Title: Improving mobility in social housing	Impact Assessment (IA)
IA No:	**Date:** 15/10/2012
Lead department or agency: Department for Communities and Local Government	**Stage:** Final
	Source of intervention: Domestic
Other departments or agencies: No	**Type of measure:** Primary legislation
	Contact for enquiries: Suzanne Turnock
Summary: Intervention and options	**RPC Opinion:** Awaiting scrutiny

Cost of Preferred (or more likely) Option				
Total Net Present Value	**Business Net Present Value**	**Net cost to business per year** (equivalent annual net cost to business on 2009 prices)	**In scope of one-in, one-out?**	**Measure qualifies as**
£12.5m	-£0.75m (net cost)	£0.04m	Yes	IN

What is the problem under consideration? Why is government intervention necessary?

Social housing provides decent, affordable homes to around 3.8m households in England. But the current system is inflexible and fails to maximise the opportunities for tenants to move to alternative accommodation within the social sector when their circumstances change. This means that many people are trapped in unsuitable accommodation, unable to take advantage of opportunities to improve the quality of their lives, such as employment opportunities. It is right to increase flexibility so that tenants have more opportunities to move to properties and locations across the country if they wish.

What are the policy objectives and the intended effects?

The objective is to create a flexible system in which social landlords are able to meet the housing needs and aspirations of their tenants more effectively. Our preferred proposals should improve tenants' ability to move to another social home both within the local area and beyond. This should contribute to a reduction in overcrowding within the social sector and, alongside recently announced proposals for reforming housing benefit, provide better incentives for tenants to move into employment. To ensure that there is no disincentive to mobility, security of tenure should be retained when existing tenants exchange homes.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)

Option 1 - do nothing; option 2 - requiring landlords to subscribe to a mutual exchange scheme through which tenants can access matches across all internet-based mutual exchange services; option 3 - procurement of a single national mutual exchange service by government. Option 2 was the preferred option because setup and ongoing running costs are lower than setting up a central database.

Will the policy be reviewed? It will not be reviewed. **If applicable, set review date:**

Does implementation go beyond minimum EU requirements?			Not applicable		
Are any of these organisations in scope? If micros not exempted set out reason in evidence base.	**Micro** Yes	**< 20** Yes	**Small** Yes	**Medium** Yes	**Large** Yes
What is the CO_2 equivalent change in greenhouse gas emissions? (Million tonnes CO_2 equivalent)			**Traded:** Not applicable	**Non-traded:** Not applicable	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible .... Date ....

Summary: Analysis and Evidence Policy Option 2

Description: Requiring landlords to participate in mutual exchange schemes through which tenants can search all records of potential partners across all participating mutual exchange schemes

Price Base Year 2010	Present Value Base Year 2010	Time Period 30 years	Net Benefit (Present Value) (£m)		
			Low: 4.6	High: 25.7	Best Estimate: 12.5

COSTS (£m)	Total Transition (constant price)	Years	Average Annual (excluding transition) (constant price)	Total Cost (present value)
Low	0.15		0,3	**5.3**
High	0.15		0.9	**15.8**
Best Estimate	0.15		0.5	**9.3**

Description and scale of key monetised costs by 'main affected groups'

Mutual exchange providers estimate that it will cost on average £37,000 per provider to set up *HomeSwap* Direct, a total of £150,000 for the four current participants[1]. Providers will have to ensure their systems remain up to date, which might cost £10,000 per provider per annum or £710,000 for all providers over a 30 year period. Landlords are likely to face costs when familiarising themselves with new requirements and complying with the new requirement to subscribe to a mutual exchange provider participating in *HomeSwap* Direct which might total £50,000 over 30 years. Landlords who previously did not subscribe to a mutual exchange service will now have to do so, costing £2.0m (including £0.3m for local authorities). Administering extra mutual exchange moves could cost landlords £2.2m, £6.6m, or £13.2m, depending on the number of additional mutual exchange moves. Therefore total costs are estimated at around £9.2m, in the central case. *All figures are in 30 year present value terms.

Other key non-monetised costs by 'main affected groups'

BENEFITS (£m)	Total Transition (Constant Price)	Years	Average Annual (excluding Transition) (Constant Price)	Total Benefit (Present Value)
Low	0		0.6	**9.9**
High	0		2.3	**41.6**
Best Estimate	0		1.2	**21.8**

Description and scale of key monetised benefits by 'main affected groups'

Landlords might see a reduction of £19.8m over a 30 year period (£7.9m to £39.6m) in void, repairs and administration costs associated with transfer lettings, depending on the number of additional mutual exchange moves. In addition, Mutual Exchange Providers might see additional subscription revenue of £2.0m. Therefore total benefits are estimated at around £21.8m (£9.9m to £41.6m). *All figures are in 30 year present value terms.

[1] Because of rounding, costs and benefits may not add up to the total.

Other key non-monetised benefits by 'main affected groups'
Existing social tenants will be better able to move house by arranging mutual exchanges. Tenants will have a greater choice of potential swaps and mobility is likely to increase as a result. As well as making households better off, this could have wider social benefits. For instance, the number of tenants living in unsuitable accommodation might fall, with beneficial health, education and criminal justice impacts.

Key assumptions/sensitivities/risks	**Discount rate**	3.5%
Most of the cost estimates presented above are based on illustrative assumptions that the number of mutual exchange moves will increase by 10%, 25% or 50% as a result of the proposals. It is uncertain how many more households will choose to move as a result of getting more information on prospective swaps. Both costs and benefits are likely to move in line with the number of extra mutual exchanges brought about by the option.		

BUSINESS ASSESSMENT (Option 2)

Direct Impact on businesses (Equivalent Annual) £m			**In scope of one in one out?**	**Measure qualifies as**
Costs: 0.04	**Benefits:** £0.00	**Net:** -0.04 (cost)	Yes	IN

Evidence Base (for summary sheets) – Mobility Policy

Description of policy options

<u>Summary of key points:</u>

- Social tenants may exchange their home with other social tenants if both landlords agree. These house swaps are known as mutual exchanges.
- Many landlords provide mutual exchange support as part of the housing options advice services they offer, often subscribing to an online service that is then provided to tenants at no cost.
- However, the number of social tenants moving via mutual exchange is lower than it might possibly be because tenants are only able to identify potential swap partners from amongst other properties that have been registered on the same scheme.
- This constraint on access to the full list of possible matches restricts mobility within the social sector. It may be causing tenants to remain in unsuitable housing and making it harder for people to move to be closer to work, family or carers.
- The preferred option is that the Secretary of State should direct the social housing regulator to set a standard on mutual exchange. The direction would require social landlords to subscribe to mutual exchange schemes that will allow tenants to see all possible exchange partners.
- In anticipation of this direction, mutual exchange providers have made technical changes to their systems which allow them to search other providers' records (and for making their own records available for searches). The membership agreement which sets out the framework under which information will be shared has been published to allow other providers to join if they wish.
- Other options included government providing a central database and requiring all mutual exchange providers to pool their data on this site.

<u>Background on mutual exchange of social dwellings</u>

Section 92 of the Housing Act 1985 gives a secure tenant the right to exchange their home with another secure or assured tenant in any part of the country subject to the agreement of both landlords. These house-swaps are known as mutual exchanges. Secure tenancy landlords are only able to refuse a request for a mutual exchange in certain situations set out in Schedule 3 of the Housing Act 1985. The circumstances in which other social landlords can refuse exchanges will depend on what is in individual tenancy agreements, subject to the rules imposed by the social housing regulator.

Many tenants will look for a mutual exchange partner if they are unsuccessful in achieving a transfer with their existing landlord (or in areas where common allocation policies operate, with another landlord partnered in a choice based lettings scheme) or if they wish to move further afield.

In 2010-11 approximately 14,100 local authority tenants moved house through mutual exchange[2]. The number of mutual exchanges involving local authority tenants declined by an average of 8% per annum between 1998 and 2004, when a scheme called MoveUK was

[2] DCLG, Housing Strategy Statistical Appendix

introduced to improve mobility, and are 60% lower in 2010-11 than in 1998. There is no central record of the number of mutual exchanges agreed by housing associations. However, according to the recently published report of the Mobility Taskforce[3] the two main providers of mutual exchange services estimate that 22,000 tenants on average move in this way each year.

MoveUK was a centrally delivered service designed to deliver a suite of mobility schemes including National Home Swap. MoveUK failed to halt the decline in the number of mutual exchanges and the contract was ended because of concerns about the performance and fitness for purpose of the software developed by the contractor. *HomeSwap* Direct focuses solely on mutual exchange and gives tenants greater access to potential swap partners. The scheme is being delivered by a range of providers thereby ensuring that if one service should fail others are available in the market place to continue to provide a mutual exchange service to landlords/tenants.

Problem under consideration

In order to facilitate the mutual exchange process for tenants, many landlords provide mutual exchange support as part of the housing options advice services they offer. Information gathered by officials at the Department for Communities and Local Government suggests that approximately 90% of social tenants are currently provided with free access to a mutual exchange service through a subscription taken out by their landlord.

The bulk of landlords subscribing to mutual exchange services appear to be fee paying members of one of two leading internet based services. Other landlords subscribe to smaller services as part of their choice based lettings scheme. In addition a small number of local authority landlords administer their own in-house mutual exchange scheme. These all assist tenants wishing to exchange their properties to advertise the properties on the sites in order to find potential swap partners.

Many landlords see this service as a tool to increase levels of mobility and offer tenants more choice and control over where they live. Mutual exchange also provides advantages to landlords as they do not typically incur void costs or other costs associated with getting vacant properties ready. The Tenant Services Authority's tenancy standard currently expects that landlords shall participate in mobility schemes and mutual exchange schemes where these are available.

The online services however may not be readily available to those tenants who are not IT literate and may also limit tenant's potential swap options to those available from that provider.

Although mutual exchange services are seemingly available to approximately 90% of social tenants, the way these services are operated restricts the level of choice available to prospective movers to only those properties registered with the provider(s) they or their landlord subscribes to. In other words access to most existing mutual exchange services only allows tenants to identify potential swap partners from amongst other households that have registered on the same scheme. The downside is that tenants wishing to move outside their local area, or even simply a short distance across a local authority boundary, may need to register with more than one provider. This has resulted in the number of social tenants able to move house by way of mutual exchange being less than it might otherwise be.

Tenants are, however, free to register with additional mutual exchange schemes if they so wish. Likewise, those tenants whose landlords do not offer across-the-board access to mutual exchange services are free to register with one of the internet-based schemes. Joining another

[3] Report of the Mobility Task force, August 2010, page 9
http://www.housing.org.uk/Uploads/File/Policy%20briefings/Neighbourhoods/Mobility%20Taskforce%20report%20August2010.pdf

mutual exchange service in addition to any one supplied via their landlord provides tenants with the ability to access details of further potential home swaps, although there is usually a subscription charge to pay with each registration, as well as the need to input their details and requirements each time.

The costs involved – in terms of time, inconvenience and money – and the complexity of the system are likely to prohibit some tenants from joining one or more services, particularly if they have to sign up and negotiate various IT systems, or would require some support to negotiate an internet service. This potentially blocks some moves within the social sector. The upshot is that the number of social tenants that move as a result of exchanging their home with another household is lower than it might be, hindering mobility within the social sector.

Rationale for intervention

Until recently, the mobility of social tenants was constrained by the current system for facilitating mutual exchanges using internet services. This is because a tenant's choice of exchange partner was restricted to those properties available through the provider their landlord had chosen to register with. This lack of choice caused social tenants to remain in unsuitable housing because they were not able to find suitable mutual exchange swaps. It made it harder for people to move to be closer to work, family or carers with economic and health implications. The inadequacy of the current allocation system also contributed to a lack of choice for existing tenants, because they often had to compete with households on the waiting list for a chance to move by transfer. It was therefore important to make changes to this system to put tenants firmly in control of where they want to live and empower them to move – whether that be for a new job, to be closer to family, or any other reason.

In addition, this lack of choice is likely to be exacerbated for those tenants who do not have direct access to IT and rely on others to search on their behalf. Government needs to intervene to improve the quality of the service provided to social tenants by taking steps to ensure that they have access to all possible matches for a mutual exchange. As well as increasing the chances of finding a swap partner for tenants who are already registered, the improved service of the new scheme should motivate tenants who haven't previously considered moving to take action as they realise that they do have an opportunity to move to a property or area that better meets their needs

Policy objectives

The policy objectives are to improve levels of mobility in the social rented sector by increasing opportunities for social tenants to move by exchanging their tenancy with that of another household. Achieving this aim will help bring social and economic benefits to people living in the social housing sector and to the wider community, for example by enabling tenants to move for employment related reasons and through tenants feeling more committed to the community that they have chosen to move into.

This aim will be achieved through the social housing regulator setting a standard on mutual exchange which would require all social landlords to subscribe to a mutual exchange service provider who is part of *HomeSwap* Direct. Services within this scheme allow users to search for property matches held in each other's databases, thus maximising the potential to identify swaps.

In November 2010, the Government published *Local Decisions: A Fairer Future for Social Housing*[4]. This included proposals to develop a national home swap scheme which would make it easier for tenants to see all possible exchange partners, and indicated that steps would be taken to put this on a statutory basis.

[4] http://www.communities.gov.uk/documents/housing/pdf/1775577.pdf

The response to the consultation, *Local Decisions: next steps towards a fairer future for social housing*, was published in February 2011[5]. Over 350 respondents commented on the proposals. Of these, almost 300 were from landlords (either local authorities or housing associations) and a further 25 tenant or resident associations also responded on behalf of their members. In addition some landlords offered views on behalf of their tenants. Other responses were received from members of the public, voluntary and community organisations, campaign groups and an MP.

Many landlords who responded to the consultation indicated that they already subscribed to a mutual exchange service on behalf of their tenants. Those who did not indicated that cost was the reason for this, since they achieved few moves for their subscription cost. The consultation also asked what extra support tenants might need to help them arrange a mutual exchange. The majority of respondents indicated that tenants would like additional support either to access web-based services or to receive information in other formats such as paper copies, a telephone helpline or face to face contact in the local housing office.

On the basis of these comments, the Government confirmed that it would press ahead with plans to develop a national scheme, and include powers in the Localism Bill (now Localism Act 2011) to allow the Secretary of State to direct the regulator of social housing to set a standard relating to the provision of services to support mutual exchange.

The Government's proposals for a direction on mutual exchange prompted the providers of mutual exchange services – Abritas, HomeSwapper, House Exchange and Locata (LHS) - to work together to develop a technical solution which allows tenants to see all potential matches, no matter which provider they are registered with, maximising their chances of finding a swap partner. The scheme, known as *HomeSwap* Direct, was launched on 27 October 2011[6]. The continuation of *HomeSwap* Direct is dependent on the mutual exchange provisions in the Localism Act being enacted. Without the clear expectation that social landlords would be required to subscribe to a service that allowed users to see all possible matches, the 4 providers would not have established the *HomeSwap* Direct scheme.

<u>Policy options</u>

Option 1 – Do nothing

This option, which forms the baseline against which other options are appraised, would leave in place the arrangements for facilitating mutual exchanges which existed in early 2011. There would be no *HomeSwap* Direct scheme. Tenants wishing to see the full range of possible matches would need to register separately with each provider.

Leaving the regulatory arrangements in place - the social housing regulator continuing to require all landlords to participate in mutual exchange schemes without prescribing in detail what sort of system they should participate in - was rejected because tenants' ability to move within the social sector would continue to be hindered by a lack of information on potential partners.

Option 2 – Requiring landlords to subscribe to a mutual exchange scheme through which tenants can access matches across all internet-based mutual exchange services

The government's preferred option involves directing the social housing regulator to set a standard which requires social landlords to subscribe to mutual exchange schemes through

[5] http://www.communities.gov.uk/documents/housing/pdf/1853054.pdf
[6] http://www.communities.gov.uk/news/newsroom/2016097

which tenants can search all records of potential partners across all participating mutual exchange schemes.

In July 2011, the Government sought views on this preferred option in *Implementing Social Housing Reform: Directions to the Social Housing Regulator*[7]. The response was published in November 2011[8]. Of the 170 respondents to this question, the majority indicated that they agreed with the proposed direction on mutual exchange. Social landlords generally welcomed this proposal as a means of improving mutual exchange services for tenants, and thought it would make it easier for tenants to see possible exchange partners and would increase their choice and control over where they live. Many landlords commented that they already subscribed to one of the existing online mutual exchange services. However, approximately one fifth of respondents indicated that they did not agree with the proposed approach. Most of these felt that the direction was over-prescriptive and bureaucratic, and that registered providers should be free to determine locally what mobility services they put in place for their tenants.

As a result of the consultation and the launch of *HomeSwap* Direct on 27 October, the Government simplified the terms of the direction to give clarity to landlords that they can meet the terms of a new standard by subscribing to a provider who is part of *HomeSwap* Direct

As most landlords already subscribe to at least one member of the scheme, a requirement to subscribe to a *HomeSwap* Direct provider will, in most cases, mean that landlords do not incur any new costs. For those (usually smaller) registered providers who do not already subscribe to a mutual exchange service, the consultation document made it clear that they could choose to pay subscription fees for individual tenants who wish to move rather than one annual subscription for the entire organisation if this approach offered better value for money

Option 3 – Procurement of a single national mutual exchange service by Government

This option would have provided a central database procured by central government for all mutual exchange providers which would have enabled them to pool their data about all available properties on this site. Tenants would have been able to enter their details once into a website and search for matches anywhere in the country. The service would have been based on existing sites and so familiar and easy to use for tenants. This policy option was less preferred due to the costs and risks associated with procuring a central mutual exchange service (discussed below).

It would have involved the Secretary of State taking a power to direct the social housing regulator to set a standard on mutual exchange and on the content of a standard on mutual exchange. The standard would have required that landlords must participate in the central database.

Existing providers or any other IT companies would have competed against each other to win the government contract which would have ensured that all records of tenants willing to exchange their properties were available on this central database.

Costs and benefits

<u>Baseline for appraisal</u>

If Government took no action then it is expected that mutual exchange would continue to operate as it had done earlier in 2011, with some – but not all - landlords offering their tenants access to web-based services, and without any automatic searching of data held on other systems.

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[7] http://www.communities.gov.uk/documents/housing/pdf/1936126.pdf
[8] http://www.communities.gov.uk/documents/housing/pdf/2017529.pdf

Government does not collect data on mutual exchanges between tenants of registered providers of housing. Local authority returns show that the number of mutual exchanges taking place between local authority tenants fell almost every year between 1998 and 2011, from 35,200 to 14,100 (a drop of 60%)[9].

This decrease in mobility has taken place alongside a reduction in the number of social lettings and during a period where stock was being transferred from local authorities to registered providers of housing, which may have contributed to the trend. Removing the effect of the latter by comparing the rate at which social tenants exchanged properties with one another across years, shows that as a percentage of local authority dwelling stock, mutual exchanges declined every year from 1998 to 2004 (from 1.1% to 0.7% per year)[10]. Since then however they have remained broadly stable at around 0.7% to 0.8% per annum.

Table 1: Local authority lettings and mutual exchanges[11]

Year	Local Authority Dwelling Stock, 1000s	Local Authority Lettings	Mutual Exchanges	Rate of Mutual Exchange
1998	3,309	369,000	35,200	1.06%
1999	3,178	349,000	29,900	0.94%
2000	3,012	329,000	25,500	0.85%
2001	2,812	304,000	22,400	0.80%
2002	2,706	271,000	20,100	0.74%
2003	2,457	255,000	17,800	0.72%
2004	2,335	213,000	16,000	0.69%
2005	2,166	194,000	15,800	0.73%
2006	2,086	174,000	14,900	0.71%
2007	1,987	160,000	14,600	0.73%
2008	1,870	144,000	14,300	0.76%
2009	1,820	139,000	13,000	0.71%
2010	1,800	153,000	13,500	0.75%
2011	1,730	146,400	14,100	0.82%

This pattern suggests that if government takes no further action the number of local authority tenants moving as a result of home swaps will either remain at around current levels or fall further. The government's objective of increasing social sector mobility is unlikely to be achieved.

The current system of mutual exchange sees some tenants pay to register with providers, either because their landlord has not subscribed on their behalf or because membership of additional services is necessary in order to maximise the number of potential matches. The subscription rate for an individual tenant is typically about £7 per quarter for each additional service they subscribe to[12]. This additional cost implication may act as a disincentive for many tenants joining multiple schemes which would impact on their chance to move.

<u>Costs of preferred option 2: Requiring landlords to subscribe to a mutual exchange scheme through which tenants can access matches across all internet-based mutual exchange services</u>

Setup costs for mutual exchange providers

Firms that provide mutual exchange services are not directly affected by the change in regulation: it is only binding on social landlords. However, the policy will have an indirect impact

[9] Communities and Local Government, Housing Strategy Statistical Appendix
[10] DCLG, Housing Strategy Statistical Appendix and Live Table 104
[11] DCLG, Housing Strategy Statistical Appendix
[12] Average figure, based on information provided by mutual exchange service providers

on the marketplace by requiring social landlords to primarily subscribe to mutual exchange providers who participate in a new scheme which allows tenants to search for matches across more than one provider. Four mutual exchange providers have made changes to their IT systems to enable them to search each others' databases. They estimate that the cost of developing this technical solution has been around £150,000 in total or approximately £37,000 per provider. This was accomplished without financial support from Government.

Ongoing costs for mutual exchange providers

Providers of mutual exchange online services that participate in *HomeSwap* Direct will have to ensure their systems remain able to search each others' data and that the 'linking technology' is kept up-to-date. There is therefore a risk that they could incur further costs in the future for this purpose. They have estimated that the cost of maintaining compatible systems will be around £10,000 for each provider per annum, which could total £710,000 over a 30 year period in present value terms.

Familiarisation costs for social landlords

Landlords might face costs as a result of the need to familiarise themselves with any new requirements upon them and to ensure that the necessary checks are carried out when subscribing to mutual exchange providers in future. This is to make sure they comply with the detail of the standard by subscribing only to providers that participate in *HomeSwap* Direct. However, these costs to landlords are expected to be minimal. Providers participating in *HomeSwap* Direct are required to state this on their websites and it is likely to require very little staff time to make necessary checks at the point when a decision is being made about which mutual exchange online service to subscribe to.

We estimate that the total monetary costs of the time might be approximately £14.50 per landlord in the first year that contracts are renegotiated on the basis that such checks might take about 30 minutes junior manager time[13]. In subsequent years only 15 minutes clerical time is assumed to be taken up with such matters. If around 1,000 social landlords read and respond to the new mutual exchange standard each year from 2012 onwards then the cost could total £61,000 over 30 years (present value). It is likely that a significant proportion of these costs, £31,000 over 30 years, would fall on larger private registered providers[14]. The cost to micro landlords of familiarising themselves with the new requirement and ensuring compliance is estimated at £19,000.

Subscription costs for landlords who do not currently subscribe to a mutual exchange provider

Whilst most landlords already subscribe to a mutual exchange service provider, we know that some do not. We estimate that a total of 115 private registered providers who do not currently subscribe to a provider would need to do so as a result of this option at a cost of £2.0m over a 30 year period (present value). The majority of these costs will be borne by larger private registered providers (£1.7m), micro landlords are likely to incur costs of £75,000 over 30 years. We have also identified 14 local authority landlords with over 500 homes which would have to subscribe at an estimated cost of around £0.3m over 30 years.

[13] Information on wage costs used in this analysis is provided in the common assumptions section of the Impact Assessment.

[14] Around half of the social housing stock is owned and managed by 1,600 private organisations (typically not-for-profit). These private registered providers are more commonly known as housing associations. Only private registered providers whose tenants have a statutory or contractual right to exchange their tenancies will be obliged to comply with the regulation. This excludes most co-operatives, YMCAs, almshouses and sheltered housing providers from scope. This means that the policy will only affect around half of private registered providers (around 800). Of this group of affected private registered providers, we estimate that 300 might be micro-enterprises and 500 are larger private registered providers. Micro-enterprises own only a fraction of the total private registered provider stock: 9%; an average of 230 units each

Costs to landlords from additional mutual exchanges

It is also possible that landlords would incur ongoing costs from administering additional mutual exchanges if the scheme is successful at generating an increase in the number of mutual exchanges, since this is likely to consume extra staff resources. Given that relevant staff are already familiar with this process the additional cost per move is likely to be low – no more than several hours time for clerical staff (around £51). Of course, any extra moves generated would bring offsetting benefits to tenants and to wider society.

It is very uncertain how many additional moves might take place as a result of requiring mutual exchange providers to subscribe to *HomeSwap* Direct. Feedback from landlords suggests that word of mouth and other local networks are important in determining what moves currently take place within the local area. It has also been suggested that in some areas there are already potential matches between tenants but households find it difficult to narrow down and identify matches. This implies that the number of tenants participating in services might not be a binding constraint on the number of mutual exchanges taking place in some cases, and that complexity can be more of a barrier.

For illustrative purposes, three scenarios are considered: one where the number of mutual exchanges increases by 10% over the current baseline (taken to be 22,000 per year), and others where the number of mutual exchanges taken place is 25% and 50% greater. These would imply that 2,200, 5,500 or 11,000 more home swaps might take place each year.

If increases in mutual exchange numbers were of this order of magnitude then the cost to landlords of administering the additional home swaps might amount to £2.6m, £6.6m, or £13,2m over a 30 year period for all landlords. The total costs over 30 years for private registered providers may account to £3.3m.

Total costs

The total monetised costs of the preferred option – including costs to providers/government of setting up and maintaining a data sharing system – might therefore be £9.3m over 30 years in the central scenario (£5.3m in the low scenario and £15.8m in the high scenario), in present value terms.

The cost for private registered providers is estimated to be £5.7m over a 30 year period of which around £400,000 will fall on micro-landlords.

<u>Benefits from preferred option 2</u>

Benefits to tenants

The main benefit of the preferred option is that it will give existing tenants wishing to move through mutual exchange greater mobility and choice of the many properties available for exchange through the various web-based mutual exchange service providers who are part of the *HomeSwap* Direct scheme. This will also maximise the potential for tenants to identify swaps across the country from the various providers who are part of the scheme without the need to register with multiple providers and is therefore likely to increase the number of moves.

As noted above in 2010-11, approximately 14,100 local authority social tenants moved home through mutual exchange, in spite of the current system of facilitating web-based mutual exchanges, although many more have registered for an exchange.

Introducing this duty on landlords to subscribe only to those mutual exchange schemes which participate in *HomeSwap* Direct would give tenants a wider choice of potential swaps as they will have access to information about all properties available for mutual exchange through most web-based providers. This will make it easier and less time consuming for tenants to identify potential mutual exchange swaps. As a result there are likely to be an increased number of moves than is obtained through the current restrictive system.

There will also be a greater chance of tenants who would have moved anyway identifying properties that are a better match to their needs if they are able to search from a wider pool of other households. This will also benefit households. This could lead to reductions in poor housing outcomes as well as improving the quality of life of individual tenants and increasing tenant satisfaction which could have positive external effects, for example reducing overcrowding has been shown to benefit educational performance[15] and make it easier for households to make long distance moves and potentially take up employment.

Benefits to landlords

A further benefit of increasing the number of mutual exchange moves taking place comes from savings to social landlords compared to administering a transfer within the sector. If existing social tenants move through the transfer route, landlords are likely to incur some void costs whilst properties are advertised and bid for. The landlord may also incur costs to bring the vacated property back up to scratch before it can be re-let. These costs are not incurred if tenants exchange their properties direct and the resulting savings would likely offset the costs to landlords from administering mutual exchanges that are set out in the previous section.

It is assumed that general needs properties are vacant for an average of 4 weeks[16] prior to re-letting, costing landlords around £300 on average[17]. Such losses will be avoided if tenants exchange properties instead. This could benefit landlords to the tune of £11m over 30 years assuming that 1 in 3 home swaps are substitutes for transfers (£4.4 to £21.9m).Of this around £5.5m will accrue to registered providers including around £550,000 to private registered providers.

Landlords should benefit from administrative savings – from devoting fewer staff resources to organising transfer lettings – which could amount to £2.0m over the same period (£0.8m to £4.0m). Administrative savings for large private registered providers are estimated at £1.0m while administrative savings for micro landlords are estimated at £100,000

Mutual exchanges instead of transfers could lead to a reduction in unnecessary repair and redecoration expenses[18] which could save landlords a further £6.9m.[19]. Of this, large private registered providers could save £3.1m while micro landlords could save £300,000.

Total monetised benefits to all landlords from increasing mutual exchanges might therefore range from £9.9m to £41.6m with a central estimate of £21.8m.

Taking the costs and benefits together, net benefits are estimated at £12.5m over 30 years.

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[15] *The Impact of Overcrowding on Health and Education: A Review of Evidence and Literature*, CLG, 2004
[16] The Department's data suggests that general needs properties are vacant for an average of 4.5 weeks prior to re-letting (Continuous Recording of Lettings 2009-10).
[17] DCLG, Continuous Recording of Lettings 2009-10
[18] If existing social tenants move through mutual exchange rather than the transfer route, landlords may save on the cost of bringing vacated properties 'back up to scratch' before they can be re-let. The Department does not routinely collect data on sources of cost associated with transfer lettings but information from landlords suggests that repair/redecoration bills amount to £2,000 per property. We assume that on average two-thirds of these costs would otherwise have been incurred anyway, regardless of the transfer taking place (due to much of the maintenance being routine).
[19] Details of assumed rents and wage rates are provided in the common assumptions section of the Impact Assessment.

The total benefits to micro landlords are estimated at £950,000, against costs of £400,000, meaning the proposals are expected to be net beneficial to small and large landlords alike.

Wider benefits

Any extra moves will improve households' welfare and could have wider social benefits. For instance, more mutual exchanges could reduce the number of tenants who live in unsuitable accommodation, which impacts on health, education and the criminal justice system. Increased mobility may also contribute to an increase in the number of tenants who are able to move for work, thereby potentially improving their economic situation and bringing about substantial benefits to the exchequer in terms of benefit payments and tax receipts. The benefit – to government, the individual and wider society – of enabling just one individual to move off benefits and into work can amount to £15,000 or £22,000 per year in the case of recipients of Income Support or Jobseekers Allowance[20].

Overall 8% of households living in the social sector are unemployed and a further 24% are other economic inactive (excluding retired and those in full time education)[21]. It is uncertain how many social tenants might enter work as a result of being able to arrange a mutual exchange though; we do not know the extent to which removing this barrier might increase employment amongst social tenants. Nevertheless the work related benefits of introducing *HomeSwap* Direct could be significant.

Distributional impacts for commercial providers and competition impacts from preferred option 2

Many landlords see subscribing to mutual exchange services as providing value for money in terms of helping to save on costs in relation to voids and decoration of properties. Compared to providing an in-house service, subscribing requires little involvement from landlords and can potentially save staff resources. The majority of social landlords choose to pay subscription fees to mutual exchange providers so that their tenants can have free access to the web-based services these offer. Information gathered by officials at the Department suggests that approximately 90% of social tenants have free access to web based mutual exchange services provided by the two major providers.

Information obtained from the providers suggests that, at present, around 900 social landlords subscribe to one of the four providers who participate in *HomeSwap* Direct. In addition to subscription fees from landlords, mutual exchange providers also charge tenants who subscribe to their schemes as individuals – either because their landlord does not subscribe to any scheme or to access a wider range of properties available for exchange. These individual subscriptions cost about £7 for three months membership, per tenant.

Costs from alternative option 3: Procurement of a single national mutual exchange service by Government

Possible costs of this option for creating a national mutual exchange service, which is not preferred, would include the one-off costs of funding an existing provider or IT company, through a grant competition, to set up a central hub/database to hold all information from existing mutual exchange websites. This could cost between £240,000 and £350,000 although the exact cost will vary depending on the technical specification of the database and factors such as the difficulty implementing this. These costs could either be met by mutual exchange

[20] Department for Work and Pensions, Tax Benefit Model. Benefits from movements into employment are highly dependent on individual circumstances and the figures above are based on hypothetical circumstances. For published tables see: http://research.dwp.gov.uk/asd/asd1/tbm/TBMT_2009.pdf

[21] DCLG, English Housing Survey 2008-09

providers wishing to be involved in the scheme or it might fall to central government to provide the necessary funding; this detail has not yet been resolved.

This option would require a procurement exercise, which would invite tenders either from existing providers of mutual exchange services or specialist IT companies to develop a national service that social housing providers could sign up to. The costs of the successful tender for developing a hub or database to facilitate a national home swap scheme might have to be funded by the Department. Running the procurement process might cost between £25,000 and £75,000, owing to the staff resources necessary to organise a bidding process and contract the service.

Potential risks associated with this approach include risks relating to procurement. Experience from previous procurement exercises suggest that it may be difficult for a central team to specify the requirement sufficiently closely to obtain the best service at the best price. In addition to such contractual difficulties, the level of competition between providers of mutual exchange services might be lower if government lets a single national contract every few years instead of allowing providers to continually compete for landlords' business.

In addition to the costs of setting up a central database there would be ongoing costs – estimated at between £75,000 and £100,000 per annum – owing to the need to operate and maintain the system. The total discounted cost of option 3C is estimated at between £1.5m and £2.1m over a 30 year period.

Providing that this option was also successful at increasing the number of mutual exchange moves it would also lead to some additional costs to social landlords, who would have to administer these. Details are provided above.

These costs remain uncertain for a number of reasons, including because the details of the proposal are still being worked up in consultation with external partners.

<u>Benefits from alternative option 3</u>

The main benefit of a central mutual exchange database, like the preferred option, is that it will provide tenants interested in swapping houses with national coverage and act as a 'one stop shop' for mutual exchange. It will give existing tenants wishing to move through mutual exchange greater mobility and choice of the many properties available for exchange through the various mutual exchange service providers.

In common with the preferred option, this approach would make it easier and less time consuming for tenants to achieve mutual exchanges as most of the transaction could be achieved by logging in through a single database. As a result there are likely to be an increased number of moves, along with the accompanying benefits to tenants and landlords described for option 3B.

However, the overall net benefit of this option is likely to be significantly lower that the preferred option because of the higher costs of setting up and managing a system which is based on having a central database. This is the key issue which makes this approach a less favourable option.

<u>Summary of costs and benefits</u>

The preferred option (2), which would require social landlords to subscribe to mutual exchange service providers who can search each others' systems, is expected to generate greater net benefits because setup and ongoing running costs (incurred by providers) will be lower than setting up a central database.

The scale of benefits, in terms of increased mobility, is likely to be similar from both options and the benefits from facilitating more mutual exchanges are judged to outweigh the likely costs. There are also important non-monetised benefits associated with improving mobility within the social sector. For example, the work related benefits from requiring landlords to subscribe to *HomeSwap* Direct could be significant. Increasing the number of mutual exchanges is also likely to bring significant benefits to tenants themselves, for example enabling tenants to move closer to friends and family and reducing the number living in unsuitable conditions.

The scenarios for monetised benefits presented above imply that the equivalent annual net cost to business and the third sector might be £100,000 in the central scenario, although this is highly uncertain. All of these costs are likely to be borne by registered providers of housing rather than providers of mutual exchange services.

Requiring social landlords to subscribe to the solution developed by the market will not cause disruption; has no security risks; has no costs to government; avoids the risk of bad procurement; and gives industry players more flexibility over how to run their businesses in future. As the membership agreement (which sets out the framework under which information will be shared by providers, the technical requirements of the scheme, and the process by which new members can apply to join) has been published this option also allows competition between providers based on the price and quality of the service they offer.

<u>One In One Out</u>

For one in one out purposes this proposal should be classed as an IN (it is regulatory in nature but expected to deliver net benefits to business).

<u>Risks</u>

The main risk is that the continuing existence of *HomeSwap* Direct is dependent on the effective regulation of social landlords to require their subscription to participating service providers. Without the clear expectation that social landlords will be required to subscribe to a service that allowed users to see all possible matches, the four mutual exchange providers are unlikely to continue with their voluntary agreement to allow each other to access their IT systems.

Without the existence of *HomeSwap* Direct, social tenants will only be able to identify potential swap partners from those who are registered with the same provider. This restriction on choice could prevent some tenants from moving to a more suitable property, which is closer to work, family or carers.

<u>Equalities Impacts</u>

An initial screening of the equality impact of the preferred policy option was carried out and indicates that a full equality impact assessment is not required.

<u>Small Firms Impacts</u>

As noted earlier the policy will have impacts on small businesses including Registered Providers of housing and firms providing mutual exchange services.

Most providers of mutual exchange services are likely to be small firms. Whilst a number of firms have decided to allow each other to access their systems, through *HomeSwap* Direct, this is by not obligatory and providers of mutual exchange services are free to decide whether they wish to participate in this scheme.

It would not be possible to exclude micro business from the requirement to subscribe to provider who participates in *HomeSwap* Direct and only apply it to larger landlords. While the Secretary of State has the power to direct the regulator to set particular standards and the contents of those standards for landlords, he cannot direct the regulator to apply those standards to some landlords but not to others. However the application and enforcement of the standards is taken into consideration by the regulator with a less onerous regime for landlords with less than 1000 units. Around 830 landlords fall within this category.

Most micro landlords own relatively few properties and around four-fifths are expected to find that the most cost-effective means of providing tenants with access to mutual exchange services will be to take out individual memberships on behalf of those tenants who are actively seeking to move (rather than blanket subscriptions). Typical fees imply the average annual cost might range from £90 to £130 per landlord (depending on how many tenants they had and how many of these register an interest in moving), with the total cost over 30 years coming to £75,000.

As noted above the analysis estimates that in the central scenario the cost for private registered providers is estimated to be £5.7m over a 30 year period, of which £500,000 fall on micro-landlords.

As already noted the total benefits to micro landlords are estimated at £950,000, meaning the proposals are expected to be net beneficial to small landlords when considered against the £400,000 costs.

Annex 1: Assumptions

Throughout the Impact Assessment staff costs, including associated overheads, pensions etc are taken to equal average hourly wage rates suggested by Office for National Statistics Survey Control Unit data. In 2010-11 these are:

Level	Rate for 2010-11 financial year
Director	91.24
Senior Manager	70.96
Middle Manager	48.99
Junior Manager	37.18
Clerical	23.63

However, these figures include an 80% uplift in for non wage labour costs and the relevant figures in this IA incorporate an uplift of only 30% more in line with that used by the DTI and HSE.

In future years these wage costs are assumed to rise by 2% per annum. in real terms, in line with the trend rate of real economic growth.

Average local authority rents across England in 2010 are taken to be £69 per week and average rents on housing association properties are £78 per week. These are based on published data[22], uplifted to current prices using HM Treasury GDP Deflator. Social rents are assumed to rise by 0.5% per annum in real terms in future years.

[22] DataSpring, Cambridge Centre for Housing and Planning Research (2010), *Guide to local rents 2009 part 1: cross tenure rents*, University of Cambridge