

## Briefing Paper

### The allocation of Management and Maintenance Allowances within Housing Revenue Account Subsidy

September 2003

#### Introduction

Changes to the housing subsidy system as a result of rent restructuring will lead to authorities being forced to spend on management and maintenance at the level of their management and maintenance allowances. This is not currently the case as authorities are able to set rents above the level assumed in the subsidy calculation and spend the difference on management or maintenance. As the ability to do this is being removed, government has recognised a need to increase the level of management and maintenance allowances nationally; and to review the formulae to ensure that the total is distributed amongst authorities equitably and on the basis of need.

The government issued a consultation paper in July 2003 that proposes changes to the way that management and maintenance allowances are calculated. The consultation paper states that:

*“Management and maintenance allowances are a key expenditure assumption within the Housing Revenue Account subsidy system. The current formulae used to distribute management and maintenance allowances between local authorities are over ten years old, and are therefore long overdue for review. Getting the expenditure assumptions within Housing Revenue Account subsidy right is even more important given the changes to the income assumptions being made as a result of rent restructuring.*

*“Expectations of housing management and maintenance services have changed greatly since the current formulae were devised. For instance, there is an increased emphasis on tackling anti-social behaviour and the demanding target to make all social housing decent by 2010 requires a reasonable level of planned and responsive maintenance to prevent homes falling back into disrepair.*

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*“In Autumn 2002, therefore, the Office of the Deputy Prime Minister (the Office of the Deputy Prime Minister) commissioned the Building Research Establishment (BRE) to review fully the allocation of the management and maintenance allowances, and to recommend fairer distribution formulae based on an authority’s current relative need to spend on management and maintenance of its housing stock. The research was overseen by a Steering Group, which included representatives of the local authority associations.*

*“Ministers believe that the approach adopted by the Building Research Establishment is sound, and that the overall approach – basing allowances on an objective assessment of relative need to spend, taking greater account of individual authorities’ circumstances than past patterns of spending – is likely to be fairer than what we currently have. Ministers believe it is right to move to this new and fairer system as soon as possible, so that authorities can take account of the changes when completing their stock options appraisals.*

*“Ministers are proposing that there should be transitional arrangements to phase in the new targets. They have provisionally decided that no authority should have a management and maintenance allowance in either 2004-2005 or 2005-2006 that is less in cash terms per dwelling than its comparable allowance in 2003-2004. When the previously announced 6% real increases in allowances in those years are also considered, the majority of authorities will see real increases in their management and maintenance allowances per dwelling.*

*“Subject to the outcome of the consultation, Ministers propose that the new approach to calculating the allowances should be adopted for 2004-2005 and later years.”*

The main changes proposed for management allowances are summarised below:

- The existing formula uses proportion of flats to explain both the additional costs of managing flats and as a proxy for deprivation. The new formula retains a reduced emphasis on the proportion of flats, to cover the costs of managing communal and shared facilities, and because there is evidence of increased levels of rent arrears, neighbour disputes and racial harassment, particularly in medium- and high-rise flats.
- A separate deprivation factor is included, based on the measure of deprivation already used in the capital allocations.
- Total crime level by county is a new factor introduced as a proxy for the costs of dealing with anti-social behaviour.
- Population sparsity is no longer included. Instead, there is recognition that all authorities have a certain level of fixed costs, no matter how few dwellings they have.

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- A measure of the actual number of voids and re-lets is used, as there is evidence of the significant costs to all authorities of managing and re-letting void properties. As with maintenance, voids have not been used in the calculation of management targets before now.
- There will continue to be an adjustment for geographical variations in costs.

The main changes proposed for maintenance allowances are summarised below:

- The new model follows a similar basic approach to the existing formula, using archetypes to model the impact of built form, age and size of dwellings on maintenance costs.
- But instead of one base weight per archetype, each archetype has three base costs associated with it – representing the differential costs of responsive repairs, planned repairs and works to voids. After other factors are added in, a 'sub-target' is produced for each of these three types of maintenance, which are summed to give the target prior to regional cost adjustments.
- A new 'backlog' factor is added to the responsive repairs target, representing the impact of the major repairs backlog on urgent, day-to-day repairs.
- A measure of the actual number of voids and re-lets is used in assessing the relative cost of void works for each authority. Voids have not been used in the calculation of maintenance targets before.
- A social deprivation factor is no longer included. Instead total crime levels by county are used to represent the costs of graffiti and vandalism to responsive and void works.
- There will continue to be an adjustment for geographical variations in costs.

The government has set a deadline for observations of 15<sup>th</sup> October 2003.

The proposals in this consultation paper would lead to a significant redistribution of resources. This is particularly because the proposed reduction in weighting given to flats will redistribute resources away from London boroughs and some core cities towards authorities that score highly on the new measures of need. Some authorities would gain significantly; others, especially in London will lose significantly. As a result, many authorities are making representations to government either in support of, or in opposition to, the proposals in the consultation paper. 'AWICS' is providing assistance to authorities in framing their responses.

## **Commentary**

### **Maintenance Allowance**

The proposal is that maintenance allowances will be based on the following factors:

- Build form, age and size of each authority's housing stock

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- The level of repairs backlog in the housing stock – that is, where components have already passed their normal life-span
- The number of re-lets during the year and voids at year end in the authority
- Crime levels
- Regional variations in building costs.

#### Build form, age and size

The current analysis of stock (with over a hundred sub-types) will be replaced by the analysis now used in the calculation of the Major Repairs Allowance (with thirteen sub-types). This more closely recognises the levels of repair backlog and newly arising need, and should simplify the collection of data from authorities.

The weighting currently applied to the model will then be replaced by a Building Research Establishment formula based on “need to spend”. This formula recognises the lifetime cost of a building, excludes costs covered by the Major Repairs Allowance and more fully deals with “common areas”.

The proposal to use thirteen sub-types of build form, age and size is welcomed as a modernisation of the housing subsidy system.

#### Repairs Backlog

This recognises the additional responsive repair cost resulting from a major repairs backlog. As the Major Repairs Allowance improves the overall stock condition this element will reduce.

This change will particularly benefit those authorities with the most significant backlog of repairs. The English House Condition Survey 2001 indicates that the proportion of local authority housing that is non-decent is 33% nationally, but that in London and other urban areas the proportion is significantly higher.

The proposal to introduce a measurement of repairs backlog will be welcomed by northern authorities as it will lead to a greater recognition of the need to maintain social housing in areas where the backlog of repairs is significant. London authorities will welcome it as a means of mitigating the loss of resources caused by the reduced weighting given to flats.

#### VOIDS and Re-lets

The Building Research Establishment found void and re-let levels to be a significant driver on costs (estimated at 14% of total maintenance costs) and proposes therefore that the number of re-lets per year plus the number of voids at the year end be used to allocate a target for void works for each authority.

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This change will particularly benefit those authorities that experience a significant level of voids or re-lets. In 1999/2000 (the latest year for which best value performance indicators are available on the audit commission website) the average proportion of council dwellings that were empty, available for letting or awaiting minor repairs in England was 1.4%. Authorities that experience a significant level of voids or re-lets will therefore welcome the proposal. These authorities will be concentrated in northern England. They will argue that the proposal to include an element in the formula to reflect the actual level of voids and re-lets is welcomed as it recognises the need to incur expenditure on the maintenance of void properties.

The Office of the Deputy Prime Minister's conclusion that 14% of management costs relate to voids is being challenged by some of the London boroughs. Other authorities will argue that the proposal will reward poor performance in letting and void management by offering increased maintenance allowances.

### Crime Levels

Anti-social behaviour (graffiti and vandalism) has a significant impact on both basic and urgent repair costs and potentially increases security costs associated with void properties. However there is no reliable data on the incidence of graffiti and vandalism and so the Office of the Deputy Prime Minister is soliciting views on the calculation of an element of subsidy based on

- Using the British Crime Survey measure of total crime
- Using the above for 2004-5 while investigating alternatives
- Omitting this element until a better indicator is available.

42 authorities (primarily London and East Midlands) would gain by between 4% and 7% of the Maintenance allowance while 21 authorities (South East and South West) would lose more than 10%. These are significant differences and have much more effect than the geographical cost variances.

Authorities in areas with high levels of crime will welcome these proposals. In the East Midlands it should lead to increased resources, while in London it would help to mitigate the effects of the reduced weighting being given to flats. They will argue that the significant costs associated with anti-social behaviour and graffiti should be reflected in the formulae. Authorities will also argue that using crime data at police force area level is very crude – especially in London where different levels of crime are experienced in different boroughs. Data is available at local authority level, and authorities with high crime levels will argue for data to be used at borough level.

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Other authorities in low crime areas will argue that the proposal to use crime data as a proxy for anti-social behaviour is not justified as crime levels do not contribute directly to a requirement to spend on maintenance of council housing. They will identify dangers in using one indicator as a proxy for another, and the third option that is presented of omitting this element until a better indicator is available is the one that will be preferred.

They will argue that some particular issues that should be considered more fully include:

- Should countywide figures be used for urban areas and rural communities within the same county?
- Is it reasonable that 10% of management and repairs costs depend on the level of graffiti and vandalism?
- Is the data collected reliable and is the Office of the Deputy Prime Minister satisfied that the data is collected and reported consistently by police authorities?
- Whilst most would agree that crime levels are a primary driver of cost, does the inclusion of a crime weighting offer a “perverse” incentive in that successful crime reduction may well lead to reductions in subsidy?

#### Regional Variations in Building Costs

Currently allowances for regional variations are based on the Tender Price Index of Social Housing (Tender Price Index of Social Housing) that, because of sample sizes, cannot be used at sub Government Office regional level. Building Research Establishment has identified a more general construction index (Building Cost Information Service-Tender Price Index) that can be applied at county level. This index looks at costs in the wider construction industry which given the greater use of private sector firms in stock maintenance might be considered more appropriate. The Office of the Deputy Prime Minister is requesting comments on

- a) Continuing use of Tender Price Index of Social Housing as the basis for the geographic cost variation element of subsidy or
- b) Move to county based cost factors using Building Cost Information Service-Tender Price Index.

This would adversely affect seventeen London authorities by about 6% of their Maintenance Allowance and a further seventeen authorities (East Anglia, South East and Yorkshire & the Humber) by between 3% and 6%. Some 48 authorities would gain between 4% and 11%, the largest gains being within the Eastern Region excluding East Anglia.

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### Index of Local Conditions

The government is proposing to remove the index of local conditions from the formula for calculating maintenance allowances. This proposal is likely to reduce the potential level of maintenance allowances in areas that are assessed as being 'deprived'.

Authorities in deprived areas will not welcome the proposal to remove the index of local conditions from the maintenance allowance formula. They will consider that deprivation is a factor that gives rise to a need to incur expenditure on maintenance and that this factor should be retained in the formula.

### **Management Allowance**

The proposed system will be based on

- Size of the authority
- Proportion of flats
- Levels of crime
- Void and re-let levels
- Social deprivation
- Geographical cost variations.

### Authority Size

Analysis of social housing management costs has confirmed a close relationship between the number of dwellings and local management costs. The Building Research Establishment has devised a formula based on size, which recognises the relatively higher fixed costs of smaller authorities.

### Proportion of flats

The new proposals will include two factors relating to flats to reflect

- Higher additional costs of communal areas which are more prevalent in flatted accommodation, and
- Greater management problems relating to people living in close proximity (neighbour nuisance, noise problems etc) and the correlation of medium and high rise flats with higher levels of rent arrears.

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The reduction in the proportion of management allowance that is distributed to reflect numbers of low to medium- and high-rise flats would benefit those authorities with a relatively small stock of low to medium- and high-rise flats. It will be seen by them as fairer, because the use of low to medium- and high-rise flats as a proxy for social deprivation ignored the fact that social deprivation does occur in areas where there are few low to medium- or high-rise flats. Such areas include the former mining areas that are strongly represented in northern England.

South Yorkshire is an area that is likely to benefit. The proportion of the housing stock that is represented by high- and low to medium-rise flats in South Yorkshire is shown below, and is compared with the national average. It will be seen that all the South Yorkshire authorities have a smaller proportion of flats than the national average:

Barnsley	16.0%
Doncaster	16.8%
Rotherham	23.2%
Sheffield	40.8%
National	43.5%

The reduction in the weighting given to flats in the proposed formula is likely to be welcomed in South Yorkshire. It will not be welcomed in London where the proportion of flats in the housing stock tends to be the highest in England. The Office of the Deputy Prime Minister has concluded that under a quarter of housing management costs relate to flats, but this conclusion is being challenged by many of the London boroughs.

#### Levels of crime

Although it is agreed that higher levels of crime drive up management costs there is no absolutely suitable index available. As with the maintenance allowance, the Office of the Deputy Prime Minister is asking for views on the calculation of an element of subsidy based on

- Using the British Crime survey measure of total crime
- Using the above for 2004-5 while investigating alternatives
- Omitting this element until a better indicator is available.

54 authorities would gain between 4% & 10% and 48 authorities would lose more than 10%. These are significant differences and have much more effect than the geographical cost variances. The same issues arise regarding the use of crime data in the calculation of management allowances as arise in the calculation of maintenance allowances.

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### Void levels

Surveys indicate 15% of total management costs relate to void management and re-lets. The new proposals will therefore use the number of re-lets each year plus the number of year-end voids to calculate this element.

This change will particularly benefit those authorities that experience a significant level of voids or re-lets. In 1999/2000 (the latest year for which best value performance indicators are available on the audit commission website) the average proportion of council dwellings that were empty, available for letting or awaiting minor repairs in England was 1.4%. The same issues arise regarding the use of voids data in the calculation of management allowances as arise in the calculation of maintenance allowances.

### Social Deprivation

The Building Research Establishment has devised a formula to produce an add-on management cost element for those authorities classified as deprived. Deprived authorities are defined for purposes of determining housing capital allocations as being those that fall into the top sixty on any one or more of the six measures of deprivation contained in the Office of the Deputy Prime Minister's indices of deprivation 2000. There are 95 authorities that meet this definition.

The inclusion of deprivation in the formula will mitigate the losses in management allowance that would be sustained by the London boroughs due to the reduced weighting that it is proposed to give to flats. It would also increase the level of management allowance received by authorities with a high level of deprivation and a small proportion of flats within their housing stock.

The most deprived authorities in England are assessed as being:

1 <sup>st</sup> – Hackney	11 <sup>th</sup> - Hartlepool
2 <sup>nd</sup> – Tower Hamlets	12 <sup>th</sup> - Southwark
3 <sup>rd</sup> – Newham	13 <sup>th</sup> - Halton
4 <sup>th</sup> – Manchester	14 <sup>th</sup> - Nottingham
5 <sup>th</sup> – Knowsley	15 <sup>th</sup> – Blackburn with Darwen
6 <sup>th</sup> – Easington	16 <sup>th</sup> - Doncaster
7 <sup>th</sup> – Liverpool	17 <sup>th</sup> – Kingston on Hull
8 <sup>th</sup> – Middlesbrough	18 <sup>th</sup> - Leicester
9 <sup>th</sup> – Islington	19 <sup>th</sup> - Sandwell
10 <sup>th</sup> – South Tyneside	20 <sup>th</sup> - Walsall

These authorities can be expected to consider that social deprivation leads to a need to incur expenditure on management. Those that have a small proportion of flats will particularly welcome this proposal.

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### Geographical cost variations

The Office of the Deputy Prime Minister believes this should be based on an Area Cost Adjustment calculated from

- A Labour Cost Adjustment
- Non-educational rates adjustment
- The proportion of Housing Revenue Account management costs which are labour based
- The proportion of Housing Revenue Account management costs which are business rates.

Such an index is not yet available and the Office of the Deputy Prime Minister has invited views on how the matters should be addressed.

Given the capital's higher wages cost, 22 London authorities would gain but only between 1% and 4%. The effect on the other authorities would be less than +/- 1% with the exception of the Isles of Scilly that would gain by over 50%.

### Diversity

Some authorities are arguing that the cost of housing management is affected by the diversity of the local population, but this is not reflected in the proposed formulae for calculating management allowances. They argue that proportions of BME households, female-headed households and those containing a member with disabilities should be taken into account, and that the government's failure to do this represents a failure to address equalities implications adequately. The inclusion of this factor would benefit authorities with a diverse population, especially the London boroughs and some parts of the Southeast, West Midlands and Northwest.

### **Related Proposals**

#### Transitional Arrangements: the proposed damping mechanism

These guarantee that no authority should suffer a cash loss for 2004-5 or 2005-6 compared with 2003-4 but as the protection will be funded from the agreed levels of Management and Maintenance Allowances nationally, the majority of authorities will receive an allowance lower than their target for a period.

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The increases in the allowances for 2004/05 and 2005/06 are 10.7% for each in each year. This is made up of core inflation, a real increase to reflect the move to rent convergence in 2011/12 (around 2.5%) and a real increase of 6%. Given that those authorities whose proposed allowances reduce would be “cash frozen”, the effect is to distribute 10.7% national increases to only part of the country. Thus the majority of authorities will see real increases in their allowances per dwelling. Some of these increases are considerable.

The transitional arrangements will protect those authorities that will lose resources as a result of the proposals at the expense of those who will gain.

Authorities that stand to gain from the proposals may question the need for such generous transitional arrangement. They may remind the government that when management allowances were re-based in 2001/2002 to the detriment of rural authorities and those with relatively few medium- or high-rise flats, the transitional protection was set at 98% of the cash management allowance for the previous year. A similar approach could be suggested to the current change thus allowing all authorities to move more quickly towards their new management and maintenance targets.

Authorities that stand to lose from these proposals, however, will maintain that effective transitional arrangements need to be put in place to enable them to adjust their budgets without having a significant adverse effect on tenants.

### **Matters for Consultation**

Subject to the transitional arrangements, the Office of the Deputy Prime Minister proposes to move to the new management and maintenance targets from 2004/2005. The Office of the Deputy Prime Minister would welcome any comments, but are particularly interested in comments on the following matters:

- The three options outlined in relation to both the maintenance and management cost factors.
- Whether to continue to use the Tender Price Index for Social Housing regional cost factors, or to move to county cost factors based on the Building Cost Information Service Tender Price Index. In the maintenance allocations.
- Whether the Labour Cost Adjustment should be applied to the whole of housing management costs for the 2004/2005 housing revenue account subsidy determination in the absence of an appropriate area cost adjustment for local authority housing management; or whether the 2004/2005 determination should instead assume the labour cost adjustment should be applied to a proportion of the costs, for instance, 85% as in the area cost adjustment for personal social services for older people.

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Authorities are likely to respond to these questions in the light of the potential effects on their housing subsidy.

### **The potential impact in different areas**

Analysis of the potential variation in management allowances shows that broadly, the Eastern Region and London would receive no increase in allowance in each year. The North of England and the Midlands would receive a substantial real increase with the South East and South West would be somewhere in between. The results for London would be expected given that the weighting for flats has been substantially reduced, as there tends to be a much higher concentration of flats in London. One would anticipate that the North and Midlands would gain from the use of voids and turnover data. The Eastern region appears to have reductions due to most of the new factors used within the calculation.

Analysis of the potential variation in maintenance allowances shows that the proposed reductions in allowances within the revised formula mainly affect the London Authorities and the northern cities. There is no discernible pattern for the rest of the country. This could be expected as the weighting given to flats has been reduced. The removal of a social indicator from maintenance allowances, based on the old Index of Local Conditions, could also affect the London authorities.

The exemplification of the government's proposals shows the following variations in maintenance allowances between regions:

	2003/2004 Allowance £/dwelling	2004/2005 Target £/dwelling	Variation %
East Midlands	615.50	739.46	+20.1%
Eastern	604.27	706.10	+16.9%
London	1,159.80	1,175.28	+1.3%
Northeast	650.31	697.29	+7.2%
Northwest	679.93	793.22	+16.7%
Southeast	676.03	795.18	+17.6%
Southwest	622.24	718.09	+15.4%
West Midlands	724.90	801.30	+10.5%
Yorkshire & Humber	656.31	751.67	+14.5%

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The exemplification of the government's proposals shows the following variations in management allowances between regions:

	2003/2004 Allowance £/dwelling	2004/2005 Target £/dwelling	Variation %
East Midlands	304.53	409.46	+34.5%
Eastern	376.60	373.37	-0.9%
London	770.70	655.15	-15.0%
Northeast	277.80	432.24	+55.6%
Northwest	330.27	467.70	+41.6%
Southeast	428.91	398.48	-7.1%
Southwest	363.45	385.88	+6.2%
West Midlands	358.77	458.74	+27.9%
Yorkshire & Humber	318.25	442.79	+39.1%

Easington is a district with a low proportion of flats and a high deprivation score. Management allowance is currently at the low level of £200.15 a dwelling. Under the government's proposals the target in 2004/2005 would be £452.30, although only £404.58 would be paid because of the transitional arrangements.

Similarly, Doncaster currently receives a management allowance of £233.21 a dwelling. Under the government's proposals the target in 2004/2005 would be £429.49, although only £384.18 would be paid because of the transitional arrangements.

Westminster and Hammersmith & Fulham provide a contrast, both of which are boroughs with a high proportion of flats in the housing stock, but which are not assessed as deprived.

Westminster currently receives a management allowance of £1,054.98 a dwelling. Under the government's proposals the target in 2004/2005 would be £675.39, although £1,054.98 would still be paid because of the transitional arrangements.

Hammersmith & Fulham currently receives a management allowance of £898.67 a dwelling. Under the government's proposals the target in 2004/2005 would be £670.15, although £898.67 would still be paid because of the transitional arrangements.

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## **Conclusions**

The proposals that are contained in the consultation paper on management and maintenance allowances are significant in that they represent a significant redistribution of resources. Authorities are also moving to a position where they will be obliged to spend at the level of their management and maintenance allowances rather than having the capacity to spend in excess of them, as at present.

Some authorities – principally in the north and midlands - stand to gain significantly from the proposals, and this will be welcomed by them as they consider that they have suffered in the past from receiving relatively low management and maintenance allowances, and this is considered to have resulted from inequities in the existing formulae.

Other authorities, principally in London, stand to lose resources should these proposals be introduced, and they are making strong representations that the proposals should be modified.

'AWICS' is assisting authorities in preparing their submissions on this important matter. The government's closing date for consultation is 15<sup>th</sup> October 2003.

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