

SUPPLEMENTARY PAPER 2

ESTIMATING THE COSTS AND BENEFITS OF GREATER COMPLIANCE WITH PROPERTY CONDITION STANDARDS

INTRODUCTION

- 1.1 In Part 4 of the consultation paper,¹ we included estimates of the costs of greater compliance with the legal obligations relating to property condition in the private rented sector. We also referred to the benefits which would arise if those costs were met and property conditions improved and the costs of doing nothing.² This paper sets out our background calculations in arriving at those estimates.
- 1.2 For England the estimates are based on published and unpublished English House Condition Survey (EHCS) data, drawn from a continuous survey of around 8,000 addresses sampled each year. For Wales, the estimates draw on published data from the Living in Wales Survey 2004, a survey in 2004 of 7,526 households in occupied addresses which are not second homes or holiday homes;³ and Welsh Housing Statistics 2005,⁴ based on Census information and data returns from local authorities and registered social landlords (RSLs), as well as the Welsh Housing Condition Survey 1998, which involved a physical inspection of around 12,000 dwellings looking at unfitness and repair costs for occupied first homes in Wales.⁵
- 1.3 We estimate the expenditure required to bring properties up to different standards: basic fitness standards, compliance with the Housing Health and Safety Rating System in part 1 of the Housing Act 2004 and more extensive repair work thought by surveyors to be required.

¹ Encouraging Responsible Letting (2007) Law Commission Consultation Paper No 181, available at http://www.lawcom.gov.uk/housing_renting.htm.

² Encouraging Responsible Letting (2007) Law Commission Consultation Paper No 181, paras 4.15 to 4.18 and 4.49 to 4.52, available at http://www.lawcom.gov.uk/housing_renting.htm.

³ Welsh Assembly Government, *Living in Wales 2004 – Report on Unfitness and Repairs* (29 November 2005) available at <http://new.wales.gov.uk/docrepos/40382/40382313/statistics/housing-2005/sdr126-2005.pdf?lang=en> (last visited 22 June 2007); Welsh Assembly Government, *Living in Wales 2004 – Tenure* (30 September 2005) available at http://new.wales.gov.uk/legacy_cy/keypubstatisticsforwales/content/publications/housing/2005/sdr94-2005/sdr94-2005.pdf (last visited 27 June 2007).

⁴ Welsh Assembly Government, *Welsh Housing Statistics 2005*, available at <http://new.wales.gov.uk/topics/statistics/publications/whs2005/?lang=en> (last visited 27 June 2007).

⁵ *Welsh Housing Condition Survey 1998*, available on the Welsh Assembly Government website at <http://new.wales.gov.uk/docrepos/40382/40382313/statistics/housing/housing-2001/whcs98/whcs98-ch1-e.pdf?lang=en> (last visited 22 June 2007).

- 1.4 We also estimate the costs involved in different degrees of compliance: the costs of making fit or repairing every private rented property which is unfit or in need of repair; and (in recognition of the fact that no regulatory system, however well designed, is likely to achieve 100% compliance) estimated costs of a higher than current proportion of private rented properties meeting the standards.
- 1.5 The introduction of any new regulatory system would involve “regulatory costs” such as a membership fee for joining a landlords’ association or accreditation scheme, or a licence fee. These “regulatory” costs are not discussed in this paper, but are referred to in Part 7 of the consultation paper.
- 1.6 This paper also discusses the potential benefits of greater compliance with legal obligations relating to property condition, although we have been unable to find many reliable estimates of the cost savings which would result. The Office of the Deputy Prime Minister in a regulatory impact assessment last year recognised the difficulties inherent in such an exercise.

The actual costs and benefits of the options for [house in multiple occupation] and selective licensing and management orders can be identified but are hard to quantify. Many of the costs and benefits are intangible and cannot be put into figures while others are based on local circumstances. We are committed to monitoring the system as it is implemented and we intend to carry out a review at the end of a 3-year period. This should provide more quantified costs and benefits of the chosen option.⁶

COSTS OF MEETING FITNESS STANDARDS

Housing Act 1985, s 604 unfitness

- 1.7 Although the fitness test in section 604 of the Housing Act 1985 is no longer the relevant statutory test of fitness, data are available on the numbers of private rented dwellings which fail to meet this test, and the costs of making those dwellings fit. It can be used as a starting point for our estimates.

Costs of eliminating unfitness in the private rented sector in England

- 1.8 In the regulatory impact assessment for part 1 of the Housing Act 2004, the Office of the Deputy Prime Minister (ODPM) estimated the cost of works associated with the s 604 fitness standard by:

⁶ ODPM, *Regulatory Impact Assessment (RIA): Houses in Multiple Occupation and Selective Licensing and Management Orders* (March 2006), para 233, available at http://www.communities.gov.uk/pub/587/RegulatoryImpactAssessmentRIAHousesinMultipleOccupationandSelectiveLicensingands_id1164587.pdf (last visited 27 June 2007). The Building Research Establishment has been commissioned by CLG to carry out this research.

...multiplying the number of dwellings declared unfit under the Fitness Standard resulting in Improvement Orders in 1997/98,⁷ by the estimated “average cost to make fit”⁸ for 2001. The number of dwellings declared unfit in 1997/98 was drawn directly from the 1988-98 Housing Construction and Statistics. The “average cost to make fit”, £10,136, is taken from the English House Condition Survey: 2001. The estimate of the cost of works derived is approximately equal to £470m.⁹

- 1.9 This figure was based on the number of dwellings declared unfit following an inspection. We would be hoping that a greater improvement in property conditions would result from our proposals, than would be achieved through that level of inspections, whether through more inspections or otherwise.
- 1.10 £10,136 was an average cost to make fit across all unfit stock in England. Table 6.2 of the EHCS 2001 Main Report gave an average actual cost of making fit an unfit private rented dwelling of £12,094,¹⁰ giving a total cost in 2001 of £2,877 million to make all unfit private dwellings in England fit (given the estimate of 238,000 unfit private rented dwellings in 2001¹¹).

⁷ The last date for which figures are available, drawn from Housing Construction and Statistics.

⁸ The costs of undertaking all urgent repair and replacement work, plus any additional costs to rectify the problems of unfitness. These are the required expenditure costs to make just fit and not secure the dwelling in the long term.

⁹ ODPM, *Regulatory Impact Assessment: Housing Act 2004 – Part 1: Housing Conditions* (November 2005), p 12, available at http://www.communities.gov.uk/pub/846/RegulatoryImpactAssessmentHousingAct2004Part1HousingConditionsPDF389Kb_id1161846.pdf (last visited 22 June 2007).

¹⁰ Separate figures were also given for different types of private rented dwelling: £11,332 for terraced houses (of which 13.2% were unfit or 101,000 dwellings), £18,149 for other houses and bungalows (of which 9% were unfit or 54,000 dwellings), £9,615 for converted flats (of which 15% were unfit or 51,000 dwellings) and £1,133 for purpose built flats (of which 6.6% were unfit or 32,000 dwellings).

¹¹ ODPM, *English House Condition Survey 2001 (Main Report)* (July 2003), p 11, available at http://www.communities.gov.uk/pub/282/2001EnglishHouseConditionSurveyMainReportPDF740Kb_id1155282.pdf (last visited 27 June 2007).

- 1.11 The published EHCS tables and reports for 2003 and 2004 do not include estimates of the costs of making unfit dwellings fit, either for all stock or the private rented sector. The 2004 EHCS includes the per dwelling cost for making decent a private rented dwelling which fails either the fitness, disrepair or modernisation criteria of the decent homes criteria:¹² £14,685.¹³ The equivalent figure in 2001 was £19,029. If we assume that the same proportion of that total figure is accounted for by meeting the fitness criterion in 2004 as in 2001, that would suggest that the average per dwelling cost in 2004 of meeting the fitness criterion for a private rented sector dwelling would be £9,333 ((£12,094/£19,029) x £14,685).
- 1.12 Given the 2004 EHCS estimate of 229,000 unfit private rented dwellings,¹⁴ the total cost to make them all fit (meet the s 604 fitness test) would therefore be:
- (1) £2,769,526,000: **around £2.77 billion** in England if the 2001 per dwelling figure of £12,094 cost to make fit was used;
 - (2) £2,137,289,889: **around £2.14 billion** in England if an estimate of the proportion of the average cost of making decent a private rented sector dwelling which failed the fitness, repair or modernisation criteria which relates to meeting the fitness criterion is used (based on the proportion in 2001, but with 2004 actual amounts); or
 - (3) £2,180,074,171 or **around £2.18 billion** in England using a mean cost to make fit for unfit private rented dwellings of £9,524 per dwelling which we calculated using the EHCS 2003-04 and 2004-05 public data sets.¹⁵ We think this is the most accurate of the three estimates.

Distribution of unfitness in the private rented sector in England

- 1.13 As well as estimating the total cost of remedying unfitness in the private rented sector in England, the EHCS data also allows us to see whether the costs will fall disproportionately on certain types of dwellings or in certain locations. The costs fall disproportionately heavily:

¹² See CLG, *English House Condition Survey Technical Report (2004 Edition)* (2006), chapter 4, pp 49 to 52 for a definition of these criteria, available at http://www.communities.gov.uk/pub/391/EnglishHouseConditionSurveyTechnicalReport2004Edition_id1505391.pdf (last visited 22 June 2007).

¹³ CLG, *EHCS Table DH7a: Main Reason for Non Decency and Mean Costs to Make Decent by Tenure*, available at http://www.communities.gov.uk/pub/413/DH7aMainreasonfornondecencyandmeancoststomakedecentbysector_id1165413.xls (last visited 22 June 2007).

¹⁴ CLG, *English House Condition Survey 2004 Table DH2a: Dwellings Failing on Each Decent Homes Criterion by Sector*, available at http://www.communities.gov.uk/pub/408/DH2aDwellingsfailingoneachdecenthomescriterionbysector_id1165408.xls (last visited 22 June 2007).

¹⁵ We used a variable based upon the estimated for cost to make fit (actual) ('Cstunfx'). This variable comprises standardised costs to make fit, using costs in the East Midlands as the standard.

- (1) on converted flats (12% of the private rented dwellings, accounting for 20.5% of the costs of remedying unfitness), especially when compared with purpose built low rise flats (21.6% of the private rented dwellings, but only 9.1% of the costs of remedying unfitness);
- (2) on older properties, for example 42.5% of private rented dwellings were built pre-1919, but they account for 69% of the costs of remedying unfitness);
- (3) on the largest properties, above 110m² (10.6% of private rented dwellings, accounting for 15% of the costs of remedying unfitness) – nearly 85% of private rented dwellings in this size bracket are unfit;
- (4) on dwellings in rural areas (dwellings in rural areas are 6.2% of the private rented stock but account for 13.2% of the costs of remedying unfitness);
- (5) on properties in the North West Government Office Region (10.5% of properties accounting for 14.8% of costs of remedying unfitness) and in London (22.4% of properties and 30.1% of costs); and
- (6) on dwellings in the most deprived 10% of areas (9.9% of private rented dwellings accounting for 14.9% of costs of remedying unfitness); the 2nd most deprived 10% of areas (9.2% of dwellings, 17.6% of costs) and the 4th most deprived 10% of areas (11.5% of properties, 17.1% of costs).

TABLE 1: DISTRIBUTION OF UNFITNESS AND COSTS OF REMEDYING BY PROPERTY TYPE

1	2	3	4	5	6	7	8
Dwelling type	No of private rented dwellings of that type ¹	% of private rented dwellings of that type (to 1 dp)	Number of unfit private rented dwellings of that type	% of private rented dwellings of that type which are unfit (col 4/ col 2, to 1 dp)	Mean cost per private rented dwelling of that type to make fit ² £ (to nearest £)	Total cost of making fit £ (col 2 x col 6) (to nearest £)	% of total cost of remedying unfitness relating to dwelling type (col 7 / sum col 7, to 1 dp)
Small terraced house	409,367	17.5	38,913	9.5	10,204	397,083,739	18.2
Medium/large terraced house	348,108	14.9	40,243	11.6	9,179	369,424,497	16.9
Semi-detached house	435,380	18.7	45,090	10.4	9,928	447,643,302	20.5
Detached house	190,004	8.1	10,739	5.6	20,826	223,657,239	10.3
Bungalow	115,875	5.0	8,059	7.0	12,038	97,017,907	4.5
Converted flat	279,350	12.0	48,059	17.0	8,365	402,018,296	18.4
Purpose built flat, low rise	503,114	21.6	32,835	6.5	6,025	197,823,743	9.1
Purpose built flat, high rise	53,788	2.3	4,974	9.2	7,860	45,415,448	2.1
Total	2,333,986	100	228,912		9524	2,180,074,171	100

¹ From CLG, *EHCS Table SP2a: Dwelling Type Compared With Tenure* available at http://www.communities.gov.uk/pub/393/SP2aDwellingtypecomparedwithtenure_id1165393.xls (last visited 27 June 2007)

² Calculated by dividing total cost of making dwellings of this type fit, by the number of dwellings of the type which were unfit (as opposed to the total number of dwellings of that type whether or not fit).

TABLE 2: DISTRIBUTION OF UNFITNESS AND COSTS OF REMEDYING BY AGE OF PRIVATE RENTED DWELLING

1	2	3	4	5	6	7	8
Dwelling age	No of private rented dwellings of that age ³	% of private rented dwellings of that age (to 1 dp)	Number of unfit private rented dwellings of that age	% of private rented dwellings of that age which are unfit (col 4/col 2, to 1 dp)	Mean cost per private rented dwelling of that age to make fit ⁴ £ (to nearest £)	Total cost of making fit £ (col 2 x col 6)	% of total cost of remedying unfitness relating to dwelling age (col 7 / sum col 7, to 1 dp)
pre 1919	991,070	42.5	149,836	15.1	10,029	1,502,777,329	68.9
1919 to 1944	339,949	14.6	40,779	12.0	9,963	406,273,828	18.6
1945 to 1964	263,429	11.3	18,891	7.2	8,217	155,223,347	7.1
1965 to 1980	320,507	13.7	15,335	4.8	7,018	107,614,570	4.9
post 1980	419,031	18.0	4,071	1.0	2,011	8,185,097	0.4
Total	2,333,986	100	228,912		9524	2,180,074,171	100

³ From CLG, *EHCS Table SP1a: Dwelling Age Compared with Tenure*, available at http://www.communities.gov.uk/pub/392/SP1aDwellingagecomparedwithtenure_id1165392.xls (last visited 27 June 2007).

⁴ Calculated by dividing total cost of making dwellings of this age fit, by the number of dwellings of the age which were unfit (as opposed to the total number of dwellings of that age whether or not fit).

TABLE 3: DISTRIBUTION OF UNFITNESS AND COSTS OF REMEDYING BY SIZE OF PRIVATE RENTED DWELLING

1	2	3	4	5	6	7	8
Dwelling size	No of private rented dwellings of that size ⁵	% of private rented dwellings of that size (to 1 dp)	Number of unfit private rented dwellings of that size	% of private rented dwellings of that size which are unfit (col 4/col 2)	Mean cost per private rented dwelling of that size to make fit ⁶ £ (to nearest £)	Total cost of making fit £ (col 2 x col 6)	% of total cost of remedying unfitness relating to dwelling size (col 7/sum col 7)
less than 50m ²	556,348	23.8	55,338	9.9	8,625	477,316,206	21.9
50 to 69m ²	767,247	32.9	73,149	9.5	9,124	667,396,894	30.6
70 to 89m ²	565,046	24.2	60,613	10.7	8,680	526,137,441	24.1
90 to 109m ²	197,095	8.4	18,805	9.5	9,679	182,005,553	8.3
110 m ² or more	24,825	10.6	21,007	84.6	15,577	327,219,176	15.0
Total	2,333,986	100	228,912		9524	2,180,074,171	100

⁵ CLG, *ECHS Table SP3a: Dwelling Size Compared With Tenure*, available at http://www.communities.gov.uk/pub/394/SP3aDwellingsizecomparedwithtenure_id1165394.xls (last visited 27 June 2007).

⁶ Calculated by dividing total cost of making dwellings of this age fit, by the number of dwellings of the age which were unfit (as opposed to the total number of dwellings of that age whether or not fit).

TABLE 4: DISTRIBUTION OF UNFITNESS AND COSTS OF REMEDYING BY NATURE OF AREA OF PRIVATE RENTED DWELLING

1	2	3	4	5	6	7	8
Nature of area	No of private rented dwellings in area type	% of private rented dwellings in area type (to 1 dp)	Number of unfit private rented dwellings in area type	% of private rented dwellings in area type which are unfit (col 4/col 2)	Mean cost per private rented dwelling in area type to make fit ⁷ £ (to nearest £)	Total cost of making fit £ (col 2 x col 6)	% of total cost of remedying unfitness relating to area type (col 7/sum col 7, to 1 dp)
City centre	144,012	6.2	11,265	7.8	11,064	124,634,115	5.7
Other urban centre	787,627	33.7	97,461	12.4	10,025	977,037,646	44.8
Suburban residential	912,948	39.1	78,480	8.6	7,208	565,709,051	25.9
Rural residential	231,217	9.9	13,181	5.7	13,708	180,688,181	8.2
Village centre	112,848	4.8	7,972	7.1	5,443	43,389,983	2.0
Rural	145,334	6.2	20,553	14.1	14,042	288,615,193	13.2
Total	2,333,986	100	228,912		9524	2,180,074,171	100

⁷ Calculated by dividing total cost of making dwellings of this age fit, by the number of dwellings of the age which were unfit (as opposed to the total number of dwellings of that age whether or not fit).

TABLE 5: DISTRIBUTION OF UNFITNESS AND COSTS OF REMEDYING BY GOVERNMENT OFFICE REGION OF PRIVATE RENTED DWELLING

1	2	3	4	5	6	7	8
Government office region	No of private rented dwellings in region	% of private rented dwellings in region (to 1 dp)	Number of unfit private rented dwellings in region	% of private rented dwellings in region which are unfit (col 4/col 2)	Mean cost per private rented dwelling in region to make fit ⁸ £ (to nearest £)	Total cost of making fit £ (col 2 x col 6)	% of total cost of remedying unfitness relating to region (col 7/sum col 7)
North East	97,993	4.2	8,914	9.1	7,535	67,168,215	3.1
Yorkshire and the Humber	208,995	9.0	25,420	12.2	7,687	195,392,438	9.0
North West	246,010	10.5	30,342	12.3	10,619	322,208,038	14.8
East Midlands	150,999	6.5	13,206	8.7	5,801	76,614,008	3.5
West Midlands	191,008	8.2	17,496	9.2	10,017	149,843,913	6.9
South West	292,999	12.6	24,844	8.5	10,537	261,779,922	12.0
East of England	223,000	9.6	20,584	9.2	7,664	157,750,961	7.2
South East	400,990	17.2	29,286	7.3	9,974	292,105,574	13.4
London	521,992	22.4	58,820	11.3	11,173	657,211,100	30.1
Total	2,333,986	100	228,912		9,524	2,180,074,171	

⁸ Calculated by dividing total cost of making dwellings of this age fit, by the number of dwellings of the age which were unfit (as opposed to the total number of dwellings of that age whether or not fit).

TABLE 6: DISTRIBUTION OF UNFITNESS AND COSTS OF REMEDYING BY DEPRIVATION DECILE OF PRIVATE RENTED DWELLING

1	2	3	4	5	6	7	8
Deprivation IMD 2004 decile ranking of areas	No of private rented dwellings in decile	% of private rented dwellings in decile (to 1 dp)	Number of unfit private rented dwellings in decile	Proportion private rented dwellings in decile which are unfit (col 4/col 2)	Mean cost per private rented dwelling in decile to make fit ¹ £ (to nearest £)	Total cost of making fit £ (col 2 x col 6)	Proportion of total cost of remedying unfitness relating to decile (col 7/sum col 7)
most deprived 10% of areas	230,895	9.9	35,467	15.4	9,167	325,124,542	14.9
2nd most deprived 10% of areas	214,340	9.2	28,573	13.3	13,431	383,755,986	17.6
3rd most deprived 10% of areas	317,149	13.6	32,388	10.2	8,171	264,632,019	12.1
4th most deprived 10% of areas	267,441	11.5	33,130	12.4	11,266	373,244,678	17.1
5th most deprived 10% of areas	238,830	10.2	17,463	7.3	4,987	87,079,893	4.0
6th most deprived 10% of areas	256,119	11.0	33,517	13.1	7,632	255,785,338	11.7
7th most deprived 10% of areas	218,944	9.4	18,338	8.4	8,835	16,2011,609	7.4
8th most deprived 10% of areas	243,083	10.4	11,500	4.7	10,315	109,478,194	5.0
9th most deprived 10% of areas	198,577	8.5	16,152	8.1	12,839	207,378,646	9.5
least deprived 10% of areas	148,608	6.4	2,384	1.6	4,859	11,583,354	5.3
Total	2,333,986	100	228,912		9,524	2,180,074,171	100

¹ Calculated by dividing total cost of making dwellings of this age fit, by the number of dwellings of the age which were unfit (as opposed to the total number of dwellings of that age whether or not fit).

Costs of eliminating unfitness in the private rented sector in Wales

- 1.14 Welsh Housing Statistics 2005 estimated that 8.8% of the housing stock in Wales (115,000 dwellings out of a total of 1,304,000) was privately rented. This estimate of 115,000 private rented dwellings in Wales is cited in the UK Housing Review 2005/06,¹ as well as by the Communities and Local Government department in live table 106,² and may therefore be seen as a more authoritative figure than an estimate based on numbers of households in the Living in Wales Survey (which estimated that 11% of households, or 133,001 out of 1,209,100 were renting privately).³
- 1.15 The Living in Wales Survey 2004 – Unfitness and Disrepair report showed that overall 4.8% of dwellings in Wales in 2004 were unfit.⁴ The proportion in the private rented sector which were unfit was 12.2% (as compared with 18.4% of private rented dwellings in 1998.⁵) This survey also noted that the average repair cost for unfit dwellings was £6,965.⁶ If 12.2% of the 115,000 private rented homes identified in the Welsh Housing Statistics 2005 were unfit, this gives 14,030 unfit private rented homes in Wales. The total cost of repair to the unfit private rented dwellings in Wales would therefore be £97,718,950 or **around £98 million**.
- 1.16 These figures might be an underestimate because published repair cost per dwelling is for all unfit dwellings, not just those in the private rented sector. Our calculations, based on the 2003-04 and 2004-05 EHCS data set are that the mean cost in England to make fit an unfit dwelling was £9,524 in the private rented sector; £9,986 in the owner occupied sector; £5,054 for local authority dwellings and only £4,514 for RSL dwellings. The mean across the whole stock was £8,881. If a similar pattern exists in Wales (with higher mean costs to make fit unfit private rented dwellings as compared with social rented) this would increase the total costs.
- 1.17 It is also possible that these figures are an over-estimate as they include all repair costs for unfit dwellings, not merely the costs of making unfit dwellings fit. Our data for England below shows that the comprehensive repair costs are significantly higher than costs of remedying unfitness alone.

¹ S Wilcox, *UK Housing Review 2005/06* (December 2006), available at <http://www.ukhousingreview.org.uk/> (last visited 22 June 2007).

² http://www.communities.gov.uk/pub/12/Table106_id1156012.xls (Last visited 27 June 2007). The source of the statistic is given as the National Assembly for Wales.

³ Welsh Assembly Government, *Living in Wales 2004 – Tenure* (30 September 2005) available at http://new.wales.gov.uk/legacy_cy/keypubstatisticsforwales/content/publications/housing/2005/sdr94-2005/sdr94-2005.pdf (last visited 27 June 2007).

⁴ See Welsh Assembly Government, *Living in Wales 2004 – Report on Unfitness and Repairs* (2005), p 1 for the definition of unfitness used, available at <http://new.wales.gov.uk/docrepos/40382/40382313/statistics/housing-2005/sdr126-2005.pdf?lang=en> (last visited 22 June 2007)

⁵ Welsh Assembly Government, *Welsh Housing Condition Survey 1998*, p 6, table E, <http://new.wales.gov.uk/docrepos/40382/40382313/statistics/housing/housing-2001/whcs98/whcs98-ch1-e.pdf?lang=en> (last visited 22 June 2007).

Costs of eliminating unfitness in England and Wales

- 1.18 When the figures for England and Wales are added together, we estimate that **the total cost of making fit all the unfit private rented sector dwellings in England and Wales** will be £2,277,793,121 (£2,180,074,171 + £97,718,950) that is **£2.28 billion**. Because these calculations were not made on the basis of 2007 prices, this is likely to be an underestimate.

Housing Health and Safety Rating System

Costs of eliminating category 1 hazards in England and Wales

- 1.19 Because the requirements of the Housing Health and Safety Rating System (HHSRS) imposed by part 1 of the Housing Act 2004 only came into force on 6 April 2006 (in England) and 16 June 2006 (in Wales), full survey data is not yet available on the incidence of HHSRS hazards in private rented dwellings in England and Wales, or on the actual costs of mitigating such hazards.⁷
- 1.20 The RIA for part 1 of the Housing Act 2004 stated that:

It is difficult to be precise about the number of dwellings that contain serious (category 1) hazards. Analysis of the 2001 English House Condition Survey (EHCS) suggests that around 1.6 million dwellings contain one or more health and safety hazards that would exceed the threshold triggering mandatory intervention by LHAs. This compares with 880,000 estimated to be unfit under the current system. Analysis is continuing of the 2003 survey. Provisional results tend to show a much higher number of hazards in the housing stock, particularly hazards from cold.⁸

In the overall housing stock in England, it is therefore estimated that the number of dwellings containing one or more category 1 hazards is around 1.85 times the number estimated to be unfit under the s 604 test ($1.632 \text{ million}^9 / 880.000 = 1.85$ to 2 decimal places).

⁶ Welsh Assembly Government, *Report on Unfitness and Repairs* (2005), table 12 available at <http://new.wales.gov.uk/docrepos/40382/40382313/statistics/housing-2005/sdr126-2005.pdf?lang=en> (last visited 22 June 2007).

⁷ The EHCS began collecting data on the HHSRS from April 2005. Results will be presented as part of the 2006 EHCS report when the HHSRS will form part of the decent homes standard.

⁸ ODPM, *Regulatory Impact Assessment: Housing Act 2004 – Part 1: Housing Conditions* (November 2005), p 4, available at http://www.communities.gov.uk/pub/846/RegulatoryImpactAssessmentHousingAct2004Part1HousingConditionsPDF389Kb_id1161846.pdf (last visited 22 June 2007).

⁹ ODPM, *Regulatory Impact Assessment: Housing Act 2004 – Part 1: Housing Conditions* (November 2005), p 12, available at http://www.communities.gov.uk/pub/846/RegulatoryImpactAssessmentHousingAct2004Part1HousingConditionsPDF389Kb_id1161846.pdf (last visited 22 June 2007).

- 1.21 We understand that the estimates of the incidence of category 1 hazards were based on a significant amount of modelling and on assessments made by surveyors prior to the development of professional induction and training on the Housing Health and Safety Rating System, and should therefore be treated with some caution. More robust estimates of the incidence of, and costs of remedying, category 1 hazards will be developed using the 2006 English House Condition Survey.
- 1.22 We assume that the same relationship between the number unfit and the number with category 1 hazards applies in the private rented sector as in the overall stock. In that case 424,691, or **425,000** (to the nearest thousand) **private rented dwellings in England contain one or more category 1 hazards** (1.85 x 229,000 private rented dwellings failing to meet the fitness criterion of the decent homes criteria in 2004.¹⁰)
- 1.23 In Wales, if the same relationship applied, then the **number of private rented dwellings in Wales which contain one or more category 1 hazards** would be 26,019 or **around 26,000** to the nearest thousand (assuming that 14,030 out of the 115,000 private rented dwellings in Wales are unfit).
- 1.24 The regulatory impact assessment for part 1 of the 2004 Act went on to state that:

The annual total cost, in England and Wales, of works carried out as a result of the LHA having a duty to act under HHSRS is estimated as approximately £260m, at 2001 prices. This compares with £470m under the fitness standard (see Annex A). This represents an annual cost saving of approximately £210m. This may be explained by two factors. Firstly, both figures represent the minimum cost required to undertake all urgent repair and replacement work and the cost to rectify the problems of unfitness (for the fitness standard), or to remove or reduce the hazard (for the HHSRS). However, under the HHSRS LHAs will have the discretion to act according to local circumstances, or to require work upon hazards that score just under the threshold for mandatory action. Secondly, some quite serious hazards are not that expensive to remove or reduce. Over a thirty-year period, the Net Present Value of complying with the HHSRS is calculated as £4.8bn, as compared to £8.7bn with the fitness standard. This represents a cost saving over thirty years of £3.9bn.

¹⁰ CLG, *English House Condition Survey Table DH2a: Dwellings Failing on Each Decent Homes Criterion by Tenure 2004*, available at http://www.communities.gov.uk/pub/408/DH2aDwellingsfailingoneachdecenthomescriterionbysector_id1165408.xls (last visited 22 June 2007).

If we drop the assumption that the number of inspections will be the same under HHSRS as it was under fitness standard then there are the following results. In the instance that there were 10% more inspections per year then the annual cost of compliance is approximately £285m, leading to a thirty year saving from introducing the HHSRS of £3.4bn. Given a 10% decrease in the number of inspections annually, then there would be an annual cost of compliance of approximately £235m, leading to a thirty year cost saving of £4.4bn.¹¹

ODPM's estimate shows a 10% increase in inspections leading to a 9.6% increase in costs of remedying category 1 hazards, while a 10% decrease in the number of inspections would involve a 9.6% decrease in the costs of works.

- 1.25 Annex A to the 2004 Act part 1 regulatory impact assessment sets out the ODPM's methodology for calculating the repair costs associated with the HHSRS.

Estimating the cost of works associated with HHSRS implementation is not straightforward as there is no evidence of costs upon which to draw. Thus some assumptions are made:

The estimate of the cost of works produced for the HHSRS represent the costs associated with local authorities' duty to act upon Category 1 hazards and not the more uncertain costs associated with the power to act.

For the same number of inspections the number of dwellings containing unacceptable hazards under the HHSRS is assumed to be equal to the number of dwellings that are inspected and declared unfit under the fitness standard.

The results of the EHCS 2001 for fifteen hazard types are given in Table 1 below, listing the number of Category 1 hazards in dwellings. These sum to 1,943,000, although only 1,632,000 dwellings contain Category 1 hazards. This implies an average number of Category 1 hazards per dwelling containing a Category 1 hazard is 1.19. This factor is multiplied by the total number of dwellings identified as unfit in a year, 48,000,¹² less the number of demolitions and closures (1,350). This then gives the estimated number of Category 1 hazards that result in an Improvement order, 55,600.

¹¹ ODPM, *Regulatory Impact Assessment: Housing Act 2004 – Part 1: Housing Conditions* (November 2005), p 8, available at http://www.communities.gov.uk/pub/846/RegulatoryImpactAssessmentHousingAct2004Part1HousingConditionsPDF389Kb_id1161846.pdf (last visited 22 June 2007).

¹² See para 1.31 below.

To calculate the costs involved, the level of works needs to be determined. Costs are estimated using the HHSRS worked examples of hazards in the home. The examples are not a statistically valid sample, but are provided to indicate a range of hazards likely to be encountered – one of these is illustrated in Appendix 2. A mean [unit cost] is then calculated for each of the hazard types using the examples where the original rating score indicated a Category 1 hazard. This column is then multiplied by the number of hazards that need Improvement to give the total cost of mitigating hazards. As can be seen in the bottom right-hand cell the total estimated annual cost of works of repair associated with implementing the HHSRS for the fifteen hazards listed is approximately £260m.

Table 1: Estimated cost of mitigating Category 1 hazards resulting from an Improvement order

Hazard type	No of dwellings in total housing stock with a given hazard (thousands)	Estimated number of hazards resulting in improvement order ¹³	Estimated unit cost of mitigating hazard	Total cost of mitigating hazards
Falls on stairs	634	18,100	£2,450	£44,440,000
Falls on level	297	8,500	£1,250	£10,610,000
Falls between levels	149	4,250	£400	£1,700,000
Excess cold	304	8,700	£13,570	£118,000,000
Fire	121	3,500	£6,700	£23,200,000
Hot surfaces	100	2,900	£1,800	£5,200,000
Electrical	24	700	£4,600	£3,200,000
Carbon monoxide	33	1,000	£720	£680,000
Lead	114	3,300	£6,000	£19,605,000
Radiation	85	2,400	£600	£1,450,000
Damp	71	2,000	£15,600	£31,660,000
Hygiene/sanitation	0	0	£700	0
Noise	6	170	£2,800	£490,000
Crowding/space	3	80	£500	£40,000
Pests	1	40	£1,000	£40,000
Total	1,943	55,600		£260,000,000
Source: EHCS 2001				
Note: Zero does not imply the eventuality will not occur, but rather a negligible probability				

¹³ Though not all intervention will lead to an Improvement Notice, Prohibition Orders may be removed once works have been carried out. It is assumed that Demolition Orders continue to be made at the same proportion of dwellings with hazards as was the case with dwellings failing the fitness standard. Unlike improvements the cost of demolition under the fitness standard is considered to be identical to those made under the HHSRS regime.

1.26 The above estimates were produced on the assumption that the same number of inspections would be carried out under HHSRS as under the old fitness standard. We want to look first at the total number and cost of remedying all category 1 hazards in private rented dwellings, not just those that would be detected on inspection and result in an improvement order. We will assume that:

- (1) the average of 1.19 category 1 hazards per dwelling containing one or more such hazards is found in the private rented sector as in the overall housing stock;
- (2) there are a total of 505,382 category 1 hazards in private rented dwellings in England (assuming there are 424,691 private rented dwellings containing at least one category 1 hazard);
- (3) there are a total of 30,962 category 1 hazards in private rented dwellings in Wales (assuming there are 26,019 private rented dwellings in Wales with category 1 hazards, out of 115,000 private rented dwellings);
- (4) the different types of category 1 hazard fall in the same proportion in the private rented sector in 2004 as in the overall stock in 2001: if 71,000 out of the total 1,943,000 category 1 hazards in the dwelling stock in England as a whole related to damp, the same proportion of category 1 hazards in the private rented sector will relate to damp (around 0.5%);
- (5) the figure of 1,943,000 category 1 hazards, being derived from the EHCS 2001, relates to the housing stock only in England, not Wales.

Our calculations, based on these assumptions are set out in the table below. The **total cost of mitigating these 15 types of category 1 hazard in the private rented sector in England** is estimated at £2,365,955,066 or **around £2.37 billion**, and **in Wales** £144,949,168 or **around £145 million**. The total for mitigating these 15 types of category 1 hazard in England and Wales would therefore be £2,510,904,234 or **around £2.51 billion**.

TABLE 7: ESTIMATED COSTS OF MITIGATING 15 TYPES OF CATEGORY 1 HAZARDS IN ALL PRIVATE RENTED DWELLINGS IN ENGLAND AND WALES

1	2	3	4	5	6	7	8
Hazard type	No of dwellings in total housing stock in England with a given hazard	Proportion hazard type forms of total number of category 1 hazards (= col 2/sum col 2)	Number of hazards of that type in private rented stock in England (= col 3 x 505,382)	Estimated cost per unit of mitigating hazard	Total cost of mitigating such hazards in private rented stock in England (= col 4 x col 5)	Number of hazards of that type in private rented stock in Wales (= col 3 x 30,962)	Total cost of mitigating such hazards in private rented stock in Wales (= col 7 x col 5)
Falls on stairs	634,000	0.326299537	164905.9125	£2,450	£404,019,485.64	10,102.89	£24,752,071.33
Falls on level	297,000	0.152856408	77250.87699	£1,250	£96,563,596.24	4,732.74	£5,915,925.12
Falls between levels	149,000	0.076685538	38755.49048	£400	£15,502,196.19	2,374.338	£949,735.05
Excess cold	304,000	0.156459084	79071.60473	£13,570	£1,073,001,676.25	4,844.286	£65,736,963.13
Fire	121,000	0.062274833	31472.57952	£6,700	£210,866,282.76	1,928.153	£12,918,627.59
Hot surfaces	100,000	0.051466804	26010.39629	£1,800	£46,818,713.33	1,593.515	£2,868,327.33
Electrical	24,000	0.012352033	6242.495111	£4,600	£28,715,477.51	382.4436	£1,759,240.76
Carbon monoxide	33,000	0.016984045	8583.430777	£720	£6,180,070.16	525.86	£378,619.21
Lead	114,000	0.058672156	29651.85178	£6,000	£177,911,110.65	1,816.607	£10,899,643.85
Radiation	85,000	0.043746783	22108.83685	£600	£13,265,302.11	1,354.488	£812,692.74
Damp	71,000	0.036541431	18467.38137	£15,600	£288,091,149.36	1,131.396	£17,649,774.16
Hygiene/sanitation	0	0	0	£700	£0.00	0	£0.00
Noise	6,000	0.003088008	1560.623778	£2,800	£4,369,746.58	95.61091	£267,710.55
Crowding/space	3,000	0.001544004	780.3118888	£500	£390,155.94	47.80546	£23,902.73
Pests	1,000	0.000514668	260.1039629	£1,000	£260,103.96	15.93515	£15,935.15
Total	1,943,000	0.999485332	505121.896		£2,365,955,066.69	30,946.06	£144,949,168.70

1.27 This estimate is slightly puzzling as it is similar to our estimate of the cost of meeting the old unfit standard (£2.28 billion). The ODPM regulatory impact assessment estimates produced a significantly lower total cost of mitigating category 1 hazards than remedying unfitness (on the s 604 test), assuming the same number of inspections.

1.28 The actual figure for mitigating all the category 1 hazards in private rented dwellings in England and Wales is likely to differ from the £2.51 billion estimate for a number of reasons:

- (1) the calculations only looked at 15 of the 29 hazard types: they ignored excess heat, asbestos and MMF, biocides, uncombusted fuel gas, volatile organic compounds, entry by intruders, lighting, food safety, water supply for domestic purposes, falls associated with baths etc, collision and entrapment, explosions, ergonomics, structural collapse and falling elements;
- (2) the unit cost of mitigation may be different in Wales from in England;
- (3) the unit cost of mitigation was given at 2001 prices, so will need to be amended to reflect inflation in building or repair costs since 2001;
- (4) the relationship between the number of unfit properties and the number of properties containing a category 1 hazard, and the number of category 1 hazards in each property with one or more such hazards, may be different in the private rented sector from the overall housing stock;
- (5) the incidence of the different types of hazard may be different in the private rented sector as opposed to the overall housing stock;
- (6) the incidence of the different types of hazard in the private rented sector may be different in Wales from in England;
- (7) the incidence of the different types of hazard in the overall housing stock and the private rented sector may have changed since 2001.

Costs of a partial reduction in unfit/category 1 hazards in private rented sector in England and Wales

1.29 The estimate of £2.51 billion to mitigate the 15 stated types of category 1 hazards is based on the assumption that all such hazards would be mitigated in the private rented sector. For a number of reasons, not every category 1 hazard will be mitigated.

Dwellings “beyond salvation”

1.30 In para 6.38 of the *EHCS 2001 Main Report* it was stated that not all dwellings identified as unfit will be renovated in practice. In identifying the most appropriate course of action for each dwelling assessed to be unfit, surveyors considered demolition to be most appropriate for around 40,000 dwellings (5% of all unfit).

- 1.31 Likewise, in the regulatory impact assessment for part 1 of the 2004 Act, ODPM stated that of the 48,000 unfit dwellings, 1,350 (around 2.8%) would be subject to closure or demolition, instead of improvement orders. When working out how many category 1 hazards would be subject to an improvement order, ODPM assumed a similar number of dwellings in which such hazards are found would be subject to demolition or closure rather than improvement.
- 1.32 We could therefore assume that some private rented dwellings in which there are category 1 hazards, would be subject to a demolition or closure order (were they discovered by the local authority). Even if they were not discovered by the local authority, it might be argued that the landlords of some dwellings would decide that it would not be worth carrying out the repairs necessary to bring them up to the required standard, and they would cease to let, or sell the dwellings in question (when faced with more effective regulatory mechanisms, whether operated by landlords' associations or accreditation schemes or the certification schemes discussed in the consultation paper).
- 1.33 If we were to assume that around 4% (that is somewhere between the 2.8% and 5% figures) of private rented dwellings would be in such a bad state that they'd not be improved if they were identified by the local authority, the £2.51 billion figure **could be reduced to around £2.41 billion.**

Phased implementation of new regulatory schemes

- 1.34 Although we do not discuss this in detail in the consultation paper, if the regulatory requirements to join an accreditation scheme or certify property condition were to apply only to new lettings, rather than to all landlords in respect of all of their properties after a set date, this would reduce the immediate costs below the £2.41 billion estimate. Costs of making fit/removing category 1 hazards would not be borne in respect of properties already let on the commencement date until they came to be re-let.
- 1.35 To impose new requirements only in relation to new tenancies would be consistent with the approach in Law Com 238.¹ In that report, the Law Commission recommended that subject to limited exceptions, residential property let for a term of less than seven years must be fit for human habitation. This would be done by implying a covenant in new tenancies of dwellings of less than seven years "that the dwelling house is fit for human habitation at the time of the grant; and that the lessor will thereafter keep it fit for human habitation." New tenancies were defined as leases granted on or after the date on which the Act comes into force otherwise than in pursuance of an agreement entered into, option or right of pre-emption granted, or an order of a court made before that date.

¹ Landlord and Tenant: Responsibility for State and Condition of Property (1996) Law Com No 238, available at <http://www.bailii.org/ew/other/EWLC/1996/238.pdf> (last visited 22 June 2007).

- 1.36 The length of tenancies will determine how soon the landlords of properties already let on the commencement date would face the costs of making fit. According to *Housing in England 2004/05*,² private renters had lived in their current home for a median 1.5 years (the mean was 5 years).³ In 2004/05, for instance, the proportion of private renters that had been resident for less than one year was 41 per cent (based on households) and 42 per cent (based on private tenants).⁴ Table 1.25 in *Housing in England 2004/05* showed that only 21% of private renters had been in their current accommodation for over 5 years. 59% of private renters had been in their current accommodation for no more than 2 years. This suggests that **around 80% of private rented properties might become free for re-letting (and thus potentially caught by new regulatory requirements such as certification that there are no category 1 hazards under the option discussed in Part 9 of the consultation paper) within five years of the Act coming into force**, and over half the properties would be up for re-letting (and subject to the requirement) within two years. On this basis around 80% of the £2.41 billion cost, or around £1.92 billion of the work needed to mitigate category 1 hazards, would be incurred within five years of the Act coming into force.
- 1.37 A cross check on this figure could be provided by the EHCS 2003 Private Landlords Survey.⁵ This showed that of the 1,251 cases examined, in 44% the current tenancy had lasted less than two years, in 21% it was for two to three years, in 10% it was for four to five years, in 11% it was for more than 10 years, and in 7% the property was vacant at the time of the survey interview. The Private Landlords Survey report and the 2003 EHCS technical report didn't define whether by length of tenancy they meant length of occupation by current tenant (whether under one or several agreements) or length of the actual legal agreement: we believe the former is more likely. But either way, if around 75% of tenancies had lasted less than five years, and around 7% were vacant at that time (so that potentially any new tenancy would be subject to the new requirements), we could assume that within a five year period, around 80% of private rented properties would be subject to a new tenancy subject to the new requirements.

² CLG, *Housing in England 2004/05: A report principally from the 2004/05 Survey of English Housing* (October 2006), available at http://www.communities.gov.uk/pub/870/HousinginEngland200405Areportprincipallyfromthe200405SurveyofEnglishHousing_id1503870.pdf (last visited 29 June 2007).

³ CLG, *Housing in England 2004/05: A report principally from the 2004/05 Survey of English Housing* (October 2006), p 50, available at http://www.communities.gov.uk/pub/870/HousinginEngland200405Areportprincipallyfromthe200405SurveyofEnglishHousing_id1503870.pdf (last visited 29 June 2007).

⁴ CLG, *Housing in England 2004/05: A report principally from the 2004/05 Survey of English Housing* (October 2006), p 103, available at http://www.communities.gov.uk/pub/870/HousinginEngland200405Areportprincipallyfromthe200405SurveyofEnglishHousing_id1503870.pdf (last visited 29 June 2007).

⁵ ODPM, *English House Condition Survey 2003 Private Landlords Survey* (April 2006), available at http://www.communities.gov.uk/pub/221/EnglishHouseConditionSurvey2003PrivateLandlordsSurvey_id1165221.pdf (last visited 22 June 2007).

- 1.38 The EHCS interview with tenants on their length of occupancy showed that for 38% it was less than one year, and for 24% for more than five years for all private tenants. We believe that the Survey of English Housing data may be more accurate than the EHCS data on length of occupancy.
- 1.39 The EHCS 2003 Private Landlords Survey also showed that there is a strong correlation between length of current tenancy and the proportion of homes non-decent. Amongst dwellings let for more than ten years almost 70% are non-decent compared to less than 40% of those let for less than two years (see Figure 13). This suggests that the proportion of the costs of remedying category 1 hazards which would have to be met by landlords in the first five years after commencement of the Act imposing new requirements would be less than 80%. The very worst properties would take longer to filter into the system. **Less than £1.92 billion would therefore be spent in the first 5 years after commencement of the Act.**
- 1.40 Of course, not every property which is currently let would necessarily be re-let by the landlord on expiry of the current tenancy. The EHCS 2003 Private Landlords Survey revealed that at any one time, approximately one in four dwellings let by landlords is effectively waiting to be withdrawn from the private rented sector on becoming vacant. Over a two year horizon, the landlords of about one in ten dwellings expect to leave the sector.⁶ So not all the properties currently let will necessarily be re-let. **If we were to assume that one in four properties currently let would not be re-let in the five years after implementation**, but would exit the sector, and if new properties being brought into the private rented sector to replace them are less likely to be in a poor condition, that could reduce the £1.92 billion by, let's say 20%, to **around £1.54 billion cost to landlords within 5 years of implementation.**
- 1.41 Even where a new tenancy agreement is entered into after the commencement of an Act imposing new requirements, it might be with a sitting tenant. If there was a genuine surrender and re-grant after the commencement of the Act, to an existing tenant, then the new tenancy would be caught. However, if a tenant under a fixed term tenancy which commenced before the Act, but ended after commencement of the Act, held over under a periodic tenancy, the new requirements would not apply. Likewise, in some cases there may be a chain of agreements between the same landlord and tenant in respect of the same property which would be regarded as the same tenancy not a surrender and re-grant. Courts are alive to sham arrangements whereby parties sought to avoid statutory provisions. It is unclear whether if the landlord granted a fresh fixed term tenancy to the same tenant on expiry of a previous fixed term, this would normally be treated as a genuine surrender and re-grant.

⁶ ODPM, *English House Condition Survey 2003 Private Landlords Survey* (2006), p 28, available at http://www.communities.gov.uk/pub/221/EnglishHouseConditionSurvey2003PrivateLandlordsSurvey_id1165221.pdf (last visited 22 June 2007).

- 1.42 Even if not all new fixed term assured shorthold tenancies entered into with sitting tenants on the expiry of a previous assured shorthold tenancy (post commencement of the Act) would be treated as new tenancies subject to the new requirements, given the frequency of moves by tenants in the private rented sector, this should not radically alter the rough figure of costs to landlords of around £1.5 billion within five years of the Act coming into force.

Costs of reducing unfitness to level seen in RSL sector

- 1.43 No new regulatory framework will secure 100% compliance with fitness and condition standards. We have therefore estimated the costs of achieving higher than current, but less than 100%, fitness in the private rented sector.
- 1.44 A significant improvement would be to reduce the proportion of dwellings which are unfit in the private rented sector to the level in the best sector, housing association or Registered Social Landlord (RSL) dwellings. Only 58,000 or 3.5% of dwellings in England let by RSLs failed to meet the decent homes fitness criterion in 2004, as compared to 9.8% of private rented dwellings.⁷ In Wales, only 2.3% of the 64,000 housing association dwellings were unfit in 2004, as opposed to 12.2% of private rented dwellings.⁸
- 1.45 We have estimated that it would cost around £2.18 billion to reduce from 9.8% to 0% the proportion of private rented dwellings in England which are unfit (under the old s 604 test). On an extremely crude estimate, it might be argued that the cost of reducing unfitness from 9.8% to 3.5% would be around 64% of the cost of reducing unfitness from 9.8% to 0%.⁹ This would suggest that the **cost of reducing unfitness in England in the private rented sector to the level seen in the RSL sector would be around £1.4 billion** (£2,180,074,171 x 0.64).
- 1.46 We have estimated that it would cost around £98 million to reduce from 12.2% to 0% the proportion of private rented dwellings in Wales which are unfit. Likewise, an extremely crude estimate would suggest that the cost of reducing unfitness from 12.2% to 2.3% of dwellings would be around 81% of the cost of reducing unfitness from 12.2% to 0%.¹⁰ This would suggest that the **cost of reducing unfitness in Wales in the private rented sector to the level seen in the housing association sector would be around £79 million** (£97,718,950 x 0.81).

⁷ CLG, *English House Condition Survey Table DH2a: Dwellings Failing on Each Decent Homes Criterion by Tenure 2004*, available at http://www.communities.gov.uk/pub/408/DH2aDwellingsfailingoneachdecenthomescriterionbysector_id1165408.xls (last visited 22 June 2007).

⁸ Welsh Assembly Government, *Living in Wales 2004 – Report on Unfitness and Repairs* (29 November 2005), table 12, available at <http://new.wales.gov.uk/docrepos/40382/40382313/statistics/housing-2005/sdr126-2005.pdf?lang=en> (last visited 22 June 2007); S Wilcox, *UK Housing Review 2005/06* (2006), table 17a, available at <http://www.ukhousingreview.org.uk/> (last visited 22 June 2007).

⁹ 3.5 is 36% of 9.8: 36% of the gap between the current standard and the “ideal” of no unfitness remains, so 64% of the gap has been closed.

¹⁰ 2.3 is 19% of 12.2: 19% of the gap between the current standard and the “ideal” of no unfitness remains, so 81% of the gap has been closed.

- 1.47 In **total**, we estimate that the cost of reducing unfit (under the old s 604 test) in **England and Wales** to levels seen in the RSL sector would be **around £1.47 billion**.

Costs of reducing category 1 hazards to level seen in RSL sector

- 1.48 Our estimate of the numbers of dwellings in the private rented sector with category 1 hazards, was based on scaling up the numbers of unfit dwellings by 1.85. We have no better data on the numbers and proportion of RSL dwellings with category 1 hazards than we have for private rented dwellings. We could only produce such an estimate of numbers and proportions of RSL dwellings with category 1 hazards by multiplying the numbers of those dwellings which are unfit by 1.85 in the same way. This does not strike us as worthwhile.

- 1.49 That being the case, the only calculation worth doing to estimate the costs of reducing category 1 hazards in the private rented sector to levels likely to exist in the RSL sector is to apply the same proportions referred to in paras 1.44 and 1.45 to our estimated total costs of eliminating category 1 hazards. This produces the following results.

- (1) **In England, the cost of reducing the proportion of private rented dwellings with category 1 hazards to the proportion in the RSL sector would be £1,514,211,242.24 or around £1.51 billion.**
- (2) **In Wales** the cost of reducing the proportion of private rented dwellings with category 1 hazards to the proportion in the RSL sector **would be £117,408,826.08 or around £117 million.**
- (3) We estimate that **the total in England and Wales** for reducing category 1 hazards in the private rented sector to RSL levels would therefore be £1,631,620,068.32 or **around £1.63 billion.**

- 1.50 These figures are likely to be an overestimate, since the total cost of making dwellings fit is unlikely to be evenly distributed amongst all the unfit dwellings. Although it does not comment specifically on costs of making fit, the English House Condition Survey Technical Report 2004 comments on the distribution of costs of required expenditure on repairs and replacements for the whole stock in 2003.¹¹

18% of cases have zero costs and 23% have costs between £1 and £1,000; a very small number have very high costs. The effect of this is that the "average", as represented by the mean, is £3,785 which is closer to the 75th percentile than the median. The mean values can be used, together with the number of dwellings, to give some idea of the total repair bill for a group of dwellings but they do not represent the 'typical' case for that group of dwellings. This typical case is best represented by the median value which in this case is £1,633.

¹¹ See CLG, *English House Condition Survey Technical Report (2004 Edition)* (2006) p 78, available at http://www.communities.gov.uk/pub/391/EnglishHouseConditionSurveyTechnicalReport2004Edition_id1505391.pdf (last visited 22 June 2007).

- 1.51 Similarly, in Wales, when the overall housing stock is considered (rather than private rented dwellings), while 68.2% of dwellings need repairs costing less than £1,000, the mean repair cost is £1,338.¹² While the mean repair cost for unfit dwellings in Wales was £6,965, 54.1% of unfit dwellings in Wales needed repairs costing less than £5,000.
- 1.52 In practice, one might expect that the unfit dwellings which would be made fit first would be those where doing so is cheapest and easiest. The per dwelling costs of bringing the last few unfit dwellings up to standard may be much higher: the landlords of these dwellings are more likely to exit the sector. Higher compliance with fitness standards in the private rented sector (but less than 100% compliance) may involve spending money on the cheaper and easier properties, not the more expensive and difficult to repair properties, so that it will involve a smaller percentage of the overall expenditure than we assume above.

COSTS OF CARRYING OUT MORE COMPREHENSIVE REPAIRS

- 1.53 Whether the landlord's obligations under section 11 of the Landlord and Tenant Act 1985 are more or less extensive than those under the HHSRS or the old fitness standard in section 604 of the Housing Act 1985 may be a matter of some debate. Some matters such as fire safety and cold homes which are hazards under HHSRS were not relevant to the old fitness standard. Not every item of disrepair to the structure or service installations will necessarily amount to a hazard for HHSRS purposes. Not every hazard for HHSRS purposes necessarily involves disrepair: remedying some hazards, for example due to cold, may involve improvement to the property, not repair.
- 1.54 Although the interrelationship between the standards may not be straightforward, we still think it useful, when trying to estimate the extent of non-compliance with legal obligations relating to the condition of private rented sector dwellings to look at other estimates of repairs found to be required, as well as data on unfitness. The EHCS and Living in Wales Survey include estimates of the need for and costs of more comprehensive repairs, as well as remedying unfitness.

Repair cost estimates for England

- 1.55 Chapter 8 of the English House Condition Survey Technical Report (2004 Edition) explains how repair costs have been calculated for the purposes of the EHCS.¹³ The types of work included in and excluded from these repair cost calculations are as follows:

Included:

¹² Welsh Assembly Government, *Living in Wales 2004 – Report on Unfitness and Repairs* (29 November 2005), table 12, unfitness by repair cost, available at <http://new.wales.gov.uk/docrepos/40382/40382313/statistics/housing-2005/sdr126-2005.pdf?lang=en> (last visited 22 June 2007).

¹³ CLG, *English House Condition Survey Technical Report (2004 Edition)* (2006) pp 73 to 78, available at http://www.communities.gov.uk/pub/391/EnglishHouseConditionSurveyTechnicalReport2004Edition_id1505391.pdf (last visited 22 June 2007).

- all work to the external fabric of the building, chimneys, roof, roof and soil drainage, windows, doors, dormers, bays, porches, balconies, damp proof course, treatment of inappropriate gradients/levels of ground adjacent to the dwelling;
- additional work to deal with structural instability: eg underpinning, tying in of walls, treatment of fungal or insect infestation, replacement of cavity wall ties, etc;
- work to the internal fabric: ceilings, floors, internal and partition wall surfaces, internal doors and stairs;
- work to amenities and services inside the dwelling: kitchen, bathroom, WC, electrical wiring, plumbing, gas pipes, heating, and water heating;
- work to common areas and access ways in blocks of flats: floors, walls, ceilings, doors, screens, windows, lighting and balustrades;
- work to shared facilities on estates: All stores and common rooms, communal parking facilities, surfaces and fences and common services.

Excluded:

- work to fences and boundary walls;
- work to underground drainage;
- hidden work to structure or foundations;
- work to plant associated with shared facilities, eg lift motors, communal boilers, washing machines in laundry rooms, etc.¹⁴

The EHCS methodology therefore includes some work to the internal fabric of homes that would not be the landlord's responsibility to carry out under section 11 of the Landlord and Tenant Act 1985, and excludes some work to common parts that the landlord might be required to repair under section 11. There is, however, a broad overlap with section 11.

- 1.56 The published EHCS data tables include repair costs per m² for the dwelling stock broken down in different ways (such as depending on age or type of dwelling). We have produced estimates of the total repair cost for private rented dwellings in England based on these different cost and stock breakdowns. From our own work looking at the EHCS public data sets, the general repair costs per m² in the published EHCS tables appear to be for what the Technical Report refers to as "comprehensive repair" as opposed to simply "urgent repairs" or "basic repairs (repairs and replacements). The definitions are as follow:

¹⁴ See CLG, *English House Condition Survey Technical Report (2004 Edition)* (2006) p 73, Box 1, available at http://www.communities.gov.uk/pub/391/EnglishHouseConditionSurveyTechnicalReport2004Edition_id1505391.pdf (last visited 22 June 2007).

Urgent repairs

Where surveyors had recorded that work was needed to an exterior building element, they indicated whether work specified was urgent; defined as works needed to remove threats to health, safety, security and comfort of the occupants and to forestall further rapid deterioration of the building. This is a measure of serious and immediate problems in the dwelling and includes all interior work.

Repairs and replacements (basic repairs)

All works identified by the surveyor as needing to be done within 5 years, including any urgent work as described above. These do not include replacement of building elements nearing the end of their life where the surveyor recorded that this action could be delayed by more than 5 years, often by short term patch repairs.

Comprehensive repair

This includes all repairs as specified above together with any replacements the surveyor has assessed as being needed in the next 10 years. Replacement periods are only defined for external elements and are given whether or not any repair work has been identified as needed. The replacement period is given as the number of years before the element needs replacing either following specified repair work or simply as the remaining life expectancy. This measure provides a better basis for identifying work which would form part of a planned programme of repair by landlords.¹⁵

As comprehensive repair includes any replacements the surveyor has assessed as being needed in the next ten years, these costs may include repairs that the landlord is not yet under a section 11 duty to carry out.

Estimated comprehensive repair costs based on cost per m² for private rented dwellings by age band

1.57 In table 8 below we made a number of assumptions relating to dwelling size.

- (1) We assumed that the proportion of dwellings in each of the size categories shown in EHCS table SP3a: dwelling size compared with tenure, applies equally to all property age bands. These proportions are (shown here rounded to the nearest 1%):
 - (a) dwellings below 50 m²: 24%;
 - (b) dwellings 50-70 m²: 33%;
 - (c) dwellings 70-90 m²: 24%;

¹⁵ See CLG, *English House Condition Survey Technical Report (2004 Edition)* (2006) p 77, available at http://www.communities.gov.uk/pub/391/EnglishHouseConditionSurveyTechnicalReport2004Edition_id1505391.pdf (last visited 22 June 2007).

- (d) dwellings 90-110 m²: 8%;
- (e) dwellings over 110 m²: 11%.

(2) Because table SP3a shows dwellings falling into particular size bands, we had to pick an arbitrary size within each band to use in the calculations (to multiply by the repair cost per m²). We have used the following assumptions:

- (a) dwellings below 50 m²: size 40 m²;
- (b) dwellings 50-70 m²: size 60 m²;
- (c) dwellings 70-90 m²: size 80 m²;
- (d) dwellings 90-110 m²: size 100 m²;
- (e) dwellings over 110 m²: size 125 m².

1.58 Table DR6a: dwelling age and tenure by general repair cost (£ per square metre) only gives a breakdown of mean general repair costs for the private rented sector for 4 age bands, grouping together pre 1919 and 1919-1944 dwellings. In table 8 below we have assumed that the pre 1919 and 1919-1944 dwellings both have the same mean repair costs.

1.59 We have multiplied the mean general repair costs per m², by our assumed sizes of the properties above, to come up with the total cost of repairs per dwelling.

TABLE 8: ESTIMATED COMPREHENSIVE REPAIR COSTS BASED ON COST PER M² FOR PRIVATE RENTED DWELLINGS BY AGE BAND, USING EHCS PUBLISHED TABLES

1	2	3	4	5	6	7
Age	thousand dwellings	size of dwelling in m ²	proportion that size (col 2 / sum col 2)	number that size (col 2 x col 4 x 1000)	mean comprehensive repair cost £/m ² ¹⁶	total comprehensive repair cost (col 3 x col 5 x col 6) £
pre 1919	991					
		40	0.238368182	236,239.55	88.9	840,067,855.06
		60	0.328728193	325,792.65	88.9	1,737,777,995.76
		80	0.242094854	239,932.95	88.9	1,706,403,119.01
		100	0.084445665	83,691.57	88.9	744,018,015.22
		125	0.106363106	105,413.28	88.9	1,171,405,110.97
1919 to 1944	340					
		40	0.238368182	81,033.03	88.9	288,153,437.46
		60	0.328728193	111,750.82	88.9	596,078,876.24

¹⁶ From CLG, *English House Condition Survey Table DR6a Mean and Median General Repair Costs by Tenure* for dwellings built pre 1945, 1945-1964, 1965-1980 and post 1980: see http://www.communities.gov.uk/pub/447/DR6aDwellingageandtenurebygeneralrepaircostpersquaremetre_id1165447.xls (last visited 22 June 2007).

		80	0.242094854	82,299.90	88.9	585,316,913.95
		100	0.084445665	28,707.22	88.9	255,207,180.38
		125	0.106363106	36,158.03	88.9	401,806,124.76
1945 to 1964	263					
		40	0.238368182	62,793.09	49.6	124,581,494.25
		60	0.328728193	86,596.54	49.6	257,711,300.43
		80	0.242094854	63,774.81	49.6	253,058,427.45
		100	0.084445665	22,245.44	49.6	110,337,368.02
		125	0.106363106	28,019.13	49.6	173,718,585.01
1965 to 1980	321					
		40	0.238368182	76,398.67	53.5	163,493,155.85
		60	0.328728193	105,359.69	53.5	338,204,595.00
		80	0.242094854	77,593.10	53.5	332,098,448.24
		100	0.084445665	27,065.43	53.5	144,800,033.22
		125	0.106363106	34,090.12	53.5	227,977,677.30
post 1980	419					
		40	0.238368182	99,883.66	11.3	45,147,413.30
		60	0.328728193	137,747.30	11.3	93,392,671.70
		80	0.242094854	101,445.25	11.3	91,706,504.90
		100	0.084445665	35,385.35	11.3	39,985,447.17
		125	0.106363106	44,569.44	11.3	62,954,332.04
total	2,334			2,333,986.00		10,785,402,082.68

- 1.60 We estimate that the **total cost of general repairs to private rented dwellings in England**, based on the EHCS published age profile of private rented dwellings,¹⁷ and the overall size profile of the private rented sector¹⁸ (though not the age specific size profile), and the mean general repair cost per m² for private rented dwellings **based on their age**¹⁹ would be £10,785,402,082.68 or **around £10.8 billion**.

Total costs of comprehensive, basic and urgent repairs from the EHCS raw data

- 1.61 Having made this estimate based on the published EHCS reports and data tables, we subsequently obtained the EHCS public data sets, which allowed us to calculate a more accurate estimate of the total repair costs in England. As all the mean repair costs per dwelling, or per m², were derived from the total figures based on looking at all the dwellings (or all the dwellings requiring work of a particular type), by trying to calculate national totals based on these figures we have effectively been working backwards. The actual totals for repairs to private rented dwellings in England are as follows:

¹⁷ From CLG, *EHCS Table SP1a: Dwelling Age Compared with Tenure*, available at http://www.communities.gov.uk/pub/392/SP1aDwellingagecomparedwithtenure_id1165392.xls (last visited 27 June 2007).

¹⁸ CLG, *EHCS Table SP3a: Dwelling Size Compared With Tenure*, available at http://www.communities.gov.uk/pub/394/SP3aDwellingsizecomparedwithtenure_id1165394.xls (last visited 27 June 2007).

¹⁹ CLG, *English House Condition Survey Table DR6a Mean and Median General Repair Costs by Tenure* for dwellings built pre 1945, 1945-1964, 1965-1980 and post 1980: see http://www.communities.gov.uk/pub/447/DR6aDwellingageandtenurebygeneralrepaircostpersquaremetre_id1165447.xls (last visited 22 June 2007).

- (1) total cost of **urgent repairs**: £4,814,382,987.43 or **around £4.81 billion**;
- (2) total cost of **basic repairs**: £7277512248.14 or **around £7.28 billion**;
- (3) total cost of **comprehensive repairs** £12,565,455,485.5 or **around £12.57 billion**.

Total costs of remedying unfitness and carrying out repairs to private rented dwellings in England

1.62 In addition to making separate estimates of the total cost of remedying unfitness in England, and the costs of different levels of repairs, we have made some combined estimates, using the EHCS public data sets.

- (1) The total cost of remedying unfitness and making urgent repairs to private rented properties in England is £6,994,457,158.44 or **around £6.99 billion**.
- (2) The total cost of remedying unfitness and dealing with basic repairs is £9,457,586,419.15 or **around £9.46 billion**.
- (3) The total cost of remedying unfitness and carrying out comprehensive repairs is £14,745,529,656.50 or **around £14.75 billion**.

Estimated costs of making decent private rented properties which fail to meet modernisation, fitness or disrepair criteria

1.63 The total cost of making decent those private sector properties which fail to meet either the modernisation, fitness, or disrepair decent homes criteria is £7,577,460,000, that is **roughly £7.5 billion** (given that 516,000 private rented homes fail to meet the criteria,²⁰ and the average cost of making decent a private rented dwelling which fails to meet it is £14,685²¹).

1.64 It is not clear from the published EHCS data tables how much of the £14,685 per dwelling would be accounted for by the costs of remedying unfitness or disrepair (as opposed to the costs of modernisation).

²⁰ EHCS table DH3a: reasons for failing by tenure.

²¹ EHCS table DH7a: main reason for non decency and mean costs to make decent by tenure.

BENEFITS OF AN IMPROVEMENT IN PRIVATE RENTED SECTOR PROPERTY CONDITIONS

1.65 The regulatory impact assessment for part 1 of the Housing Act 2004 also discussed the expected benefits which would arise from the introduction of the Housing Health and Safety Rating System (HHSRS).²² The benefits of the HHSRS were described as “difficult to quantify but could be substantial²³”. ODPM stated that “it remains difficult to offer any precise numerical estimate of benefits”. ODPM thought the main direct benefit from implementation of the HHSRS would be health gains. It referred to health risks for example of accidents to older people, respiratory illness in children arising from poor housing conditions, and benefits from improved housing conditions including:

- (1) lower rates of mortality in those re-housed from socially isolated sub-standard housing;
- (2) reduced sense of isolation, fear of crime: increased involvement in community affairs;
- (3) improved mental health: less anxiety and depression, greater well-being;
- (4) lower rates of GP contact.

1.66 ODPM provided a methodology in Annex C of the part 1 regulatory impact assessment for estimating the potential benefits from reductions in accidents and ill-health. Negative outcomes were divided into 4 classes of seriousness, from “Class I: death, fatal paralysis or other very severe non-death injury” to “Class IV eg skin irritation, benign tumours, moderate cuts, regular colds”. The value of a life saved was estimated at £1.44m at 2005 prices.²⁴ The value of preventing Class II, III and IV outcomes was derived from “Willingness to pay” data.²⁵ This is made up of the value an individual puts on the outcome; the cost to the economy of the individual being unable to work as a result of the outcome, and the cost to the health service of the outcome (assuming a Class II outcome requires a hospital stay, and Class III and IV outcomes require a visit to the emergency room).

²² ODPM, *Regulatory Impact Assessment: Housing Act 2004 – Part 1: Housing Conditions* (November 2005), available at http://www.communities.gov.uk/pub/846/RegulatoryImpactAssessmentHousingAct2004Part1HousingConditionsPDF389Kb_id1161846.pdf (last visited 22 June 2007).

²³ Footnote in original “Sir Donald Acheson’s Independent Inquiry into Inequalities in Health Report 1998.”

²⁴ Department for Transport figures cited in *Regulatory Impact Assessment: Housing Act 2004 – Part 1: Housing Conditions* (November 2005) Appendix C, available at http://www.communities.gov.uk/pub/846/RegulatoryImpactAssessmentHousingAct2004Part1HousingConditionsPDF389Kb_id1161846.pdf (last visited 22 June 2007).

²⁵ Values taken from: D Pearce, “*Valuing risks to life and health: Towards consistent transfer estimates in the European Union and Accession States*”. Paper prepared for the European Commission (DGXI), Workshop on Valuing Mortality and Valuing Morbidity, Brussels, 2000. Paper can be obtained at: http://www.cserge.ucl.ac.uk/EU_Valuing_Lives.pdf

	Individual valuation	Cost to economy	Cost to health service
Class II	£217	£45 per day	£258 per day
Class III	£174	£45 per day	£74 per visit
Class IV	£27	£45 per day	£74 per visit

- 1.67 While admitting that estimates exist of the number of hazards likely to result in an improvement order, ODPM was not prepared to estimate how many of these outcomes of different levels of seriousness would be avoided as a result of such remedial action under the HHSRS.
- 1.68 The HHSRS methodology has been used to estimate the reductions in the different classes of negative health outcomes which would result from the Sheffield decent homes programme.²⁶ This is a £750 million programme to bring around 45,000 Sheffield council houses up to the decent homes standard by 2010-11, benefiting around 83,000 occupants. Windows would be replaced and modern kitchens and bathrooms installed. This would lead to a reduction in accidents and disease caused by HHSRS hazards such as cold, damp, falls of various types (if slippery baths and worn floor materials were replaced, handrails installed by outside steps, or kitchens remodelled so that people wouldn't trip over trailing leads), and electricity (if old kitchens were rewired). As well as reducing the numbers of illnesses and injuries, it would also lead to a reduction in the risk of harm. While the authors were prepared to estimate that the decent homes programme would, for example, reduce falls by 229 annually,²⁷ and the number of occupiers harmed by damp and mould growth from 112 to 72 each year,²⁸ they did not attempt to calculate the financial savings which would result. They noted, for example, that:

²⁶ J Gilbertson, G Green, D Ormandy, *Decent Homes Better Health – Sheffield Decent Homes Health Impact Assessment* (July 2006), available at http://www2.warwick.ac.uk/fac/soc/law/research/centres/shhru/sdh_hia_report.pdf (last visited 22 June 2007).

²⁷ J Gilbertson, G Green, D Ormandy, *Decent Homes Better Health – Sheffield Decent Homes Health Impact Assessment* (July 2006), p 17, available at http://www2.warwick.ac.uk/fac/soc/law/research/centres/shhru/sdh_hia_report.pdf (last visited 22 June 2007).

²⁸ J Gilbertson, G Green, D Ormandy, *Decent Homes Better Health – Sheffield Decent Homes Health Impact Assessment* (July 2006), p 13, available at http://www2.warwick.ac.uk/fac/soc/law/research/centres/shhru/sdh_hia_report.pdf (last visited 22 June 2007).

Savings to the NHS cannot be estimated without more in-depth research. The probable reduction of 229 falls will reduce demands on both GP and hospital services. Almost all falls requiring medical attention are processed via an Accident and Emergency Department where the unit cost of initial consultation is modest, but a third of all these A&E cases of people over 60 are then admitted into hospital.²⁹ For Sheffield Primary Care Trusts, tariffs for such a non-elective spell in hospital range from £1,322 for a minor fracture or dislocation to £4,339 for a closed pelvis or lower limb fracture for a person aged over 69. Ultimately costs will depend upon the length of stay in hospital and as *Scuffam et al* argue “*in addition, because a fall may be a catalyst for older people to move into long term nursing home care, we assumed a conservative estimate (£9,594 at 2000 prices) for six months long term care costs could be attributed to inpatients transferred to long term care.*”³⁰

1.69 We could extrapolate from the Sheffield study to produce rough estimates of the reductions in various types of harm which could result from work being carried out in private rented dwellings in England and Wales, based on our estimates in table 7 above of the incidence of different types of category 1 hazard. We have not done that for a number of reasons.

- (1) The Sheffield study related to work carried out to achieve the decent homes standard, not simply to eliminate unfitness or remedy disrepair for which the landlord is liable under section 11 of the Landlord and Tenant Act 1985. It is not clear which decent homes criteria would be met by the works which the authors consider would lead to the reductions in the particular types of harm. In many cases it may be the modernisation or thermal comfort criteria. The installation of new windows, doors, boilers, kitchens and bathrooms is likely to go beyond the works required to comply with the landlord’s legal duties. By applying the same percentage reduction in accidents and illnesses to the private rented stock as were predicted in Sheffield, we would risk overestimating the benefits in the private rented sector. We would be looking at the benefits of a higher level of expenditure than we estimated in table 7 above (to remedy category 1 hazards) or even the comprehensive repair costs. The comparison would risk being unfair.

²⁹ Scuffam P, Chaplin S and Legood R “Incidence and costs of unintentional falls in older people in the United Kingdom” (2003) *57 Journal of Epidemiology and Community Health* 740.

³⁰ J Gilbertson, G Green, D Ormandy, *Decent Homes Better Health – Sheffield Decent Homes Health Impact Assessment* (July 2006), p 18, available at http://www2.warwick.ac.uk/fac/soc/law/research/centres/shhru/sdh_hia_report.pdf (last visited 22 June 2007).

- (2) The authors of the Sheffield study based their assessments of the reduction on a baseline which took account of the particular stock composition in Sheffield, for which the likelihood of certain types of negative outcome differed from the national average. Falls down stairs in hilly Sheffield were estimated at 450 per year, rather than 350 per year (based on the national likelihood of such harm).³¹ On the other hand, the authors noted that the Sheffield stock was already more energy efficient than the national average for council stock, so that the baseline likelihood of harm from excess cold was lower than the national average.³² The composition of the private rented sector stock is different from council stock in Sheffield, so that the likelihood of different types of harm would also vary from the Sheffield estimates.
- (3) The HHSRS looks at the risk to the most vulnerable potential occupier (for falls down stairs, it is old people, while for damp it is children). The profile of the tenants in the private rented sector would also affect the numbers of illnesses and accidents that would result which would be prevented by works to remedy category 1 hazards. The tenant profile in the private rented sector differs substantially from the profile of council tenants.

1.70 Although many studies have linked health and housing conditions, relatively few have costed the potential health and other benefits from improved housing. A report in 2001 noted that:

³¹ J Gilbertson, G Green, D Ormandy, *Decent Homes Better Health – Sheffield Decent Homes Health Impact Assessment* (July 2006), pp 8 and 16, available at http://www2.warwick.ac.uk/fac/soc/law/research/centres/shhru/sdh_hia_report.pdf (last visited 22 June 2007).

³² J Gilbertson, G Green, D Ormandy, *Decent Homes Better Health – Sheffield Decent Homes Health Impact Assessment* (July 2006), pp 11, available at http://www2.warwick.ac.uk/fac/soc/law/research/centres/shhru/sdh_hia_report.pdf (last visited 22 June 2007).

Over three hundred research studies examining these issues were reviewed as an early part of the CEHI programme of work (Ambrose, Barlow, et al., 1996). A large literature was found on the housing/health relationship although, because of the lack of control groups and the problem of confounding variables, very few of these studies claim to demonstrate causal relationships in any fully evidenced way ... The literature on the relationship between housing conditions and the incidence of crime, particularly the levels of crime suffered in poorer areas, is a growing one. But once again the literature is much stronger on demonstrating patterns of association than causal mechanisms. Finally the literature linking home conditions with educational progress was found to be rather thin and underdeveloped. Interestingly it was found that a previous UK Health Minister had already argued the CEHI case in the early 1920s and had even set the Registrar General the task of putting figures on some of the effects ... It appears not to have happened since.³³

1.71 The 2001 report, produced by P Ambrose as part of the “Cost-effectiveness in Housing Investment” (CEHI) programme gives examples of the types of additional costs which might be generated by poor housing conditions, and also suggests which of them are measurable. Ambrose uses the term “exported costs” to refer to costs generated by under-investment in the housing sector, and exported to others. These include:

- the education service (because poor, overcrowded and noisy home conditions impede learning)
- the police and judicial services (because poor housing and environmental design and construction is associated with a higher incidence of some crimes)
- the emergency services (because poor housing conditions and “secondary heating” increase accident and fire risks)
- the energy supply services (because poorly designed housing uses excess energy and produces ecological damage).³⁴

1.72 Ambrose categorised those exported costs in four different ways:

(1) **Capital costs versus Revenue Costs.**

³³ P Ambrose, *The Costs of Poor Housing: Urban Regeneration and Non-Housing Outcomes* (2001), paper for presentation at the HSA conference on “Housing Policies for the New UK, York, 3 to 4 April 2002, p 3, available at http://www2.warwick.ac.uk/fac/soc/law/research/centres/shhru/sdh_hia_report.pdf (last visited 22 June 2007).

³⁴ P Ambrose, *The Costs of Poor Housing: Urban Regeneration and Non-Housing Outcomes* (2001), paper for presentation at the HSA conference on “Housing Policies for the New UK”, York, 3 to 4 April 2002, p 3, available at http://www2.warwick.ac.uk/fac/soc/law/research/centres/shhru/sdh_hia_report.pdf (last visited 22 June 2007).

- (2) **Costs to Residents** felt on the personal finances of individuals versus **External Costs** felt by service providers of one kind or another (although some of the latter no doubt work through to the individual in the form of higher taxes and service charges).
- (3) **Systemic Costs** that impact regularly, and sometimes imperceptibly as life is lived versus **Formalised Costs** felt in more visible and formalised ways as in the annual bid for funds by a service whose funding formula recognises the high cost of service delivery in run-down areas or in the form of special response programmes in “run down” areas.
- (4) **Degree of measurability** – costs can be tentatively ordered in terms of their susceptibility to accurate measurement. The categories adopted here are:

H Hard – costs that can be precisely quantified given adequate access to data

M Medium – costs that could be quantified given better cost data sets

NQ Non-quantifiable – costs that clearly exist but are currently non-quantifiable.³⁵

1.73 Ambrose went on to set out a matrix of costs whose levels can be related to poor living conditions.³⁶

	Costs to residents	External Costs
Systemic – Capital	high annual loss of asset value on owner occupied property (H)	high annual loss of asset value for landlords of rented property (H)
Systemic - Revenue	poor physical health (H to M)	higher Health Service costs (H to NQ)
	poor mental health (M to NQ)	higher Health Service costs (H to NQ)
	social isolation (NQ)	higher care services costs (M)
	high home fuel bills (H)	high building heating costs (H)
	high insurance premiums (H)	high insurance payments (H)
	uninsured contents losses (H)	
	spending on security devices (H)	spending on building security (H)

³⁵ P Ambrose, *The Costs of Poor Housing: Urban Regeneration and Non-Housing Outcomes* (2001), paper for presentation at the HSA conference on “Housing Policies for the New UK”, York, 3 to 4 April 2002, p 9, available at <http://www.york.ac.uk/inst/chp/hsa/papers/ambrose.pdf> (last visited 22 June 2007).

³⁶ P Ambrose, *The Costs of Poor Housing: Urban Regeneration and Non-Housing Outcomes* (2001), paper for presentation at the HSA conference on “Housing Policies for the New UK”, York, 3 to 4 April 2002, pp 9 and 10, available at <http://www.york.ac.uk/inst/chp/hsa/papers/ambrose.pdf> (last visited 22 June 2007).

	living with repairs needed (NQ)	high housing maintenance costs (H)
	under-achievement at school (M)	extra costs on school budgets (H)
		homework classes at school (H)
	loss of future earnings (M)	loss of talents to society (NQ)
	personal insecurity (NQ)	high policing costs (H to M)
	more accidents (M)	high emergency services costs (H)
	poor "hygienic" conditions (NQ)	high Environmental Health costs (H)
	costs of moving (H)	disruption to service providers (M)
	adopting self-harming habits (M)	special health care responses (H)
Formalised - Capital		Government and EU programmes, SRB, New Deal etc (H)
Formalised - Revenue		Local authority "Statements of need" (H)
		Education, Police and NHS funding formulae (H)
		Fire and ambulance services funding formulae (H)
		Housing Investment Programmes (H)

1.74 Ambrose's study looked at the impact of Single Regeneration Budget funded renewal of central Stepney in London. A survey of residents in 1996, before the work was undertaken found very poor housing conditions (damp, poor heating, pest infestation and overcrowding) and extremely poor health among residents. The survey after the regeneration work found that self-reported illness days were one seventh the level before the work (0.05 illness days per person per day, as opposed to 0.37). Residents also reported reduced perceptions of crime and improvements in children's progress at school. They did, however, express concern about increased household costs such as higher rent, council tax and water charges.

1.75 A further study in which the health benefits of an improvement to housing conditions were costed, to which David Ormandy referred us, looked at residential lead paint hazard control and window replacement in Wisconsin,³⁷ (“the Wisconsin study”). Lead is one of the hazards examined as part of the HHSRS. The Wisconsin study estimated that replacing windows in Wisconsin housing with ones without lead paint would have the following benefits:

Benefits consist of health benefits, reduced energy use and increased home market value. Based on a careful review of the scientific literature, the estimated minimum health benefits are:

- \$21,195 Present value of lost lifetime earnings
- \$1,163 Avoided neonatal mortality
- \$55 Avoided direct medical care
- \$12,833 Avoided special education
- \$2,362 Avoided medical expense Attention Deficit Hyperactivity Disorder
- \$8,000 Avoided juvenile delinquency expense for “youth facilities”
- \$45,608 Total health benefit per child

Because there are 80,000 young children living in older housing in Wisconsin, the total aggregate health benefit is:

$$80,000 \text{ children} \times \$45,608 \text{ per child} = \$3.6 \text{ billion}$$

In addition to health benefits, there are also energy and market benefits due to window replacement. For each property that undergoes replacement of old energy-inefficient lead-contaminated windows with new Energy Star energy efficient windows, the estimated benefits from reduced heating and cooling costs and increased market value are:

- \$308 (range=\$130-\$486) in energy savings per year, depending on number of windows and cost of energy
- \$10,010 (range=\$5,899 - \$14,306) in increased market value

For a 10 year period, the energy savings will be \$3,000, plus a one-time market value increase of \$10,000, which is a total of approximately \$13,000. If the 17% of 488,000 units with young children are treated, the total energy and market benefit is:

$$\$13,000 \times 80,000 \text{ units} = \$1 \text{ billion.}$$

³⁷ D E Jacobs and R Nevin, *Benefits and Costs of Residential Lead Paint Hazard Control and Window Replacement in Wisconsin* – Final Report prepared for the Wisconsin Department of Health and Family Services (June 2006).

Combining health, energy and market benefits, the total benefit is:

\$3.6 billion in health + \$1 billion in energy and market value = \$4.6 billion.³⁸

- 1.76 The Wisconsin study also estimated the costs of securing these benefits to be approximately \$634 million. It noted that:

The cost of making Wisconsin's older housing safe varies with dwelling size and condition. In 2006 the U.S. Department of Housing and Urban Development reported that the average cost for lead hazard control was \$8,000 per dwelling unit. For an 800 ft² attached home with 7 windows, a 1200 ft² detached home with 10 windows, and an 1800 ft² detached home with 16 windows, the cost per housing unit of replacing old energy-inefficient lead-contaminated windows and eliminating other lead paint hazards is \$7,116, \$10,850, and \$16,660, respectively, which includes specialized cleanup and dust testing. Since there are approximately 466,000 houses with lead hazards in Wisconsin remaining to be treated and since 17% of those homes have young children, the total cost is (466,000 x 0.17 x \$8,000 =) approximately \$634 million. Spread over a four-year time period, this investment is less than 1% (0.68%) of the Wisconsin State budget.³⁹

The authors concluded that "In old homes with lead-contaminated energy-inefficient windows and young children, an investment of \$634 million will yield a remedy of at least \$4.6 billion, for a net benefit of \$4 billion".⁴⁰

- 1.77 In table 7 above we estimated the costs of remedying category 1 lead hazards in private rented dwellings in England and Wales. We estimated that there were 29,652 private rented dwellings in England, and 1,817 in Wales, with a category 1 lead hazard, which would each cost £6,000 to remedy.

³⁸ D E Jacobs and R Nevin, *Benefits and Costs of Residential Lead Paint Hazard Control and Window Replacement in Wisconsin* – Final Report prepared for the Wisconsin Department of Health and Family Services (June 2006), pp 3 and 4.

³⁹ D E Jacobs and R Nevin, *Benefits and Costs of Residential Lead Paint Hazard Control and Window Replacement in Wisconsin* – Final Report prepared for the Wisconsin Department of Health and Family Services (June 2006), p 3.

⁴⁰ D E Jacobs and R Nevin, *Benefits and Costs of Residential Lead Paint Hazard Control and Window Replacement in Wisconsin* – Final Report prepared for the Wisconsin Department of Health and Family Services (June 2006), p 4.

- 1.78 The Wisconsin study estimated that 17% of those lead affected dwellings have young children (79,220 dwellings). If the same proportion of private rented lead hazardous dwellings in England and Wales have young children, there would be 5,350 such dwellings. *Housing in England 2004/05* revealed that around 25% of households renting privately in 2004/05 were either couples with dependent children or lone parents with dependent children,⁴¹ but it is not clear how many of these children are under 6 years old (the age looked at by the Wisconsin authors).⁴² The number of private rented dwellings with young children we estimated would be affected by category 1 lead hazards in England and Wales is therefore around 6.75% of the number of dwellings affected by lead with young children in Wisconsin.
- 1.79 If we estimate that there are 5,350 private rented dwellings in England and Wales with category 1 lead hazards, and the cost of remedying each such dwelling is £6,000, then the total cost for England and Wales would be £32,100,000 or **around £32 million.**
- 1.80 We would expect the value of the benefits to be proportionately less as well. Using a very crude estimate (simply multiplying the estimated \$4.6 billion benefits in Wisconsin by 0.06753345), the benefits in England and Wales would be worth \$310,653,875.3 or around \$311 million. At the exchange rate of \$2.00643⁴³ the benefits would be worth around £154,848,762.35 or **around £155 million.**
- 1.81 The actual costs and benefits could be different. The Wisconsin study just looked at lead paint. While the HHSRS Operating Guidance noted that the main exposure to lead in UK homes is through the removal of lead based paint on redecoration, it also stated that up to 9 million dwellings in the UK have lead water pipes, and where the water “has high plumbo-solvency capabilities, lead will be dissolved”.⁴⁴ The costs of remedying lead hazards in England may have included costs related to the replacement of lead water pipes, while the Wisconsin cost estimates looked only at window replacement.

⁴¹ DCLG, *Housing in England 2004/05 – A report principally from the 2004/05 Survey of English Housing* (October 2006) p 92, table 3.2, available at http://www.communities.gov.uk/pub/870/HousinginEngland200405Areportprincipallyfromthe200405SurveyofEnglishHousing_id1503870.pdf (last visited 29 June 2007).

⁴² D E Jacobs and R Nevin, *Benefits and Costs of Residential Lead Paint Hazard Control and Window Replacement in Wisconsin* – Final Report prepared for the Wisconsin Department of Health and Family Services (June 2006), pp 9 and 10.

⁴³ Given on the website www.xe.com on 29 June 2007.

⁴⁴ ODPM, *Housing Health and Safety Rating System Operating Guidance – Housing Act 2004 Guidance about inspections and assessment of hazards given under Section 9* (February 2006), p 79, available at http://www.communities.gov.uk/pub/843/HHSRSOperatingGuidancePDF914Kb_id1161843.pdf (last visited 22 June 2007); Welsh Assembly Government, *Housing Health And Safety Rating System: Operating Guidance (Housing Act 2004: Part 1) (English Only)* (2006 No. 45), p 75, available at <http://newydd.cymru.gov.uk/660245/660256/660274/housing/hhsrsoperatingguidance?lang=en> (last visited 22 June 2007).

1.82 In any case, the real benefits in England and Wales are likely to differ from the £155 million estimate. The benefits of lost lifetime earnings, avoided neonatal mortality, avoided direct medical care, avoided special education, avoided medical expense (Attention Deficit Hyperactivity Disorder) and avoided juvenile delinquency expense for youth facilities, as well as the energy efficiency and property value benefits may differ in England and Wales from Wisconsin. US home values were found to increase by \$20 for each \$1 saving in annual utility bills.⁴⁵ The relationship may be different here, especially when properties for letting as opposed to owner occupation are considered: landlords may value energy bill savings less than owner occupiers.

1.83 The Wisconsin study also referred to a number of intangible benefits from removing lead painted windows:

This net benefit of \$4 billion does not include the many other intangible benefits that cannot be quantified, such as lead paint litigation, special property maintenance, stress on parents, premature mortality and memory loss from lead exposure in childhood, treatment of dental caries associated with lead exposure, hearing loss, liver, kidney and other diseases associated with lead exposure and lead-associated criminal behavior costs beyond the juvenile delinquency benefits calculated in this paper. Therefore, while the cost estimates presented in this report are relatively precise, the benefits are likely to be greatly underestimated.⁴⁶

1.84 The Wisconsin authors also referred to the important issue of the distribution of costs and benefits.

The benefits of eliminating lead-based paint hazards in housing flow to children and society, but the cost of window replacement and eliminating other lead paint hazards is borne by property owners. Government can help solve this unequal distribution of costs and benefits by subsidizing lead-safe window replacement, resulting in large benefits in energy efficiency (and reduced greenhouse gas emissions), improved market value, reduced health care costs and perhaps most importantly, improved potential and quality of life for our most valuable resource—our children.

1.85 We understand that the Building Research Establishment has commissioned further research from David Ormandy to estimate the total costs to society of poor condition housing in England. If the results of this work are published, they may be able to assist us in estimating the benefits of our proposals for the private rented sector.

⁴⁵ D E Jacobs and R Nevin, *Benefits and Costs of Residential Lead Paint Hazard Control and Window Replacement in Wisconsin* – Final Report prepared for the Wisconsin Department of Health and Family Services (June 2006), p 17.

⁴⁶ D E Jacobs and R Nevin, *Benefits and Costs of Residential Lead Paint Hazard Control and Window Replacement in Wisconsin* – Final Report prepared for the Wisconsin Department of Health and Family Services (June 2006), p 4.

BENEFITS FROM IMPROVED MANAGEMENT OF PRIVATE RENTED PROPERTY

- 1.86 The proposals in Part 7 of the consultation paper, to encourage or require landlords to join accreditation schemes or associations, or use agents who are members of such schemes or professional bodies, or to be licensed, are expected to improve property management, as well as property conditions. This would have other benefits.
- 1.87 The ODPM in a regulatory impact assessment for regulations implementing other parts of the Housing Act 2004 set out the benefits expected to result from licensing of houses in multiple occupation, and selective licensing of houses in areas of low demand or where there were serious and persistent problems of anti-social behaviour.⁴⁷ Few of these benefits were costed. The regulatory impact assessment stated that many of the costs and benefits of licensing of houses in multiple occupation would be the same as for selective licensing, so they were generally treated together. Not all of the claimed benefits would necessarily arise from greater membership of accreditation schemes or landlords associations, as opposed to the licensing scheme and management regulations introduced under the Housing Act 2004. Below we set out those benefits which we think could arguably arise from our proposals, based on ODPM's approach.

Benefits to tenants

- (1) ODPM thought that improved management of houses in multiple occupation and other properties would have a positive impact on deaths and injuries from causes other than fire, although they said that this was not quantifiable (while it did quantify estimated cost savings from a reduction in fire deaths which it anticipated as a result of licensing high risk houses in multiple occupation). Our proposals could have similar benefits.
- (2) Prospective tenants could easily identify properties run by reputable landlords:
 - (a) using a register of licences (under the licensing option);
 - (b) by landlords and agents being required to advertise their membership of an accreditation scheme or association (if membership were voluntary under the first option); or
 - (c) by records kept (by a central regulator) of members of such schemes (where membership of an association or accreditation scheme compulsory).
- (3) ODPM believed that improved management standards "should offer better value to tenants in [houses in multiple occupation]".

⁴⁷ ODPM, *Regulatory Impact Assessment (RIA): Houses in Multiple Occupation and Selective Licensing and Management Orders* (March 2006), available at http://www.communities.gov.uk/pub/587/RegulatoryImpactAssessmentRIAHousesinMultipleOccupationandSelectiveLicensingands_id1164587.pdf (last visited 27 June 2007). The Building Research Establishment has been commissioned by CLG to carry out this research.

- (4) A more professionally managed private rented sector would reduce the incidence of harassment and unlawful eviction and this would have a positive impact upon tenants' welfare.
- (5) Licensing schemes and self-regulatory organisations may save tenants money in taking action against a landlord for inadequate management if the accreditation scheme, landlords' association or licensing body could take action for breach of the scheme's code of practice or the licence conditions. (ODPM did not quantify this benefit in the Housing Act 2004 regulations RIA).
- (6) Minimum amenity standards prescribed either in licence conditions to be required by regulations, or by the framework for approval of self-regulatory organisations, could make tenants aware of the standards they can expect to find in private rented housing.
- (7) Better management and maintenance might lead to reduced heating costs, and savings to tenants if they did not need to move to better managed premises.

Benefits to landlords

- (8) Rental incomes and property values might rise if the reputation of the private rented sector improves so that more people are willing to rent privately.
- (9) Reputable landlords may benefit from no longer competing with bad landlords who don't exercise their management responsibilities seriously (which would be a benefit of licensing or mandatory self-regulation).
- (10) If all the relevant property standards and management standards were brought together in a single code of practice produced by the accreditation scheme or association of which the landlord was a member, it should be easier and cheaper for landlords to discover, understand and carry out their responsibilities. Similarly if the requirements were brought together in the licensing conditions or regulations.

Other benefits

- (11) There could be improvements to the local environment from improved litter removal and less noise pollution if landlords are more actively involved in managing their properties (and if the self-regulatory organisations were able to enforce their codes of practice).
- (12) Better management should lessen the impact of private rented properties on the neighbourhood.
- (13) If better management led to a reduction in anti-social behaviour, local residents and other agents would benefit from reduced costs: the Home Office estimates costs of dealing with anti-social behaviour to be in the region of £3.4 billion per annum – a proportion of this is attributable to activity by those in the private rented sector.

- (14) Better management should make private rented properties safer and more secure, so residents will be less subject to and afraid of crime.
- (15) There may be greater community involvement by landlords.
- (16) Regular gas and electricity appliance checks could lead to greater energy efficiency.
- (17) Registers of licences or members of accreditation schemes and landlords or agents associations (were membership compulsory) would improve ease of access to information about privately rented properties. This would enable local authorities to contact landlords in relation to grant schemes, consultation on policies and initiatives affecting the private rented sector, landlords forums, and to provide information (for example relating to further legislative changes).