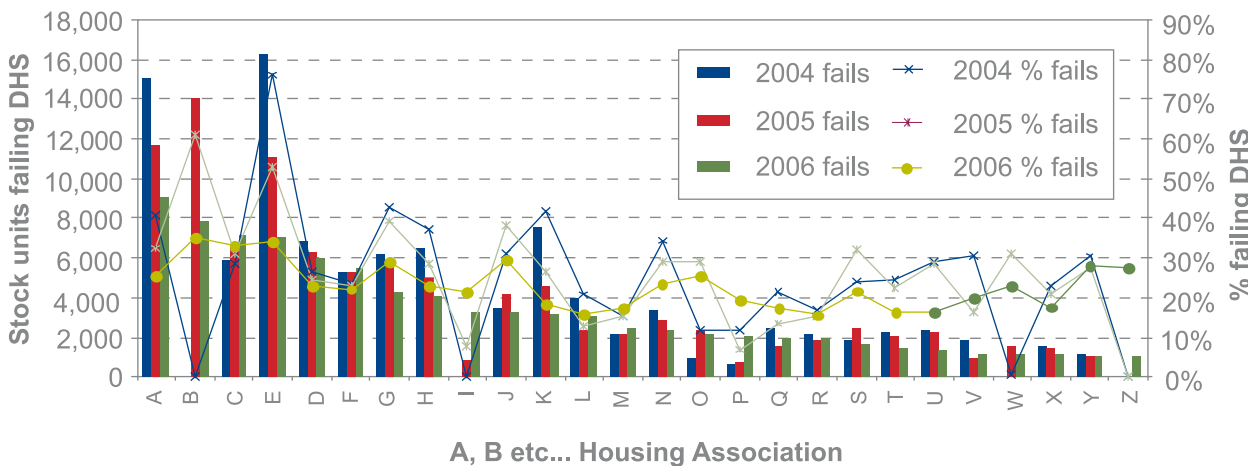
Asset by group, investment partner and local authority area

Groups

Graph 7 shows 14 groups with more than 10,000 DHS fails. Ten of these have over 20% failure rates, and 16 of the groups with less than 10,000 fails also have more than 20%

DHS fails. Only four of those with over 10,000 fails are 100% transfer associations, however all the non-stock transfer groups in this category have either stock transfer or partial stock transfer subsidiaries.

Graph 7: Decent Homes failures for groups with over 1,000 failures and a failure rate of over 15% as at 31 March 2006



Investment partners

Thirteen investment partners have 15% or more DHS failure rates. Of these, four actually show increased failure rates between 2004 and 2006 by 9.3%, 21.8%, 22.3% and 15.4% respectively. Five other investment partners show increased failure rates of between 1.7% and 6.3%.

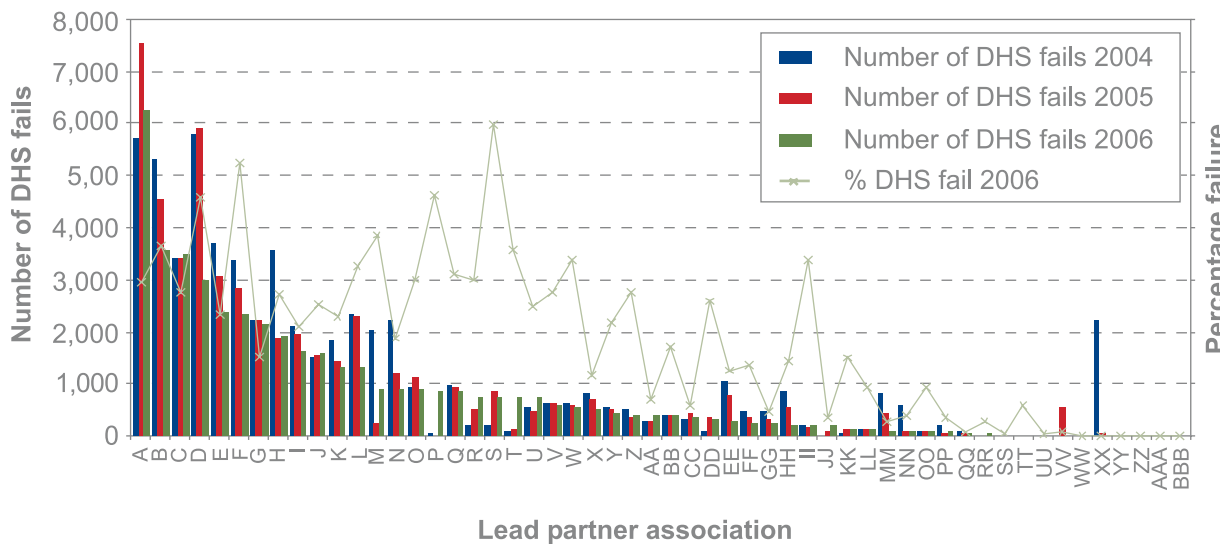
level by individual local authority. It is proposed to make this available to all local authorities on the RSR website (www.rsrsurvey.co.uk) and it will be of use to them in completing returns required in Local Area Agreements. This will complement the PI data that we already publish for the larger associations in each local authority area for use by local authorities.

Local authority areas

Local authority area analyses have been developed at field level, and we have developed a spreadsheet which can be used to provide data analysis at local authority

GIS maps showing the local authority distribution of DHS failure for all associations and for stock transfer associations and traditional associations are attached at Appendix G.

Graph 8: Number of DHS fails for lead partners



Conclusions and recommendations

Conclusions

The Decent Home Standard is a very basic standard for condition of existing stock. It is a trigger for action. Nonetheless it is relatively complex to measure in the context of stock condition surveys which previously were generally carried out to inform associations' business plans, rather than to accurately assess stock condition on an individual unit basis. The assessment of rented stock against the Standard is affected by a number of factors. These include aspects of the profile of the sector, such as stock transfer activity, the formation of groups and mergers, and changes to overall stock numbers.

Measurement of the DHS is also affected by the need to adapt stock condition survey methodology to enable assessment of condition on a single unit basis; the relationship between the DHS and planned maintenance programmes; and changes to the DHS, such as the introduction of the Housing Health and Safety Rating System (HHSRS).

Nonetheless we now have collected Decent Home Standard RSR data since 2003¹¹ and this covers a sufficient period of time for us to have a reasonable degree of confidence in the performance reported by associations. There is a continuing downward trend in the level of DHS failure reported by all types of association. This is the case, even though new stock transfers continue to bring more homes failing DHS into the sector.

Analysis of Decent Homes data revealed that, nationally, the problems are concentrated in the larger associations owning 5,000–10,000 properties and more than 10,000. Generally stock transfer associations have higher levels of DHS failure than traditional associations, and demonstrate faster rates of reduction.

Tenant refusals of works to achieve DHS compliance may be under-reported, and are higher in stock transfer associations. The rate of demolition of stock is not significant in relation to the total stock and seems to relate to levels of regeneration activity. Disposals to sitting tenants are

¹¹ Data was collected in 2002 on a voluntary basis.

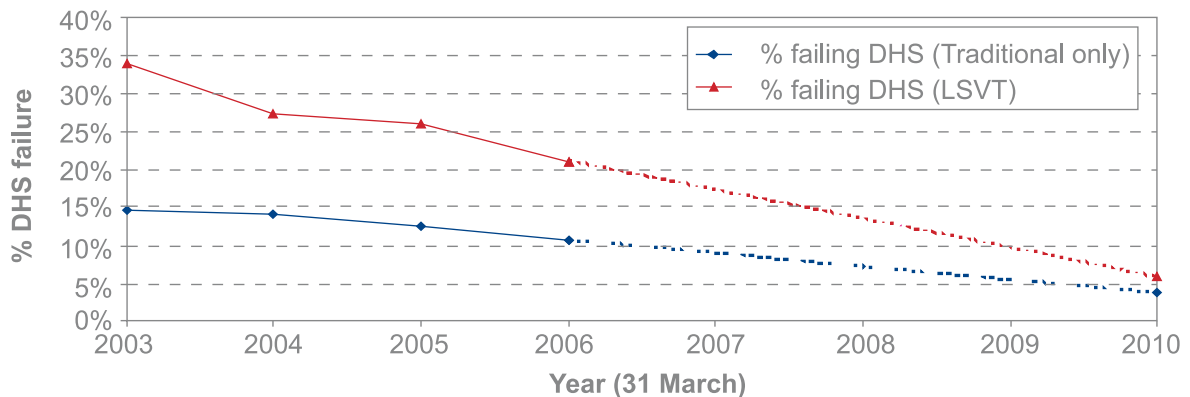
higher among stock transfer associations and market disposals are higher among traditional associations, neither being so high overall as to cause concern in relation to the national position. These analyses and particularly local exceptions should be useful additional sources of information to regulation teams at field level.

It is important to consider the data by groups particularly since the DHS positions in some associations, both stock transfer and traditional, may either be mitigated by the overall group position, or intensified by it.

The analysis has revealed poor DHS performance by some investment partners.

The reduction of DHS failure by 63,931 in 2005–06 is a significant milestone in achievement of the target. One of the biggest obstacles to producing a trajectory for the housing association sector to date has been the stock transfer pipeline, which has introduced significant numbers of DHS fails into the housing association sector since its introduction. Stock transfers from 2006 onwards negotiate individual deadlines and can therefore be measured separately from the current population of associations and the existing pipeline. Data is not at present available for the current stock transfer pipeline. However it is possible to project future DHS performance for existing associations.

Graph 9: Trajectory for DHS failure rate (based on performance 2005–06)



Graph 9 illustrates a possible trajectory of future performance for stock transfer associations and for traditional associations.

When the 2006 data was returned, the DHS had been in place for five years: the RSR data indicates that during those five years, housing associations have incorporated the standard into their stock condition surveys and many of them have commenced programmes of work to bring their properties up to the DHS. Those that have not yet commenced have plans to do so. Therefore we project performance over the remaining years to 2010 by extending the 2005–06 trajectory, since we consider that this reflects the rate of progress that associations are now achieving.

In summary, housing associations' overall performance is consistently downwards. There are a lot of issues, about measurement, about operating environment – refusals, demolitions, disposals; and about methods (explored further in Sector Study: Meeting the Decent Home Standard). The Thematic Review has identified issues and carried out analysis and has produced a data analysis protocol. It has identified aspects of data available and issues about analysis, including parameters, consistency, resource, and accuracy.

It has identified a toolkit that regulators can use to assess housing associations and that associations can use to understand their own performance. These could be developed as a suite of publications to incorporate data tables, case studies of good practice, a trajectory or forecast, key points from the Thematic Review, RSR and SS3 and issues that affect the DHS.

Recommendations

The following recommendations identify methods of utilising and developing the analysis undertaken for the Decent Home Standard Thematic Review, in order to improve the Housing Corporation's understanding of housing associations' performance and ability to meet the target.

Reporting Decent Homes progress

- That the analysis of Decent Home Standard performance in this format be undertaken annually to inform reports to Communities and Local Government and to supply information to field regulators;

- That the number of non-decent homes owned by local authorities that have applied for stock transfer be incorporated into the STRU pipeline data and that the number of non-decent homes reported by those already in the pipeline be extracted;
- That housing associations consider DHS compliance as part of the 2007 Self Assessment Compliance Statement (SACS) review, to include:
 - financial capacity to deliver;
 - programmes in place; and
 - any non-compliant stock at 2010;
- Financial Regulation to advise on the feasibility of updating the asset management spreadsheet in the light of the capacity model's revised financial reporting requirements.
- That findings from the Decent Home Standard Thematic Review be included in the consultation on proposals to broaden the fourth HCA traffic light from development to asset management;
- That consideration be given to the feasibility of incorporating DHS performance in future NAHP pre-qualification requirements;
- Regulation account managers to review DHS performance as part of post-transfer promises and commitments;
- That group structures and mergers be scrutinised for their potential impact on the ability of group members to achieve DHS compliance.

Implications for our regulatory programme

- That regulation account managers and specialists feed findings from the Thematic Review process into their assessments to refine these, and seek greater assurances from the worst performers;

Appendix A: Methodology

As well as the RSR, the Housing Corporation's primary source of information about housing association progress towards Decent Homes is the Self Assessment Compliance Statements (SACS), used to prepare Housing Corporation Assessment (HCA) reports from regulation staff. These are complemented by knowledge gained from asset management reviews of all major housing associations. Financial data from Housing association annual accounts and financial forecasts (reported in the FV5 and FVA returns) is also used to assess housing association DHS performance. For the purpose of this review we analysed data from the RSR.

In order to undertake a comparative analysis of association performance it is necessary to identify groups of associations with similar attributes. Within this report we identified the following categories as significant in relation to DHS performance:

- stock transfer associations;
- traditional associations;
- associations based on stock size;
- jointly constituted groups; and
- performance of associations selected as preferred investment partners.

The analysis considered the following factors:

- detailed analysis of performance 2004–06;
- factors affecting/aspects of asset management practice:
 - analysis of extent and impact of tenant refusals;
 - percentage of stock identified as awaiting demolition;
 - analysis of Right to Buy and market disposals;
- analysis by group, by investment partnership and by local authority.

The RSR dataset analysed extracted general needs, older people and supported housing properties owned from the RSR data, and excluded staff accommodation. Shared ownership properties were also excluded. Non stock-holding organisations, such as group parents, or managing agents, were excluded from average calculations because inclusion would distort findings. We analysed data supplied by associations that have over 250 dwellings. Associations with fewer than 250 dwellings face significantly different challenges from larger associations, are subject to different regulatory arrangements, and complete a shorter version of the RSR.

The total number of housing associations with more than 250 dwellings that provided data amounted to 533. The total relevant stock that they own is 1,893,799. RSR data is available at www.rsrsurvey.co.uk.

The Decent Home Standard data is Performance Indicator (PI) data. This is analysed and reported on in the PI website (www.housingpis.co.uk). It was specifically agreed to use RSR data rather than PI data for the Thematic Review because RSR data is numerical, whereas the Performance Indicator data expresses the numerical data as percentages of stock. In our analysis, we have calculated percentages from the RSR data in some instances. The results will not tally exactly with the analysis on the PI website because this uses slightly different data analysis conventions.

Quality assurance was carried out by a sharing of draft reports across the whole team, and subsequent checking and recalculation of the field reports by fields against a formally agreed data protocol.

The checking process highlighted some useful issues and the need to explicitly adopt consistent practice. As a result, a data analysis protocol was drawn up.

Impact of the Decent Home Standard

The Government introduced the DHS in 2001. Housing associations were first asked about levels of DHS failure in the 2002 RSR, with a voluntary question. From 2003 the question was compulsory. In 2005, data was obtained for the first time by local authority.

The DHS had a major impact on the way that housing associations collect stock condition data. Stock condition surveys collect data from an appropriate size sample of stock. Their purpose is to inform associations' business planning by enabling them to predict when they will need to undertake planned maintenance such as boiler replacement, roof renewal etc. Although a minimum standard, DHS requires information on both state of repair and age of components, significantly on a unit basis rather than by element. It is clear from fluctuations in RSR data from individual associations that there was a lengthy bedding-in period for the implications of measuring DHS failure to be fully understood and incorporated into stock condition surveys. The timing of stock condition surveys may also impact on accuracy of reported data and is referred to below.

Appendix B: Decent Home Standard policy background

The early years of the DHS were characterised by housing associations getting to grips with the operational implications, and working to accommodate the complexities of measuring it.

Three editions of guidance have been published. The first revision in February 2002 amended the thermal comfort criterion, to require that all dwellings have both effective insulation and efficient heating.

In 2004 the Government amended the PSA 7 target so that homes where tenants refuse works are not counted as DHS failures.

In April 2006, the fitness criteria was replaced by the Housing Health and Safety Rating System (HHSRS) with the implementation of this part of the Housing Act 2004. The HHSRS is a fundamental and far-reaching change to the assessment of housing fitness. Although it may result in increased DHS failures, in the context of Decent Home Standard work programmes, “most landlords should not find a significant increase in non-decency¹².”

The second revision in June 2006 linked DHS into the concept of Decent Communities. It tidied up some previous inconsistencies in the definition; and introduced provisions for extension to the deadline on grounds of mixed communities outcome and/or procurement efficiency and Best Value.

Research into the implementation of the DHS demonstrated that there was a significant lead-in period during which housing associations adapted their practices and systems to its requirement. Research at the early stages included the NHF Decent Homes Pilot Study (funded by the Housing Corporation) and the first Decent Home Standard Sector Study.

Sector Study 32 corroborated indications from RSR data including an average failure rate of approximately 18% in 2004–05.

The third DHS Sector Study investigated how housing associations are tackling the DHS and the impact that it has had on their businesses.

¹² A Decent Home: Definition and Guidance for Implementation, June 2006 update.

Communities and Local Government monitors housing association progress towards the DHS as part of its monitoring of social housing as a whole, together with progress by local authorities and by ALMOs. The Housing Corporation supplies quarterly reports to the Department, based on annual RSR data and incorporating associated actions to encourage and assist housing associations.

Finally the Director of Regulation wrote to housing associations chief executives in November 2005 with information about the implementation of HHSRS. In September 2006 she wrote advising housing associations of the criteria for extensions to the deadline following the June 2006 revised guidance.

Appendix C: DHS definitions

Extract from A Decent Home: Definition and Guidance for Implementation, Communities and Local Government (February 2004).

What is a decent home?

– A summary of the definition

A decent home is one which is wind and weather tight, warm and has modern facilities. It reflects what social landlords spend their money on. To set a national target a common definition of decent is needed so all social landlords can work towards the same goal.

A decent home meets the following four criteria:

a – It meets the current statutory minimum standard for housing

Dwellings below this standard are those defined as unfit under section 604 of the Housing Act 1985 (as amended by the 1989 Local Government and Housing Act).

b – It is in a reasonable state of repair

Dwellings which fail to meet this criterion are those where either:

- one or more of the key building components are old and, because of their condition, need replacing or major repair; or

- two or more of the other building components are old and, because of their condition, need replacing or major repair.

c – It has reasonably modern facilities and services

Dwellings which fail to meet this criterion are those which lack three or more of the following:

- a reasonably modern kitchen (20-years-old or less);
- a kitchen with adequate space and layout;
- a reasonably modern bathroom (30-years-old or less);
- an appropriately located bathroom and WC;
- adequate insulation against external noise (where external noise is a problem); and
- adequate size and layout of common areas for blocks of flats.

A home lacking two or less of the above is still classed as decent therefore it is not necessary to modernise kitchens and bathrooms if a home passes the remaining criteria.

d – It provides a reasonable degree of thermal comfort

This criterion requires dwellings to have both effective insulation and efficient heating.

June 2006 amendments: Extract from A Decent Home: Definition and Guidance for Implementation, June 2006 Update, p11, Communities and Local Government

The definition of what is a decent home has been updated to reflect the Housing Health and Safety Rating System (HHSRS) which replaced the Housing Fitness Standard on 6 April 2006. Landlords will find it helpful to refer to the two volumes of statutory guidance on HHSRS. The general principles of application have been expanded as set out in paragraph 4.4 below and paragraphs 4.5 and 4.6 clarify what properties are covered by the Decent Homes standard. A decent home meets the following four criteria:

- a) It meets the current statutory minimum standard for housing:

Dwellings which fail to meet this criterion are those containing one or more hazards assessed as serious (Category 1) under the HHSRS.

- b) Unchanged.
- c) Unchanged.
- d) It provides a reasonable degree of thermal comfort:

This criterion requires dwellings to have both effective insulation and efficient heating.

It should be noted that, whilst dwellings meeting criteria b, c and d are likely also to meet criterion a, some Category 1 hazards may remain to be addressed. For example, a dwelling meeting criterion d may still contain a Category 1 damp or cold hazard.

Appendix D: Underlying trends analysis

This is an extract from the DHS report on the Performance Indicator (PI) website www.housingpis.co.uk. Percentage analysis of PI data may differ slightly from analysis of RSR data because of the PI analysis process.

Decent Home Standard

In 2006, 544 associations (owning at least ten social housing rental dwellings) provided PI data for the percentage of their stock that fails to meet the Decent Home Standard at 31 March 2006. Values ranged between 0% and 85%. The average (mean) failure rate fell from 18.6% in 2005 to 15.5%.

Associations in London recorded the lowest failure rates (12.6%), but the lowest rate of improvement. The rate of failure reduced here by less than 0.5% of stock. Rates reduced in the North and the South East by over 4%. The highest rates were in the North (19.2%), still strongly influenced by high rates of failure in Yorkshire and Humberside.

Underlying trends: introduction

The DHS failure rate overall has fallen from an average of 23% in 2003 to 15.5% in 2006. The remainder of this section reviews the data only for associations in the 2004 dataset and in the 2006 dataset and where their total stock has not varied by more than 5% between each of these two years. This allows us to assess the underlying trends for associations in consecutive years of data, where stock levels are relatively stable across the last three years¹³ as it removes the ‘instability’ created by the addition or disposal of large numbers of stock.

(Some 2003 data is included in the analysis, although this precedes the date used to identify the dataset. There are, in practice, a relatively small number of associations which would be excluded from the dataset had we extended it to four years of stable stock.)

¹³ A small number of other associations reporting DHS failures in 2006 but not in 2005 had reported performance previously in 2003 and/or 2004. Also, although we do not revise the data published, for the purposes of this analysis we have transferred historic figures across to ‘new’ associations for a number of associations involved in mergers and/or other reorganisations during that period involving the transfer of stock between associations.

Just over 1.5 million dwellings are included in this analysis – over 90% of the total stock.

This is a considerable increase in the percentage of stock covered by the equivalent analysis in 2005. More associations have been providing data on a continuous basis, for example. Roughly half of the excluded stock is owned by traditional associations, and the other half by a much smaller number of stock transfer associations.

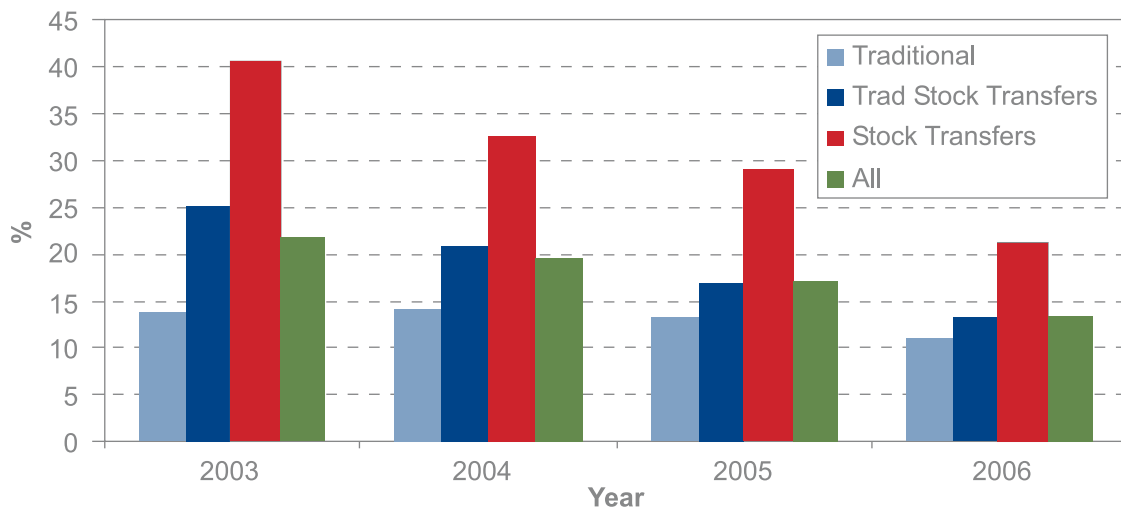
Underlying trends: analysis

Figures reported show a progressive improvement in the average DHS failure rate, which fell from 19.5 % in 2004 to 13.4 % in 2006 .

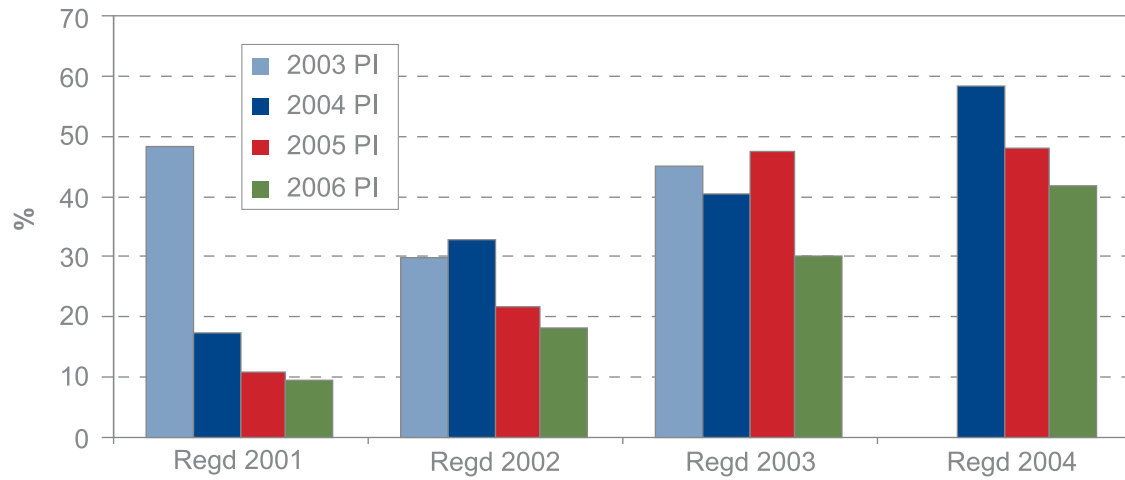
This shows an underlying improvement in all categories of association – new stock transfers, stock transfers registered for more than six years, and traditional associations. The rate of improvement is least marked in the traditional associations, but these continue to have the lowest rates of failure. The gap is, however, reducing.

Fifty-four of the stock transfer associations (owning more than 250,000 dwellings in total) were registered between three and six years ago – and their progress is the most dramatic, falling from over 40% in 2003 to 21% in 2006. This data is indicative of their early-to-middle post-transfer periods. Improvements year by year are apparent if figures are compared for the associations registered in each year – as expected, those registered longest show the lowest rate of failure, well under the national average.

Percentage of Stock failing DHS



Stock transfers in the post-transfer period
Year of Registration and DHS progress



Appendix E: Decent Home Standard Guidance on tenant refusals

Communities and Local Government Decent Home Standard Guidance includes guidance on tenant refusals on page 21 of the 2006 guidance, para 6.11 says:

The association must make provision in its business plan to do the work in future when the property becomes vacant.

Where an individual tenant does not want work carried out on their home to bring it up to the Decent Home Standard, then the home can remain below the Standard until the property is vacated, at which point the necessary work can be undertaken.

Exceptions to this are where works are required to maintain the structural integrity of the dwelling or to prevent other components within the dwelling from deteriorating, or where a Category 1 hazard must receive early attention.

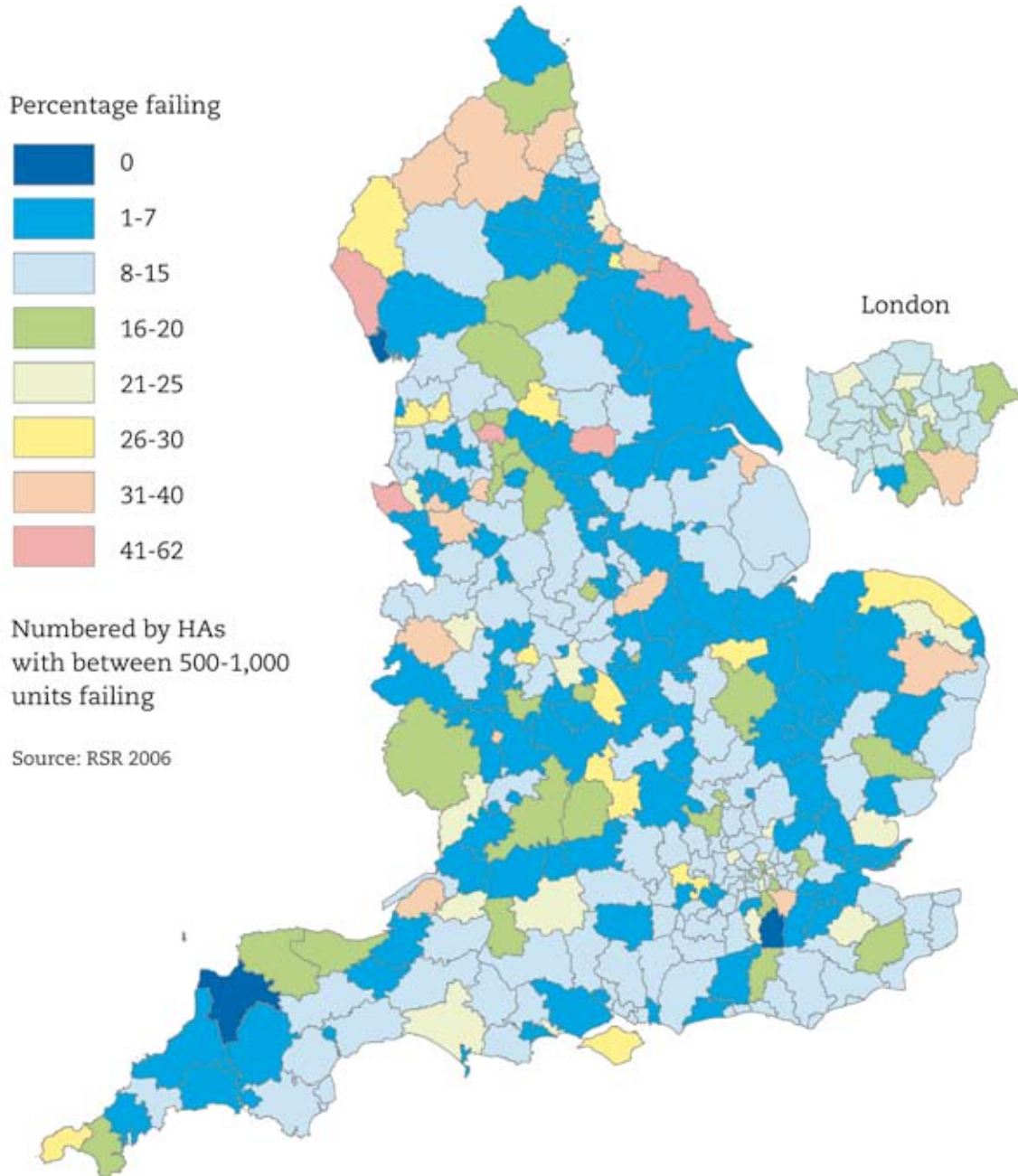
Para 6.10 clarifies that tenants should not be forced to have new kitchens and that this may not necessarily constitute DHS failure.

PSA Target 7 (<http://www.communities.gov.uk/index.asp?id=1123011>) specifically says:

“Dwellings which will be excluded from any final count of the number of non-decent homes are: those homes where an individual tenant has specifically requested that improvements to their home not be undertaken.”

Appendix F: Local authority GIS map

Decent Home Standard: Housing association homes as at March 2006



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