An analysis of the capacity of Scottish local authorities to fund new housing supply

ALACHO commissioned research undertaken by HouseMark

Contents

Foreword – Jim Hayton, ALACHO

The shortage of affordable housing is perhaps the most pressing housing issue facing Scotland. Official government statistics record over 150,000 households on council housing waiting lists. A recent report from Audit Scotland highlighted the shortfalls between the demand and supply of affordable housing in Scotland and called for action to close this gap. Various studies tell a similar story. Yet the effects of investment in new housing are well understood in terms of the social, economic and environmental benefits which it brings.

Scottish government subsidy of around one billion pounds spread over three years is expected to deliver 6000 affordable houses a year, of which 4000 will be new social housing. Welcome though this is, it's not enough.

And therein lies the key question. Where will the money come from to fund the step increase in supply necessary to bridge this gap?

Against this background ALACHO has commissioned HouseMark to conduct an analysis of the capacity of local authorities to fund new housing supply and in doing so play its part in addressing this gross shortage of housing.

The report provides a very interesting account of rent patterns in Scotland, and of variations not only between council housing and other rental sectors, between Scotland and England, but also quite marked differences in rent levels between Scottish councils themselves, and suggests that, together with other measures, there is some scope for local authorise to increase rents to generate income for investment in affordable housing. However, the findings of the report are not intended to be prescriptive. ALACHO is aware that council house rent levels are largely a function of local democratic processes, and does not seek to challenge this. We do hope however that the report's findings can help inform the wider debate on social rents, new investment, and affordability.

On behalf of ALACHO I would like to thank the authors of the report, David Hall and Sharon Fleming, and to Ross Fraser of HouseMark for editing.

Jim Hayton

ALACHO Policy Manager

September 2014

1 Executive Summary

The supply of social housing in Scotland looks certain to lag behind both in need and demand.

The existing shortfall of social housing supply has, over the last decade, seen a growth in the private rented sector. Most private rented sector lettings are at higher rents than social housing and this has exacerbated welfare dependency amongst tenants and increased the benefit bill for the Exchequer.

RSLs have a key role to play in delivering new supply – through new build or acquisition – but this sector does not have sufficient capacity to do the job alone.

Local authorities have the capacity to increase new supply – again through new build or acquisition – either directly or by on-lending to RSLs.

This capacity could be leveraged by a variety of measures, including utilising current untapped reserves, and/or or by generating operating efficiencies but arguably most effectively by increasing rents to levels comparable to English local authorities and Scottish RSLs. *(Some Scottish council rent levels are of course already at or above these levels).*

Scottish local authority rents are on average at least £10 lower than the average in comparable regions in England and around £10 lower than Scottish RSLs. If an average £10 a week increase were levied, on a phased basis of £1 per year, this could produce 24,000 new social rented homes over 10 years or 40,000 homes if matched with Scottish Government grant at £30k per unit.

This would only increase average debt per dwelling to around £12,700 - which is approximately the borrowing cap for authorities in the least indebted region in England *(the North West).*

Failure to grasp this challenge will result in more Scottish families remaining in unsatisfactory conditions or being forced into the private rented sector – at higher rents, greater benefit dependency and resulting in a higher housing benefit bill to the UK government or (depending upon the result of the referendum) an independent Scottish Government.

Against this background ALACHO believe that all Scottish councils should consider reviewing their HRA Business Plans with a view to assessing current and future rent levels against the asset management needs of existing stock, the need for new affordable housing in their area, and the affordability of rents at different levels against the income characteristics of their population.

2 Introduction and Background

According to new figures published on 27 May 2014 by the Scottish Government[1], 7,012 affordable homes were delivered over the last year and 19,900 homes have now been delivered by the Scottish Government through the Affordable Housing Supply Programme since 2011.

These new statistics imply that the Scottish Government is ahead of its target of 30,000 new affordable homes by 2016. Nevertheless, the figures for approvals and starts do seem on the low side in the context of the 6,000 annual target (of which 4,000 at least should be for social rent).

The figures also highlight the recent rise in Right to Buy (RTB) sales since Scottish Government announced its intention to abolish RTB, which suggest a significant loss of social housing stock over the next two years, which will adversely impact on supply.

A recent report by Audit Scotland on *'Housing in Scotland'*[2] also highlighted that Scotland continues to face a significant housing shortage across all housing tenures. This shortage is particularly acute within the social housing sector where Scottish Government statistics record over 150,000 people on social landlord waiting lists and annual lets of around 21,600.

The Audit Scotland report suggested that:

- 'Councils & RSLs have built 14,000 fewer homes since 2005 than Scottish Government said were needed
- Funding for housing fell by around one-quarter between 2008/09 and 2011/12 with further reductions to come
- The number of new private homes built has more than halved since 2007/08
- 'It could be more than 20 years before there are enough new homes to meet the projected increase in households in any one year.'

Anecdotal information suggests that Scottish local authorities may have more scope to support a larger new build programme from their own resources to supplement the social housing supply in Scotland. There are currently 26 Councils that own housing stock, representing around 315,000 dwellings or about 35% of the rented stock in Scotland.

The Association of Local Authority Chief Housing Officers (ALACHO) commissioned HouseMark to undertake a desktop analysis of that capacity through an examination of the Scottish Housing Revenue Account (HRA) system and in particular the level of comparative rents, debt levels and potential operating efficiencies.

This report presents the findings of that research and highlights the potential opportunities to use the available resources to support new housing in Scotland.

[1] http://news.scotland.gov.uk/News/Over-7-000-Affordable-Homes-delivered-in-2013-14-cd2.aspx#downloads
[2] http://www.audit-scotland.gov.uk/docs/local/2013/nr_130711_housing_overview.pdf

The work was carried out with the support of ALACHO, commencing with an ALACHO Focus Group which met in January 2014. This was followed with a final consultation with the Focus Group on the draft report in August 2014. Various public reports and internal data were obtained from participating authorities, as well as data from other open data sources. Interim findings were presented to the CIH Scotland Housing Conference in Glasgow on 11 March 2014.

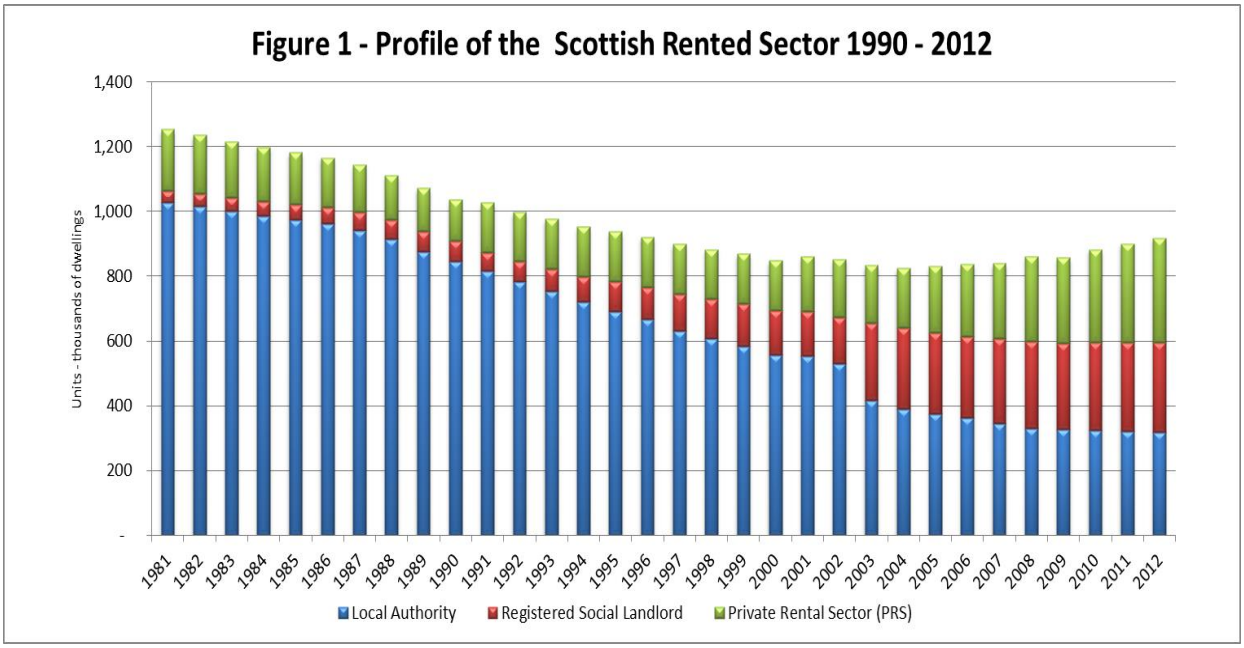
ALACHO and HouseMark would like to thank the many people and organisations who helped in producing this report, particularly the ALACHO Focus Group. A full set of acknowledgements can be found at **Appendix 1** of this report.

3 Profile of the Scottish Rented Sector

In order to set the context, an initial piece of analysis was carried out to review the change in the Scottish rented sector over the last two decades. This analysis was based on data supplied by the Scottish Government *(please refer to appendix 2 for data source references).*

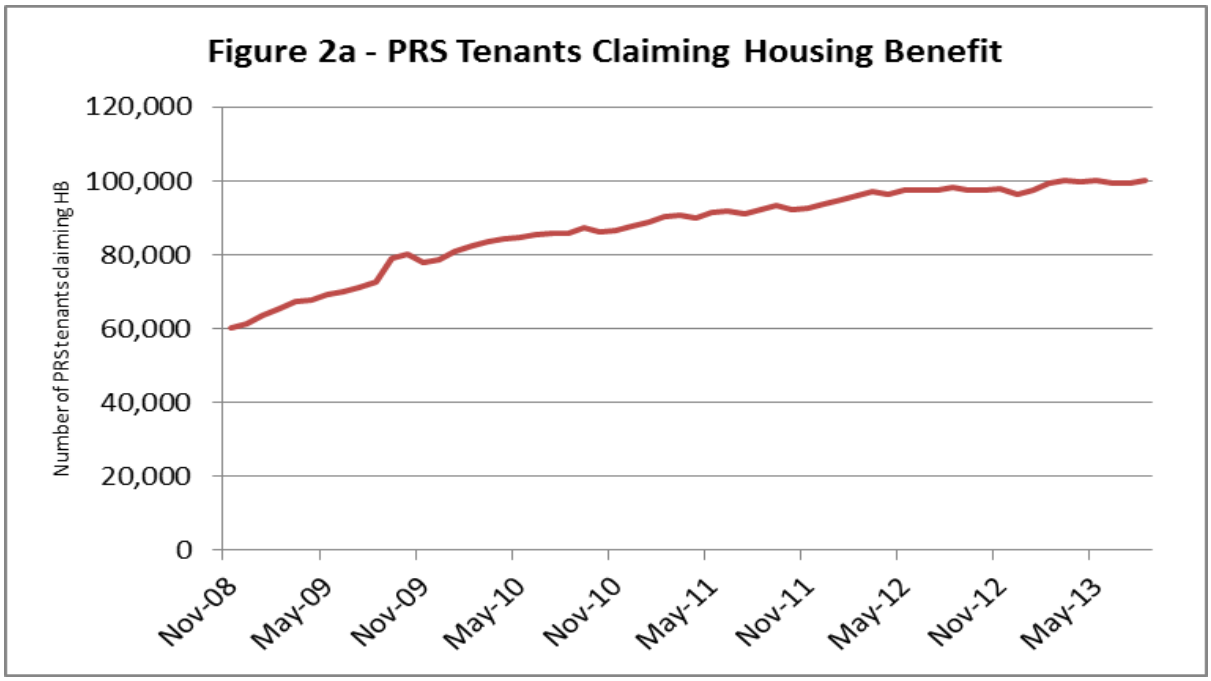
Figure 1 below demonstrates that between 1990 and 2012 the number of properties in the council sector has fallen from around 845,000 to 319,000. Around 119,000 of this reduction is due to stock transfers from Glasgow (85,000) and five other local authorities (34,000) which contributed to the increase in the RSL stock from 65,000 to 277,000 over the same period.

The net effect has been an overall reduction in the social housing stock of about 314,000. This is primarily because new social housing development and acquisition has not kept up with the stock lost through the RTB and other disposals. As can be seen in **Figure 1** the private rented sector (PRS) has grown from around 126,000 to 322,000 over the same period, an increase of 156%.



The evidence suggests that the PRS has in part been used to substitute for a decline in the availability of social housing accommodation for people on low incomes.

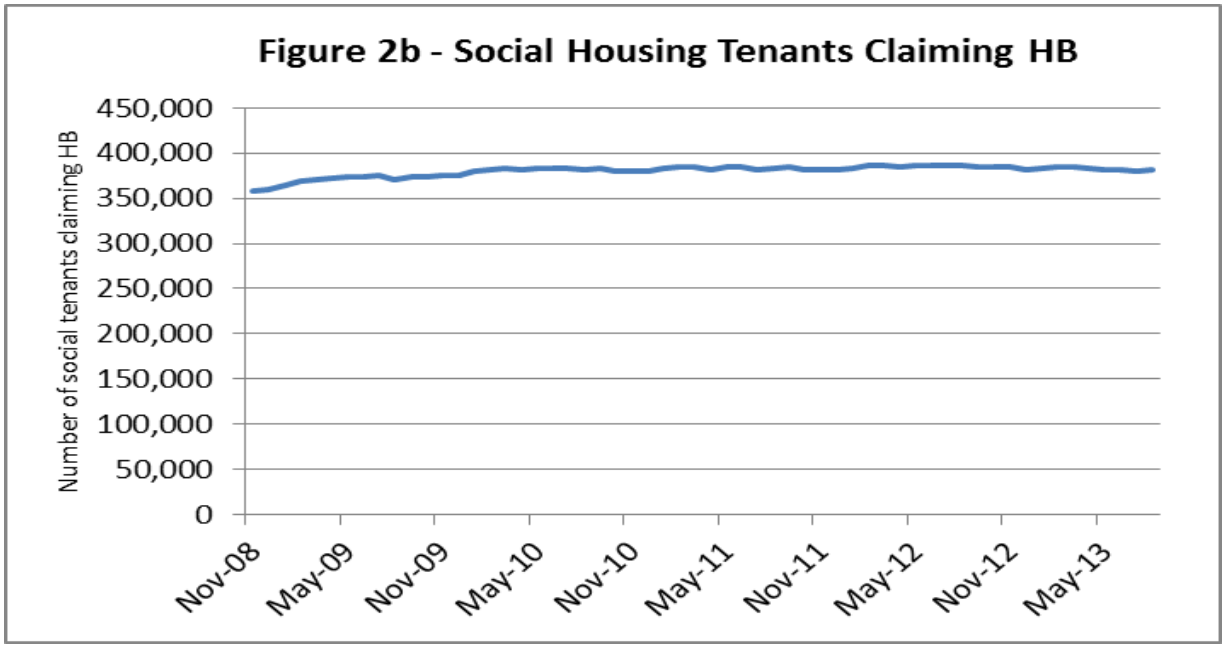
Statistics on housing benefit costs over this period are not so readily accessible. However, statistics provided by the Department of Works and Pensions (DWP) – see **Figure 2a** that follows, demonstrate that over the last 5 years there has been a 40,000 increase in the number of PRS tenants claiming housing benefit, from around 60,000 in November 2008 to around 100,000 in November 2013 (an increase of 67%).



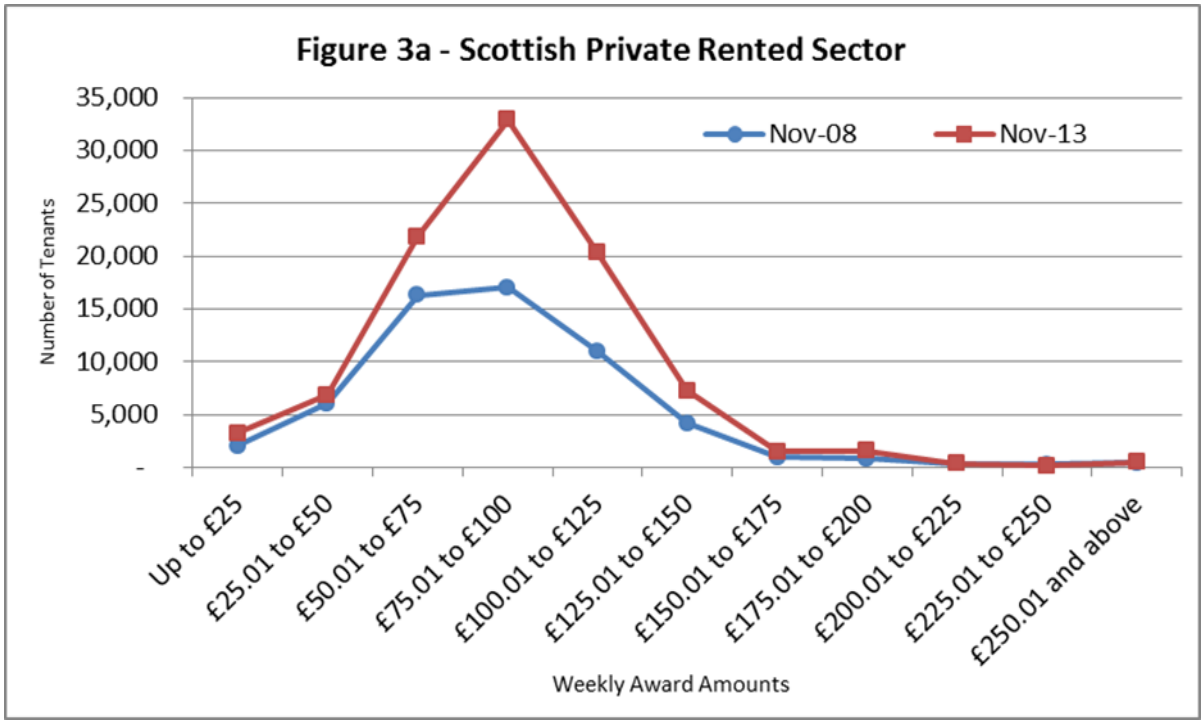
Conversely, the number of social tenants on housing benefit – see **Figure 2b** below - only grew by around 23,000 or 6% in the same period.

Added to this we estimate that the proportion on PRS HB has grown; we estimate from around 23% in 2008 to around 30% in 2012 based on the stock data at **Figure 1**.

It should nevertheless be noted that, based on most recent data produced by the DWP the rate of increase of PRS tenants claiming housing benefit appears to have steadied during the last year, both in Scotland and Great Britain generally, perhaps influenced in part by the impact of the welfare reforms.

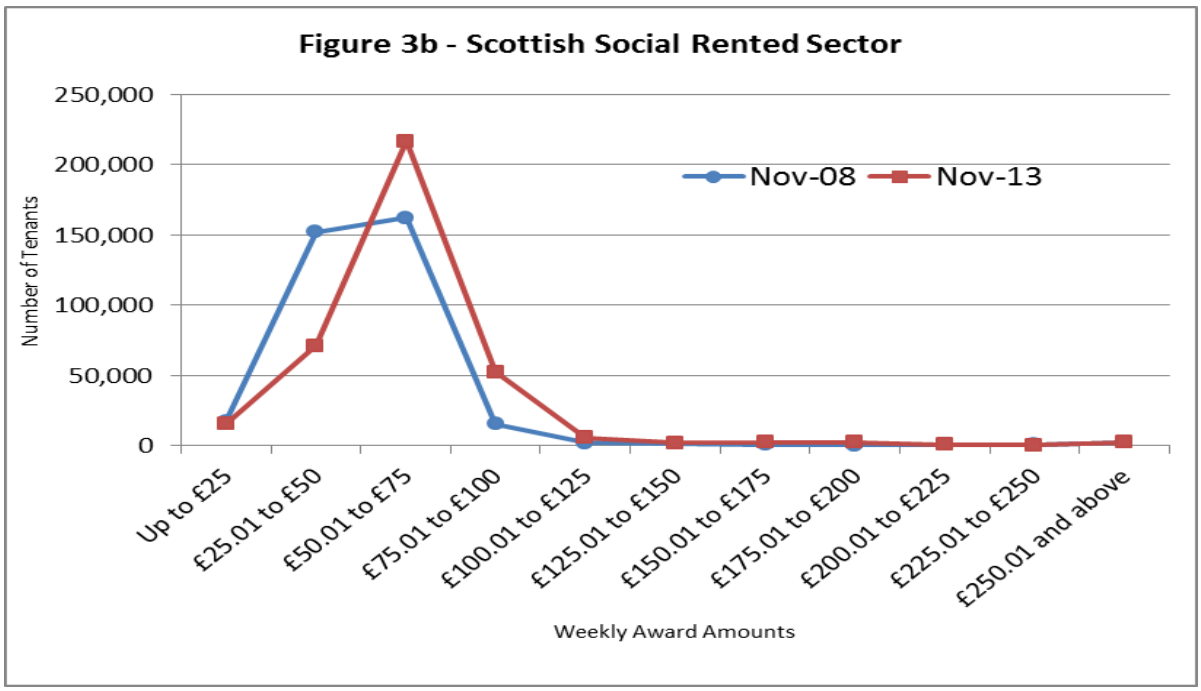


Of equal interest is the actual amount of housing benefit paid to private sector and social housing tenants.



There has been an 84% increase in private sector tenants claiming £75 or more – see **Figure 3a.** Moreover, the number of private sector tenants claiming benefit increased in all categories (apart from a small number between £200 and £250) as can be seen above.

Conversely, whilst housing benefit payments to social housing tenants[3] increased in the £50



- £100 bands, they decreased in the £25 - £50 bands and remained fairly static in the over £100 - £250 and above bracket. See **Figure 3b.**

A logical inference is that the higher levels of housing benefit paid to private sector compared to social housing tenants reflects the difference in rent levels in these sectors. This assumption is borne out in the following analysis. Rents in the PRS are significantly higher than in the social sector across the whole of Scotland, although there are limits on the amount of housing benefit paid to private sector tenants through the Local Housing Allowance (LHA). **Figure 4** below shows the LHA caps by each Broad Rental Market Area (BRMA) for 2013/14.

Figure 4 - BRMA Name	Shared	1 Bed	2 Bed	3 Bed	4 Bed
Aberdeen and Shire	69.92	121.15	150.00	170.99	218.16
Argyll and Bute	60.46	80.77	103.85	117.92	173.08
Ayrshire	65.00	80.77	98.08	115.38	155.77
Dumfries and Galloway	61.15	80.77	98.08	106.13	126.92
Dundee and Angus	57.69	77.83	103.85	132.69	180.00
East Dunbartonshire	67.22	98.08	121.15	160.38	224.05
Fife	55.42	80.77	103.85	117.92	173.08
Forth Valley	61.15	84.23	103.85	126.92	173.08
Greater Glasgow	65.00	91.15	115.38	137.31	196.15
Highland and Islands	59.54	90.00	109.62	126.92	160.38
Lothian	66.92	114.23	138.46	184.62	276.92
North Lanarkshire	63.46	80.77	98.08	115.38	165.09

[3] Unfortunately the data available from DWP does not provide a detailed split between local authority and RSL tenants and a Freedom of Information request would be required for this.

Perth and Kinross	57.59	80.77	103.85	137.31	183.46
Renfrewshire/ Inverclyde	65.00	80.77	103.85	125.77	184.62
Scottish Borders	54.23	69.23	92.31	112.03	144.23
South Lanarkshire	63.46	80.77	101.54	126.92	183.46
West Dunbartonshire	65.77	86.08	103.85	121.15	161.54
West Lothian	58.85	98.08	115.38	132.69	176.89

The average LHA for an average 2 bed property is around £100 per week in non-urban areas and is higher still in Greater Glasgow, Lothian, East Dunbartonshire, Aberdeen City and Aberdeenshire.

This compares with average local authority rents of around £60 per week and RSL rents of around £70 in 2012/13.

The overall impression therefore is that, over the last two decades, financial support for subsidised housing for people on low incomes has moved away from capital subsidy for social housing new build towards personal subsidy in the form of housing benefit, with an increasing proportion of recipients residing in the private sector.

4 Prospects for the provision of more social housing in Scotland

Since the late 1980's, successive UK governments have largely focused on the RSL sector to provide new social housing - primarily because (unlike councils) RSL borrowing does not count against the Public Sector Borrowing Requirement (PSBR) total. .

As demonstrated in **Figure 1**, the new social housing supply has failed to keep up with the loss of stock through the RTB. This is the position across the whole of the UK, not just in Scotland.

The Scottish Government abolished the RTB for new tenants in 2011 and has recently proposed an amendment to the Housing (Scotland) Bill that will see the RTB abolished entirely within two years of the bill securing Royal assent.

4.1 Increasing supply through the RSL sector

One option would be to provide additional opportunities for Scottish RSLs to increase supply.

As an 'independent' sector regulated by the Scottish Housing Regulator (SHR) the decisions on whether to develop or acquire new stock will primarily be for the governing boards of each RSL.

Despite a relatively low level of debt (around £11,700 per dwelling at 2012/13), a number of factors have limited and will continue to constrain development within Scottish RSL sector.

These include:

- Margins on average borrowing rates in the RSL sector have increased since the credit crunch in 2008 and the cost of default and renegotiating old loans remains high.
- Whilst stock transfer, including secondary stock transfer from GHA, provided extra capacity for the RSL sector, the appetite for large scale transfer has diminished since the last one in 2006. This has meant that there has been less scope to boost new supply from economies of scale other than through organic growth or merger.
- The impact of the welfare reforms and other cost pressures (for example the increasing cost of pension liabilities) along with the Scottish Housing Quality Standard (SHQS) and the recently enhanced Energy Efficiency Standard for Social Housing (EESSH) will also have inhibited some RSLs capacity for new development.
- Reduced funding – as set out in Audit Scotland's 2013 publication (Part 2): *'Housing in Scotland'*[4]. Although funding levels in Scotland are difficult to accurately track due to the complex and changing nature of the Scottish government's funding streams, the Audit Scotland report states that: "*the capital budget for housing fell by 29 per cent, in real terms, from £534 million in 2008/09 to £378 million in 2011/12. Future capital budgets for housing are set to fall further, to £250 million in 2014/15. In real terms, this represents a 53 per cent reduction over six years.*"

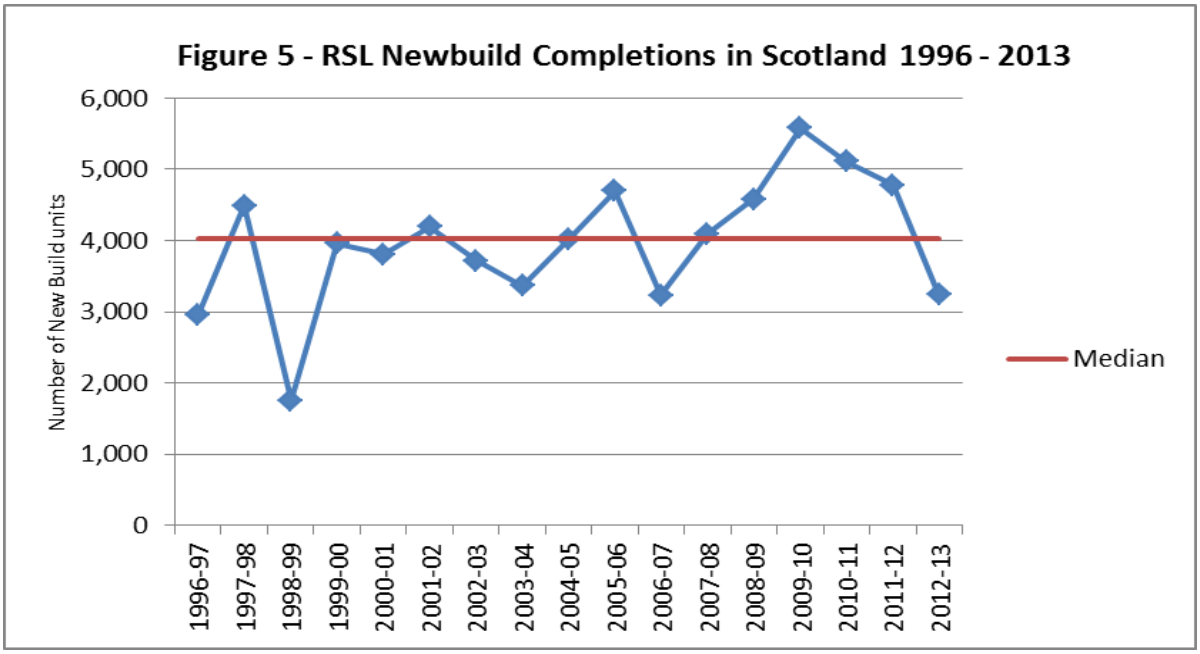
[4] http://www.audit-scotland.gov.uk/docs/local/2013/nr_130711_housing_overview.pdf

Recently, a further constraining pressure has emerged from the Scottish Housing Regulator (SHR) – encouraging RSLs to protect their financial health by ensuring that rents stay affordable[5]. Research published by the SHR showed that rents were rising faster than inflation and arrears, bad debts and voids had all increased.

The SHR said that *"Affordable rents are important for tenants but increasingly we are seeing how important they are for the financial health of landlords. In the face of higher costs from pensions, the uncertainty associated with welfare reform and the changing lending market we welcome the fact that many RSLs are telling us that they are doing everything they can to drive out costs before asking tenants for more rent."*

Perhaps as a consequence of the inhibitors set out above, the decline in new RSL developments can be seen in the Scottish Government's latest time series analysis of sector new build - as illustrated in **Figure 5**.

However, new opportunities are emerging to borrow from alternative sources. For example:



- Falkirk Council has recently targeted its pension fund[6] towards 300 new RSL homes via on-lending
- Argyll and Bute Council has on-lent directly to Argyll Community Housing Association
- East Lothian Council has on-lent directly to East Lothian Housing Association.

[5] Ian Brennan, Director of Finance and Risk, speaking in Edinburgh on 23 April 2014 at a conference organised by the Institute of Chartered Accountants of Scotland: http://www.scottishhousingregulator.gov.uk/news/housing-regulator-calls-affordable-rents-protect-financial-health

[6] Falkirk Council administer the pension fund however a wide range of local employers are involved in the pension scheme, including Clackmannanshire Council, SEPA, Forth Valley College, etc.

A recent letter from the Scottish Government to authorities (LG Finance Circular No. 5/2104) - gave a general consent (subject to specific conditions) for authorities to borrow to on-lend to RSLs.

However, the average rate for new RSL loans will, in the main, be higher than authorities can access themselves through the Public Works Loans Board (PWLB). In the case of on-lending, as noted in Circular 5/2014, authorities will also have to charge an additional margin to RSLs to ensure that the loan does not breach EU rules on State Aid.

Moreover, whilst RSLs have scope to amalgamate in order to generate further economies of scale and thus leverage greater development capacity, this has only tended to happen when one RSL gets into financial difficulty rather than through a pro-active approach to sector consolidation. At present the RSL sector in Scotland is made up of 70 RSLs with more than 1,000 dwellings and 78 with less than 1,000 dwellings and 13 specialist RSLs. The average number of properties owned by a RSL in Scotland is about 1,700[7].

RSLs also have to pay VAT on many of their costs and this does put them at a disadvantage compared with local authorities who are largely able to recover VAT costs.

Whilst the RSL sector will continue to develop in the coming years, its capacity to meet the demand for new social housing in Scotland is open to question.

4.2 Increasing capacity in the local authority sector

As indicated in the introduction there are 26 local authorities in Scotland which still own their housing stock. At April 2013 these authorities owned 315,000 tenanted (and void) dwellings; an average of around 12,100 dwellings per authority. Could increased local authority supply help meet the need for new social housing?

There are various ways in which capacity to develop can be measured across those authorities.

Our research primarily focussed on three areas:

- Rent levels for each Scottish authority compared also with those in the RSL sector and across the different regions in England – **see Section 5**

- Levels of current borrowing, based on average debt per dwelling, across each Scottish authority and compared with different regions in England **– see Section 6**

- Scope for operational efficiencies which could increase borrowing capacity– based on published data collected by the Scottish government and anonymised HouseMark benchmarking data – see **Section 7**

[7] Source: Scottish Housing Regulator Accounts Consolidation System

As with the RSL sector, local authority landlords are required to meet the Scottish Housing Quality Standard (SHQS) and the Energy Efficiency Standard for Social Housing (EESSH and manage the impact of welfare reform and increasing pension costs.

Recent Scottish Government guidance on the *'Operation of Local Authority Housing Revenue Accounts'* provides an update on the HRA ring fence and how the account is expected to operate.

Whilst the new HRA guidance encourages councils to plan ahead, there is no specific requirement to produce HRA Business Plans or to get these plans validated. However, Councils may wish to consider independent assessment and validation, as HRA Business Plans can and should demonstrate how councils will meet future targets such as new build.

However, as part of our research we did obtain and analyse a variety of HRA financial models to assess the strength of the HRA in those authorities. The results of this analysis are examined at **Section 8**.

Another key factor which will influence authorities' ability to support new housing is the availability of public land. However, there is little available information on the amount of local authority owned land which might be targeted at a new build programme and clearly the value of that land and the cost of developing it will differ considerably from one location to another.

In some cases the most suitable land may reside in the council General Fund and there will be a cost of appropriating that land to the HRA for housing purposes. All developments will have an opportunity cost (i.e. potential alternative uses) and the viability of each site will depend on its current use and condition, the associated build costs, access to grant and the rent to be charged

In some cases it may be cheaper and more effective to acquire 'off the shelf', e.g. former RTB stock, than new build. Certainly, a number of the Focus Group authorities stated that they had an active policy of targeting former RTB stock for purchase by their council.

Authorities also have wider powers to engage in acquisition and new build opportunities outside the HRA. Since the HRA Reforms were introduced in England several authorities have looked at other opportunities to deliver new housing either through their Arm's Length Management Organisation (ALMO) or through a separate company. Whilst these opportunities also exist to some extent in Scotland we have contained our analysis in this report to the potential within the HRA. There may be scope to deliver outside of the HRA or through separate vehicles but this would need to be the subject of separate research.

Mitigating against the appetite or capacity for increased council borrowing for new build, is the pressure that the HRA is likely to come under to support the corporate local authority manage the increasing gap between available General Fund resources and demand for statutory and non-statutory services.

The recent Audit Scotland report *'An overview of local government in Scotland 2014'*[8] said that *"substantial savings"* will be needed by authorities over the next four years, with choices

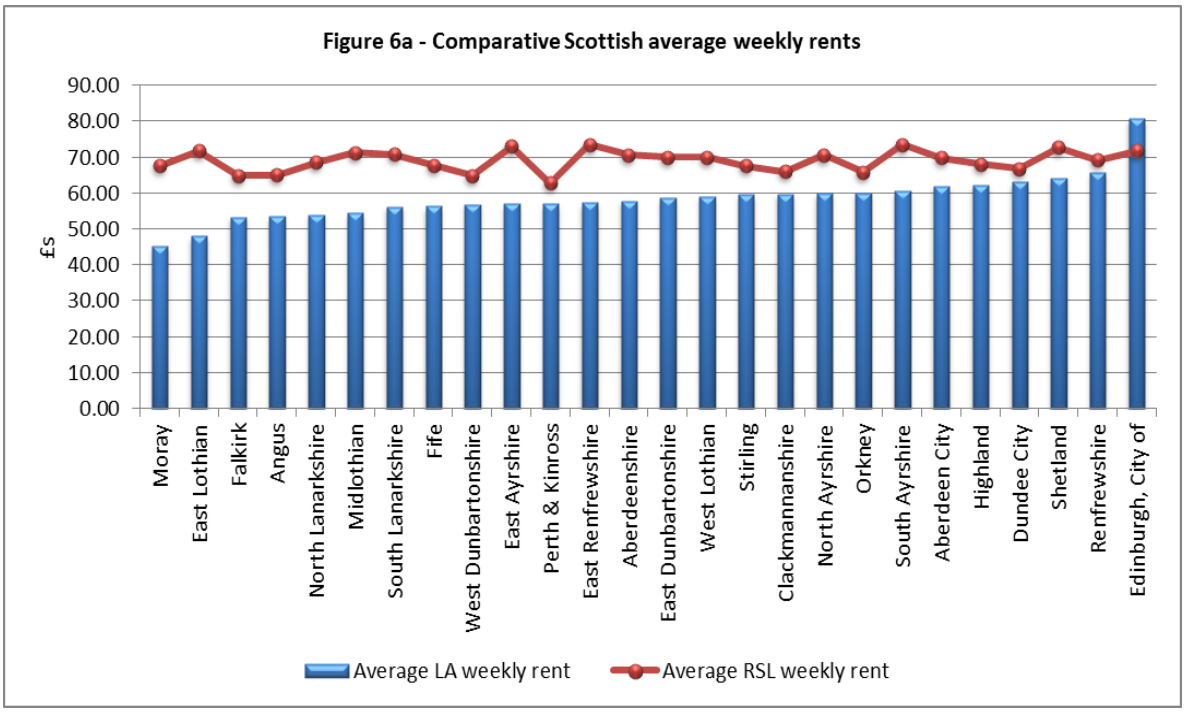
[8] http://www.audit-scotland.gov.uk/docs/local/2014/nr_140327_local_government_overview.pdf

on how to address funding gaps becoming increasingly difficult. So far, savings have been made mainly by cutting staff numbers - but this measure is not sustainable in the longer term. This is mirrored in English authorities, with a recent survey by the Local Government Association (LGA) finding that three in five authorities will have exhausted ways of making savings by the 2015/16 financial year, meaning they will need to make deeper cuts to public services before the general election and in the following years.

5 Scottish local authority rent levels and comparable data

Average social rents in the Scottish local authority sector are around £10 less than for Scottish RSLs.

This is demonstrated in **Figure 6a** below which compares the average rent of each Scottish local authority with the Scottish RSLs within their council boundaries using 2012/13 data derived from SHR returns.



This data demonstrates that:

- the difference between average Scottish local authority and RSL rents is between £5 and £15 across most Scottish authorities:
- there are two (Moray and East Lothian) where the difference is more than £20
- there is one (Edinburgh) where local authority rents are actually higher than in the RSL sector.

The difference in rents may reflect different stock profiles as much as different local policies. Data on dwelling sizes in the local authority sector is not actually held by the Scottish Government (although it is available from the SHR for RSLs). The profile in **Figure 6a** is based on existing stock across each local authority area (i.e. unweighted for stock size). An amount of £3,666 per annum was also used as the benchmark social rent for the Affordable Housing Supply Programme (AHSP) for RSLs as at 2012/13 prices. This equates to around £70.50 per week and is therefore not dissimilar to the overall RSL average. The AHSP guidance proposes that increases thereafter be based on the Retail Price Index (RPI) + 1%. This was subsequently increased by 4% to £3,813 for 2013/14.

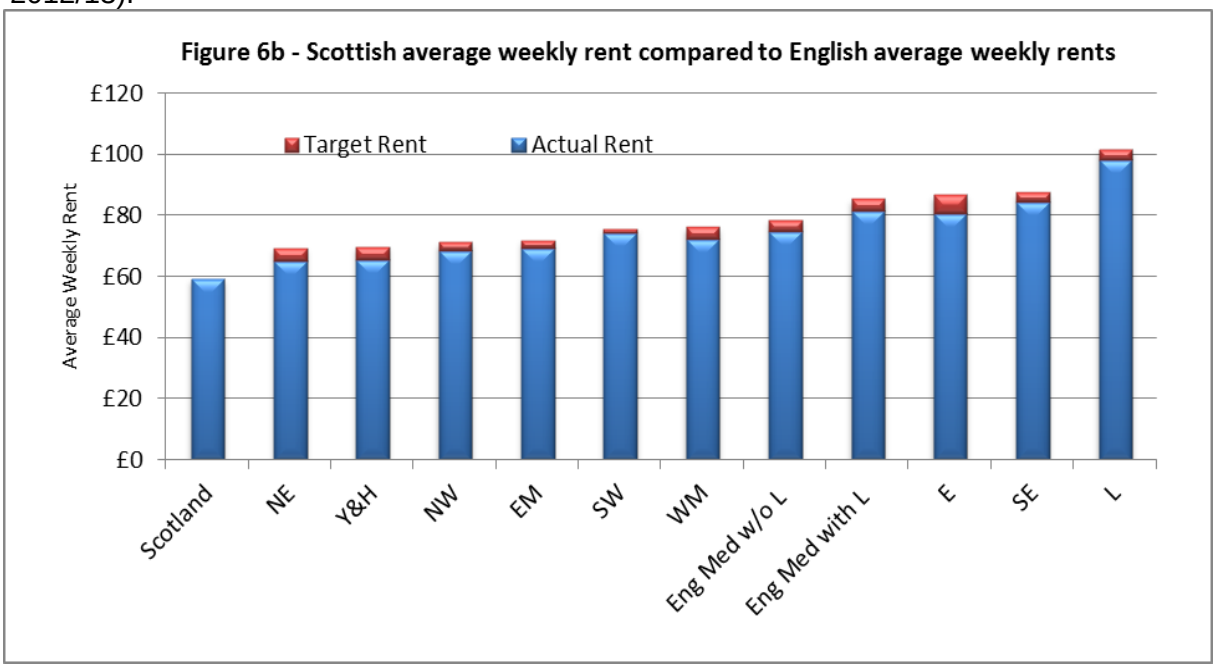
As has previously been observed by the Scottish Government Working Group on Financial Capacity, Affordability and Development Subsidy, *average local authority rent levels in*

Scotland are also low compared with all the different regions in England. This Scottish Government Working Group recommended that Scottish rents *should not* be required to rise closer to English rent levels. This was based on the principle that rents should remain affordable to tenants in low paid employment without recourse to benefits. Although, Scottish Government guidance in **'HSGN 2014/05 AHSP – Process and Procedures'**[9] also states that: *"Rent levels should strike an appropriate balance between being affordable, reflecting local market conditions and contributing to the cost of the house both in capital and revenue terms"* reflecting a need for balance between rent affordability and the contribution rent makes in the building and maintenance of homes.

Further analysis of the English position was undertaken for this report. The research showed that, in England, a system of target rents has been phased in over the last decade and is due to end in 2014/15 when most properties are expected to be at or close to target rent. Average weekly target rents in England for 2012/13 ranged from £69 in the North East to £102 in London. The median weekly rent without London was £79 and with London included it was £86.

Policy in England has recently changed. From 2015/16 rents will be linked to the Consumer Price Index (CPI) and social landlords will be able to increase rents by up to CPI + 1%[10] meaning that rent increases in England will be at lower levels than those allowed in Scotland that are still linked to RPI+1%.

As can be seen in **Figure 6b** the average weekly Scottish rent is around £10 lower than the average weekly local authority target rent in comparable regions across England (as at 2012/13).



[9] http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/guidancenotes/GuidanceNotes2014/HSGN201405-AHSP-Process-and-Procedures

[10] CPI at June 2014 was 1.9% while RPI was 2.6%

Two factors may explain this difference in Scottish and English council rents.

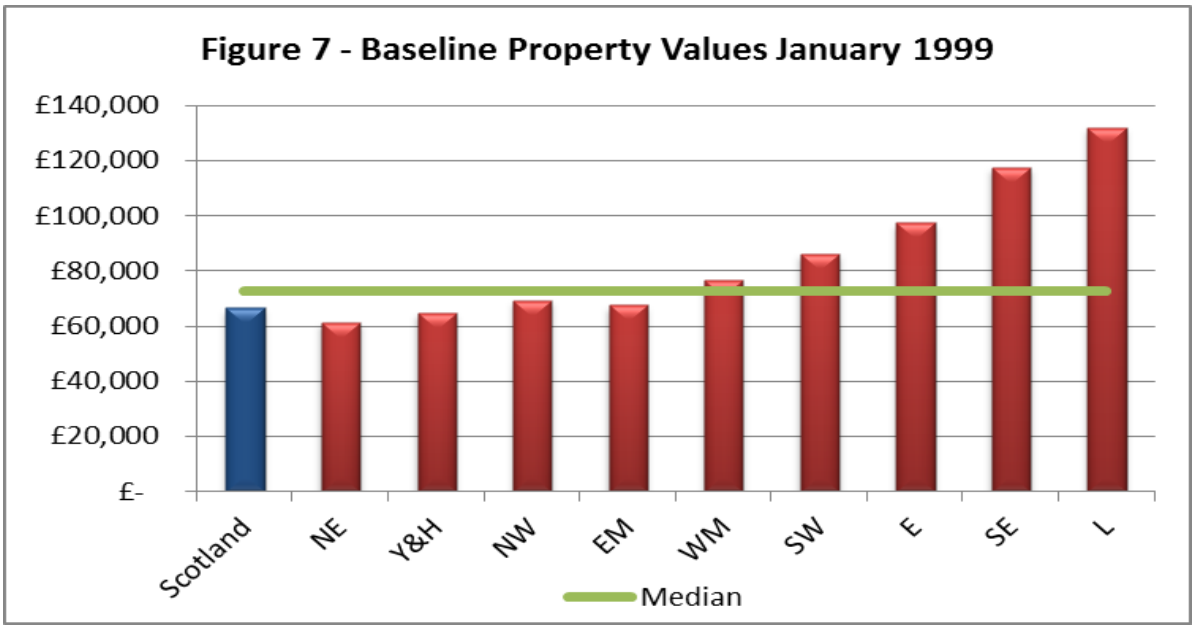
One explanation might be stock profiles. The rents in the chart reflect the average rent based on the existing stock profile for each region. In practice landlords have different stock profiles so the reason for a higher rent in one region may simply be because landlords in that region have a larger proportion of properties which attract a higher rent.

Another and perhaps more likely factor is government policy. The system of introducing target rents was part of a central policy for social rents in England, introduced in 2001/2, which was not applied in Scotland. The system involved a target (or formula) rent being attributed to each social rented property in both the local authority and RSL sector. The resulting impact has been to gradually push social rents up to a higher level (relative to Scotland) than was the case before the English policy was introduced in 2001/02.

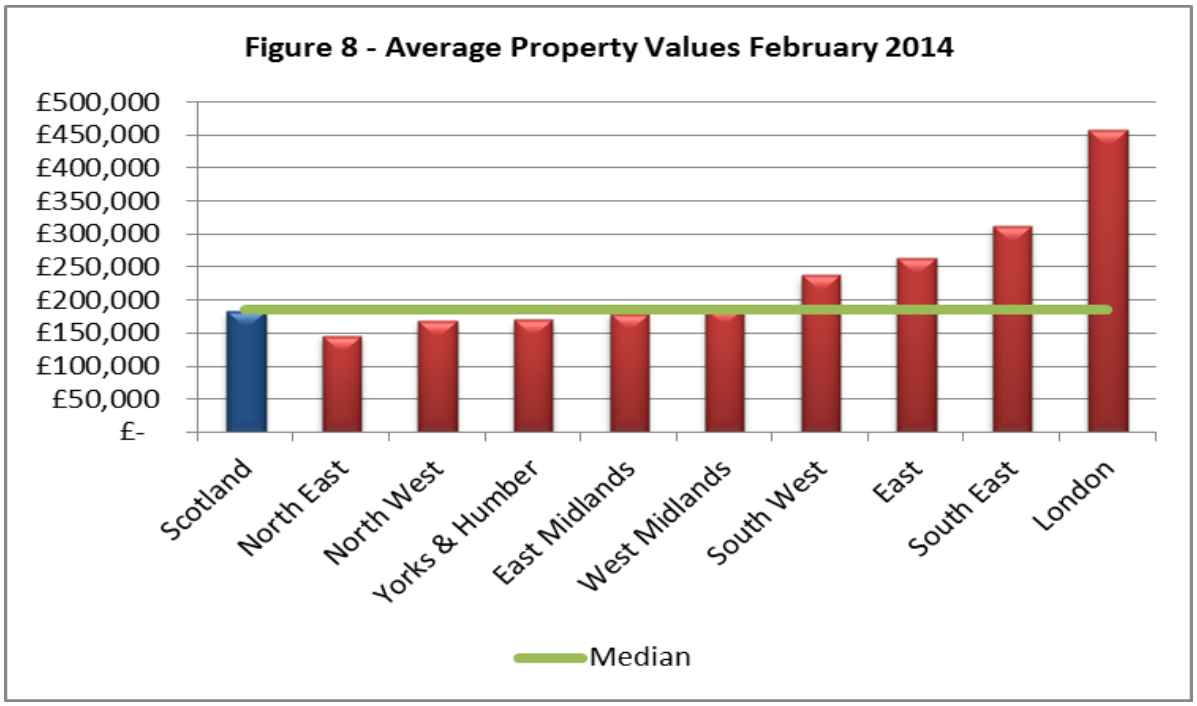
6 Property values and affordability data

The methodology for the target rent system introduced in England was based partly on capital values and partly on affordability. This led to a system which mirrored relative regional property markets to some extent.

The baseline for these values was January 1999. As can be demonstrated in **Figure 7** Scottish property prices at that time were not dissimilar to several regions in England which might therefore have resulted in similar rent levels to those regions if a similar rent system had been introduced in Scotland.



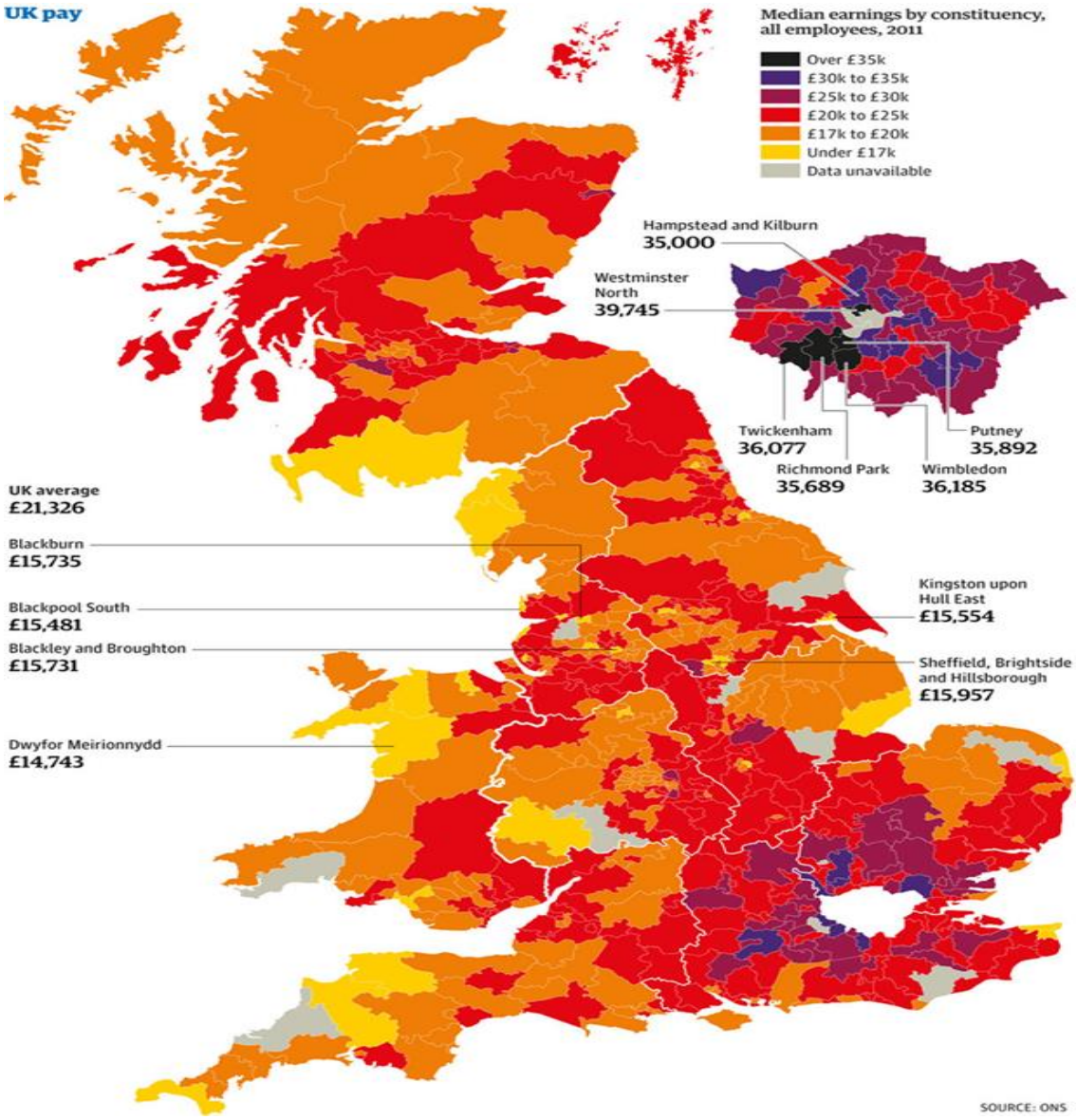
The position by February 2014 as shown in **Figure 8** demonstrates that the gap between average Scottish house prices and some English regions has actually reduced slightly.



As indicated on the previous page, property prices are not the only factor in assessing the relative position between rents in England and Scotland. Another key factor is affordability.

This project has not engaged in any new research into affordability. However, by way of a comparison, the Office of National Statistics (ONS) 'heat map' shown in **Figure 9** demonstrates that average pay in Scotland is not dissimilar to the other English regions outside London and the South East.

Figure 9



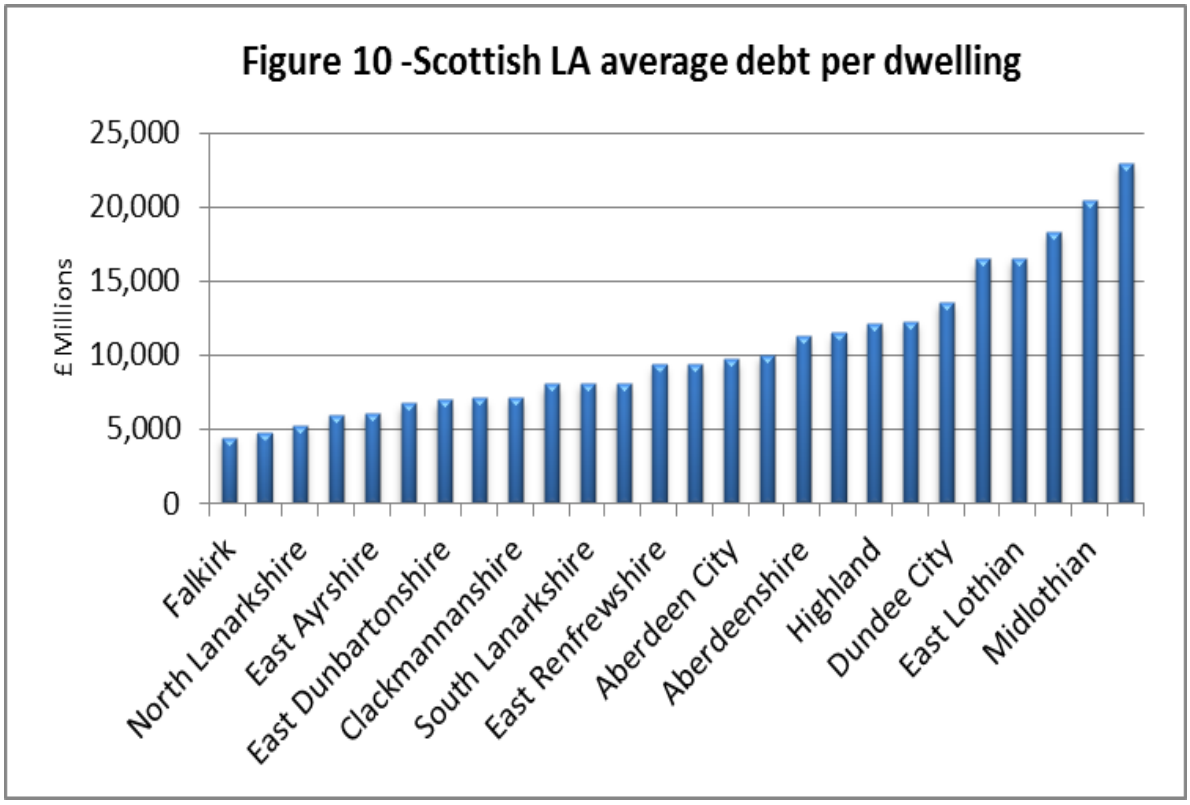
7 Borrowing Capacity

In order to assess potential borrowing capacity, it is important to consider debt levels across Scottish local authority HRAs and how they compare with debt levels per dwelling for authorities in England.

We have analysed current borrowing per dwelling, based on average debt per dwelling estimated at March 2013, by using data provided on HRA Returns to the Scottish Government.

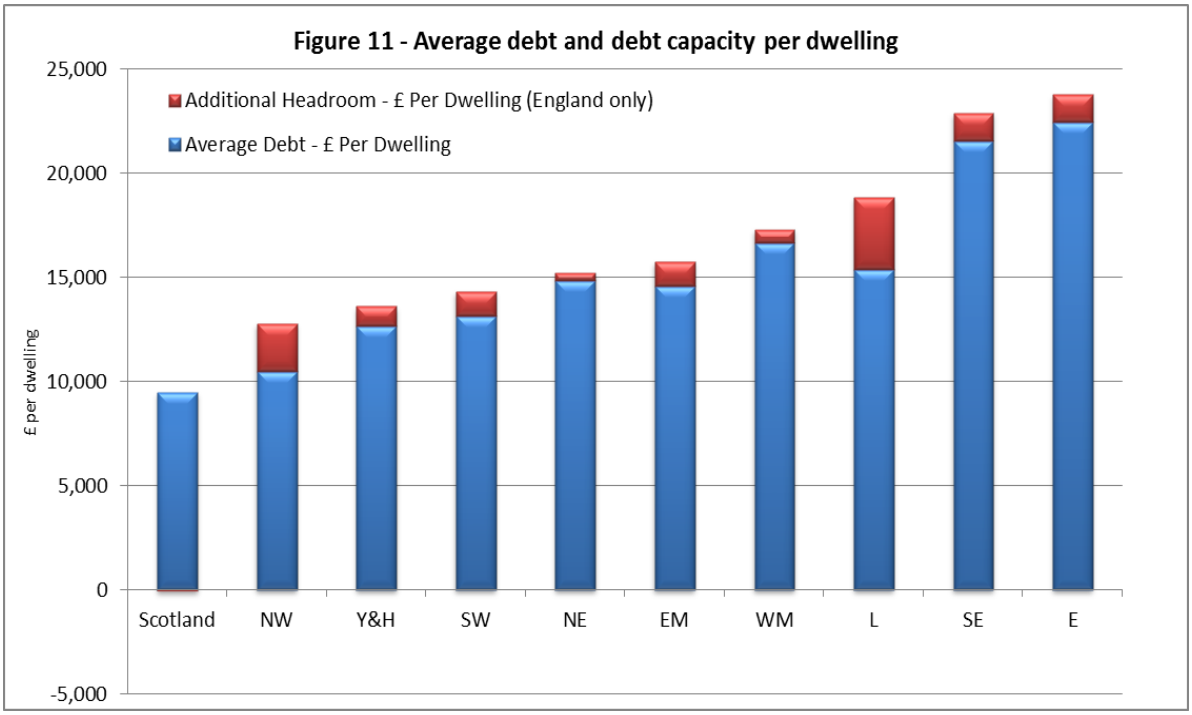
Figure 10 shows that average debt in 2012/13 ranged from less than £5,000 per dwelling in Falkirk and Angus to over £20,000 per dwelling in Midlothian and the Shetland Islands.[11].

The weighted average[12] HRA debt across Scottish local authorities is around £9,484 per dwelling. This also appears relatively low when compared with the average debt and debt capacity (headroom) per dwelling in English regions as demonstrated in **Figure 11** that follows.



[11] The Shetlands was the only authority in Scotland previously receiving HRA Subsidy, primarily because of its high debt level, so the Scottish Government and HM Treasury has recently come to an arrangement to write off a proportion of the authority's debt in exchange for no longer receiving subsidy.

[12] Weighted average – we have calculated the weighted average to reflect the different stock numbers – i.e. £9,484 is the average of all the council debt in Scotland divided by all the stock.



The reason that average debt in England is much higher is largely due to the April 2012 HRA reforms introduced in England; where in lieu of council exit from the HRA subsidy system debt was increased by around £8bn (around £4,800 per dwelling) from around £18.9bn (£11,100 per dwelling) to around £27bn (£15,900 per dwelling).

In the years leading up to 2012 around 75% of English authorities were paying into a central pot held by the Department of Communities and Local Government (DCLG) part of which was used to pay subsidy to the other 25% of local authorities (primarily those with higher debt) with the balancing surplus being retained by the DCLG.

This old system was deeply unpopular amongst English local authorities so as part of the deal for its abolition, authorities overall were required to take on an additional £8bn debt, albeit at a specially discounted PWLB rate offered in March 2012.

As part of the deal authorities were also required to adopt a borrowing cap set at around £29.8bn (£17,600 per dwelling) providing around £2.8bn of headroom capacity to borrow for any additional investment (including new housing). However, this was not evenly split and has resulted in some authorities looking at other ways outside the HRA to provide new social housing.

- The position in Scotland is accordingly very different to that in England in two respects: Average debt per authority is £6,400 lower than in England and £8,100 lower than the English debt cap. It is also £3,300 lower than the debt cap for the lowest region in England (North West).
- There is no borrowing cap in Scotland - which still uses the Prudential Borrowing system across all its service accounts including the HRA.

A key consequence of this is that combined with lower rents, Scottish HRAs appear to have significant scope to build or acquire new dwellings within the existing financial regime.

Under new borrowing powers, which come into effect from April 2015, the Scottish Government will be able to borrow up to 10 per cent of its Capital Departmental Expenditure Limit (DEL) in any one year, subject to a statutory maximum of £2.2 billion. The Scottish Government Budget assumes the full amount of £296 million will be borrowed in 2015-16. At present there do not appear to be any specific constraints on how much of this can be used for housing but if there are any additional constraints this will impact on the scope for authorities to utilise the capacity within the HRA.

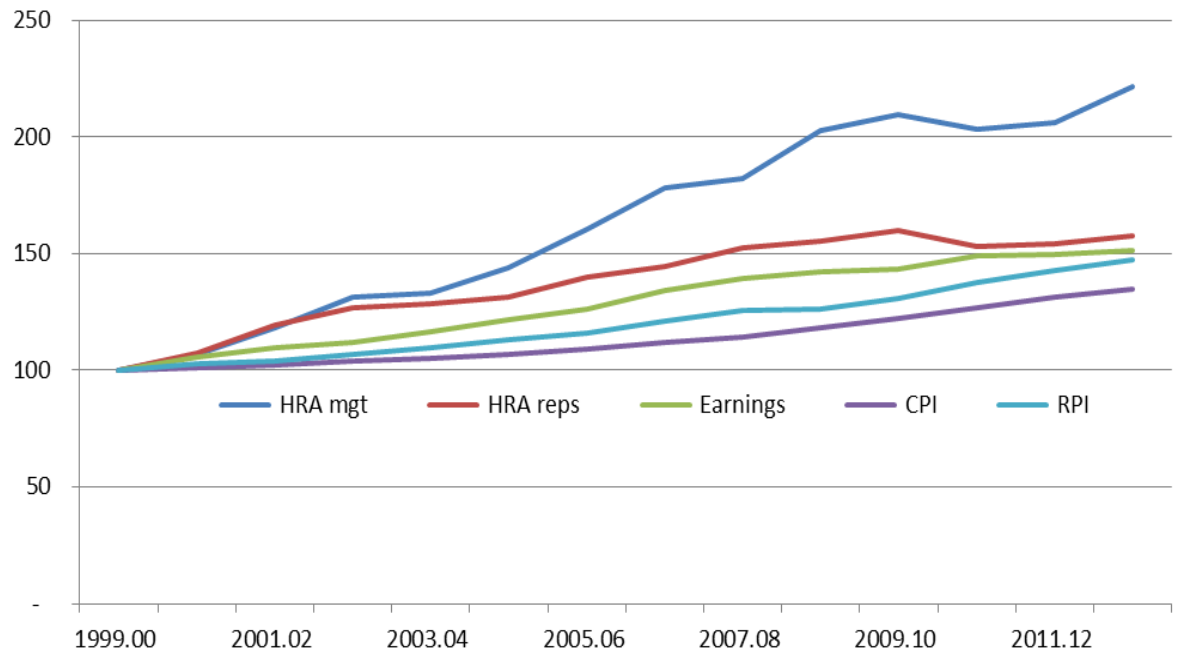
8 Scope for operational efficiencies in the HRA

The other element of our research focussed on the extent to which authorities might have scope to make operational savings to generate additional resources for new build.

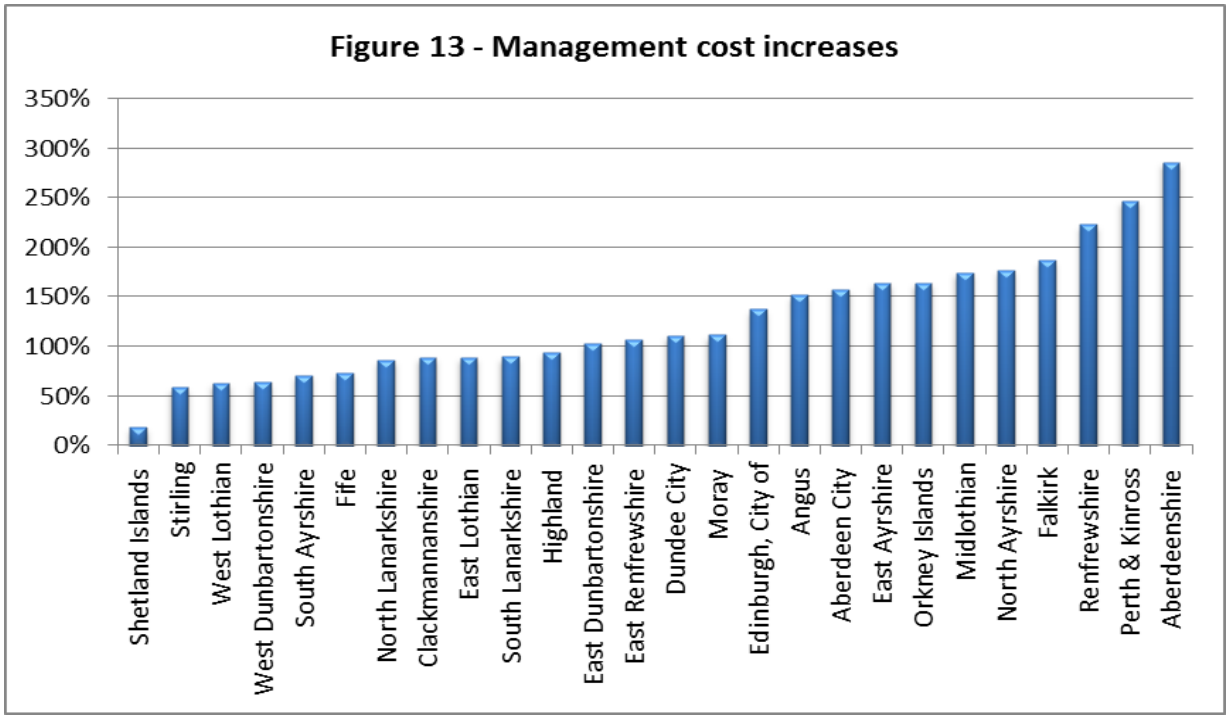
The decline in stock numbers over the last two decades has meant that individual authorities have periodically had to review their operating cost base. However, despite these occasional adjustments, authorities have found it difficult to keep unit costs under control as stock numbers have declined. This is demonstrated in **Figure 12** which shows the rate of increase in management and maintenance costs per unit relative to other key price (RPI and CPI) and earnings indices (1999/2000 = 100). Management costs in particular have increased significantly above all three indices whilst maintenance costs have shown a more modest increase.

Our analysis of management and maintenance costs is based here on HRA Returns to the Scottish Government, whilst the price and earnings indices are based on ONS data.

Figure 12- Management & Maintenance costs per unit relative to other key price & earnings indices



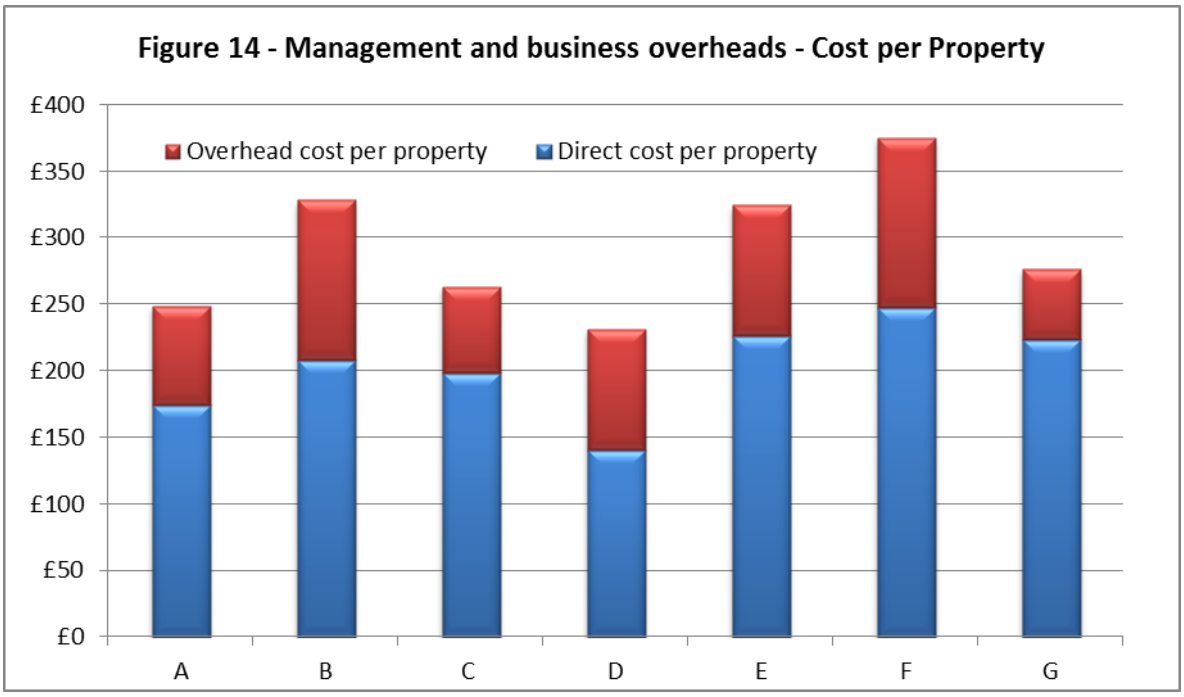
The rate of increase varies across each authority but with one exception (Shetlands), all authorities have shown management cost increases of over 50% during the same period, i.e. ahead of the Earnings Index. In three cases, management costs have increased by more than 200% in that time. This is demonstrated in **Figure 13** which shows the increase in management costs between1999/2000 and 2012/13.



There will, of course, be explanatory factors in all cases *(for example the extent of stock losses or local economic factors).* It can also be the case that management costs in any one year are exceptionally high or low for one year and so the base year (or end year) will in some cases show an unusual picture. However, the analysis does suggest that management costs have increased substantially and this will in part be down to the reduction in stock numbers. Consequently there may be scope to re-secure some of the previous economies of scale if stock numbers were increased again.

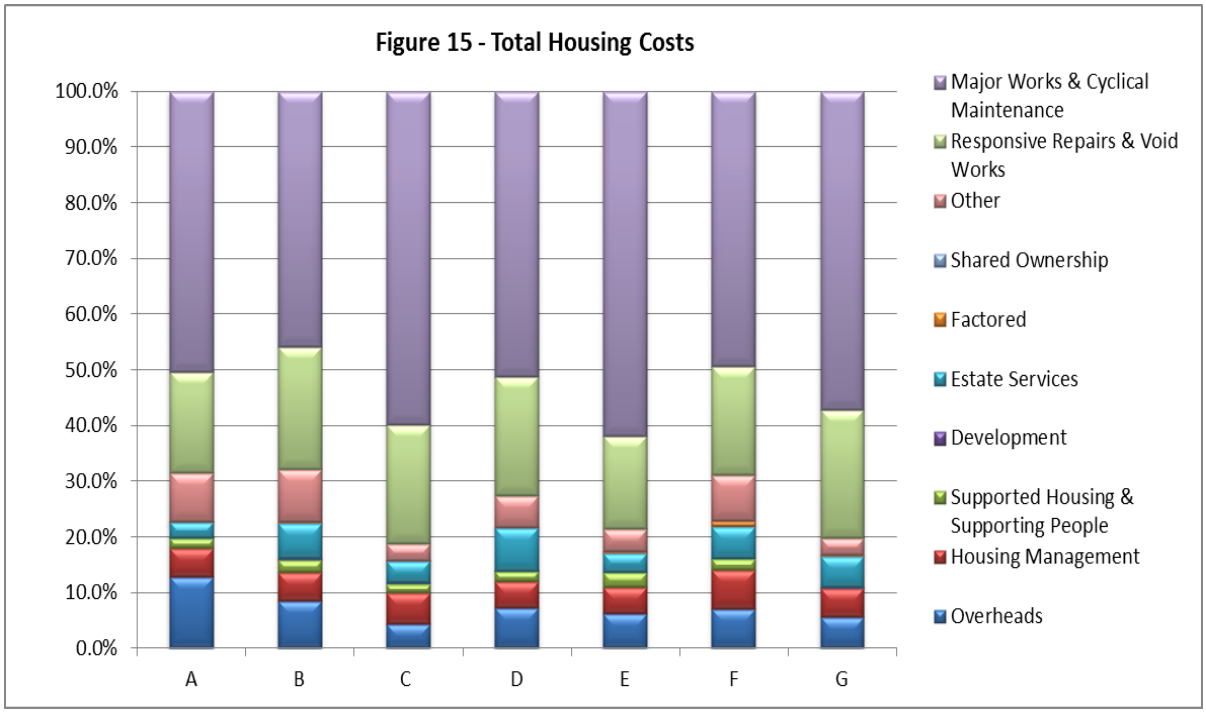
We also undertook an exercise looking at 2012/13 HouseMark cost benchmarking data for the seven local authority members in Scotland in order to test the extent to which degree of variation in key operating costs across the member authorities and the extent to which economies of scale impact on management costs. **Figure 14** that follows shows the degree of variation in direct management costs and allocated business overhead costs per property[13].

[13] HouseMark's benchmarking methodology defines business overheads into four categories: office premises, Finance, ICT and Central and these are then apportioned to each direct function using simple and consistent apportionment rules.



Direct housing management costs only make up part of the overall operating budget and authorities spend different amounts on each expenditure item according to their priorities but even amongst this relatively small sample the level of variation was quite significant.

Further analysis of the HouseMark data shows that the proportion spent on revenue items, other than major works and cyclical maintenance, also varies considerably amongst authorities. This is demonstrated in **Figure 15** below.



Of particular note is the fact that the amount spent on business overheads ranges from around 4% to over 13% across the seven HouseMark members. Whilst to some extent this variation

will reflect the size of the organisation, it nevertheless indicates that some authorities may be able to generate greater back office efficiencies.

We also did some limited evaluation of unit costs against stock numbers to see whether there was a correlation between stock size and management / overhead costs. However, as this was a statistically relatively limited sample it would not be judicious to draw absolute conclusions and accordingly further analysis across all stock owning authorities in Scotland would be necessary to demonstrate the overall extent to which economies of scale might be secured and unit costs reduced. Nevertheless, our limited findings do suggest that there may be a correlation between stock size and management / overhead costs, i.e. there is scope for unit costs to go down as stock numbers increase.

HouseMark's benchmarking data provides a robust platform for drilling down much further across a number of different cost and performance indicators. Whilst no system will ever be able to capture the full extent of the different factors which make each organisation unique, the HouseMark benchmarking data does provide a useful way of highlighting the scope to make savings, particularly amongst outlier authorities, which could be re-targeted towards more new housing.

Given the variability in the operating costs base and the limited data set we have not drawn any firm conclusions on the level of savings that might be achieved. This essential information could of course be generated by each council developing a long term financial model, by undertaking a comprehensive review of its HRA Business plan income and expenditure projections. This would also include an assessment of the potential contribution that reducing operating costs might make to the achievement of housing investment objectives.

However, following our review of the time series data for management and overhead costs we believe that there is scope to accommodate additional revenue costs associated with any new housing stock within the existing resources or through modest savings in the operating base. For the purposes of modelling we have assumed that initial management and maintenance costs associated with new housing are relatively marginal and can be contained within the existing cost base. This is discussed further in our analysis of how many new homes might be delivered.

9 Analysis of HRA Financial Models

Whilst comparative debt, rent figures and operating costs provide a useful basis for making an overall assessment of capacity to support new build, it is also important to consider the scope of individual HRAs to accommodate additional debt given future liabilities and claims on resources.

As noted in Section 3 local authority stock has declined because of stock disposals, mainly through the RTB, and has not been matched by a sufficient increase through new build or acquisition. The stock owned by Scottish local authorities is therefore getting older and in some cases less viable as an asset.

The combined effect of aging stock (along with other challenges such as the welfare reforms, pension costs) suggest that there may be significant future increases in pressures on management and maintenance costs as well as an increasing demand for more stock investment – in addition to that required to meet and maintain SHQS and EESSH standards.

In the absence of any centrally held set of HRA Business Plan information, we approached the authorities in the ALACHO Focus Group and other Scottish HouseMark members to obtain existing HRA Business Plans. The purpose of this was to use these as case studies to do a more in depth analysis of operational capacity beyond the high level figures presented in the rent / debt charts at Figures 6 and 11. Authorities are given flexibility to develop their own HRA financial models to suit their own needs. Unlike in the RSL sector, there is no common indicator to assess future financial viability. However a broad indication can be drawn from looking at the forward projection of revenue surpluses relative to forecast debt levels.

In the six cases where a HRA financial model was provided we observed the following:

(i) **Authority A** – this authority had prepared a long term model and had already made some allowance for a new build programme on top of its SHQS / stock investment programme. Its existing level of loan debt was quite low and so there was significant scope to borrow more. The authority had taken a fairly prudent approach to its subsequent borrowing strategy and the model showed increasing surpluses sufficient to support a larger programme if required.

(ii) **Authority B** – this authority had also prepared a long term model, which also showed borrowing continuing to increase from a relatively high base – initially to support stock investment and new build – although it had accelerating levels of reserves which, it appears, could also have been used to support some of the programme.

(iii) **Authority C** – this authority had prepared a five year plan as part of its budget setting. It is planning to use its substantial revenue surpluses and a significant increase in borrowing to support its stock investment (including on SHQS) and new build programme (in 2014/15). Plans beyond year 5 had not yet been mapped out but the higher revenue surpluses might be sued to support more borrowing or direct investment in more new build.

(iv) **Authority D** – this authority had prepared a long term model which assumed an ongoing new build programme, but was primarily funded by revenue. Debt was increased slightly from a low base and is assumed to repay over 30 years,

however, revenue surpluses show there is capacity to borrow more if the programme is accelerated.

(v) **Authority E** – this authority has assumed in its model a net increase in borrowing of around 18% over 5 years from a median debt level. This is being used to support a small new build programme, plus a SHQS / stock investment programme. Debt was modelled on the basis of being repaid over a 30 year time frame. There may therefore be scope to do further new build if the debt is refinanced instead.

(vi) **Authority F** – this authority had a long term plan which assumed a modest new build programme alongside its SHQS / stock investment programme. Their model showed borrowing initially doubling by year 20 from its current median level, but dropping back again in subsequent years, accordingly showing some additional capacity for new housing.

In each case, rent increases had broadly been held at or close to assumed levels of price inflation. Whilst these case studies were self-selecting and therefore could not necessarily be considered as representative, the broad picture which emerges is that authorities have already been assuming some additional small scale new build programmes within existing resources, but even with existing commitments there is still some capacity to support larger programmes.

It should also be noted that the style and format of the financial models and reporting does vary considerably, as did some of the core assumptions. Although one or more of these models has been subject to an independent assessment, a more thorough exercise would be needed to validate the models. In the event that a system is introduced to encourage and enable more new provision through higher rents and / or additional borrowing we believe that it would be worthwhile for the Scottish Government in partnership with local authorities to encourage a more standardised form of strategic HRA business plan reporting to assist with any future analysis and monitoring

At a time when mortgage lenders are introducing new affordability criteria for individual borrowers and a set of key ratios already exists for RSLs, it may also be worth considering a similar approach to the local authority sector to reinforce its ability to borrow prudently towards new housing supply. However, the approach would need to reflect the complexity of the task and the likelihood is that it would require a multi-faceted approach rather than just a few standard measures.

10 How many new homes could a rent increase deliver?

As highlighted above, at a national level within Scotland there is a difference between local authority rents and RSL rents (and the AHSP 'target') of about £10. The average rent level is also around £10 lower than the target rent for comparable regions within England.

Whilst there may be arguments to use a higher or lower increase both nationally and at a local rent level this appears a useful benchmark with which to model the income which might be generated and the new homes which might be delivered on the back of this.

An average rent increase of £10 per week for the existing 315,000 local authority dwellings would ultimately generate around £150m per annum after making allowances for rent losses. However, such an increase could not be levied in one go and a system of phasing would need to be considered. For the purpose of modelling the increase we have assumed that this would be done evenly over a period of 10 years, i.e. an average one pound per week per house increase per year. Modelling has been done based on current prices so the average one pound per week increase would be over and above any regular inflationary increases. Phasing could be more front-loaded if vacant stock was re-let at the higher rent, as indeed some councils have already done under local rent harmonisation schemes.

As indicated above we believe there is some scope to accommodate higher stock numbers within the current operating cost base and have consequently assumed that additional management, maintenance and future major repairs costs can be managed within existing HRA business plan capacity and / or future surpluses i.e. at no net additional management cost.

Based on these high level assumptions and the calculations set out in the **Appendix 3** this could lead to two alternative outcomes depending on how much grant was used to help deliver the new homes:

(i) If the rent income is used to substitute for grant (i.e. authorities self-finance from rent increase) then an additional 24,000 additional social dwellings could be delivered with debt increasing by 34% to around £12,700 per unit

(ii) If the Scottish Government provides grant at £30,000 per dwelling then an additional 40,000 additional social dwellings could be delivered also at £12,700 debt per dwelling – i.e. the extra rent income from the £10 rent increase is used to support extra spend on new homes instead.

Clearly there are other hybrid approaches which would produce different results as well, depending on the assumptions made.

11 Implementation issues

As has been demonstrated in this report, Scottish local housing authorities have more autonomy and flexibility over council housing income and expenditure than in England.

However with that autonomy comes a dilemma which goes to the heart of the debate on how best to deliver new social housing. The data in the preceding analysis gives a clear indication that there is capacity within the system overall to deliver new housing through a combination of higher rents and increasing debt using existing prudential borrowing powers. Local authorities are understandably reluctant, sometimes for political reasons or due to genuine concerns about affordability for their tenants, to increase rents or increase borrowing. However, there are likewise pressing needs to deliver more affordable homes. In some areas this demand is disproportionate to the authority's ability to fund it because of limited resources at a local level - a consequence of this might be that there would need to be some pooling of resources to redistribute to those areas most in need.

If a new approach to rents is introduced, the Scottish Government and local authorities have various options on how to implement it. There are broadly three options:

> **Option A** would be to introduce a new rent policy, controlled centrally by the Scottish government. This may be unpopular, particularly if rents are pooled to support housing in other areas and there appears to be no appetite from the Scottish Government to intervene in rent setting policy
>
> **Option B** would be to give authorities complete flexibility, broadly as they have now, and simply present some new guidelines which authorities could make reference to – perhaps with some incentives (e.g. through matching grant)
>
> **Option C** would be some combination of the two providing some central control, but with incentives as well

The central policy that was introduced in England in 2002 was linked partly to capital value and partly to affordability. Feedback from the research Focus Group and the CIH Scotland Conference session where we presented interim findings suggests that if a central rents policy were introduced other factors could also be important. Such factors might include the condition of the dwelling e.g. meeting the SHQS and EESSH.

We have not examined here how such a policy might be introduced or indeed how rigidly enforced it might be, but we feel it is worth highlighting above some of the concerns that will inevitably need to be considered if a central policy framework were to be developed.

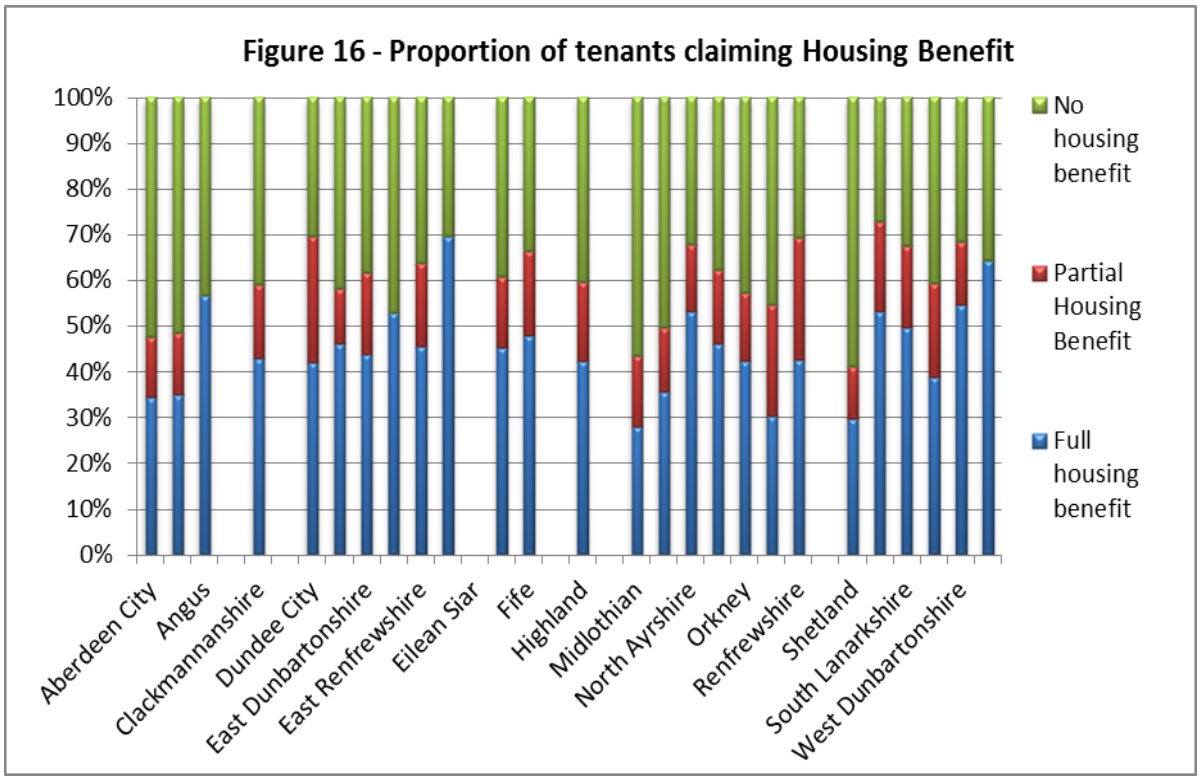
12 Other issues to be addressed

A key concern when looking at rent increases is clearly how *affordable* these will be to existing tenants, the vast majority of whom will be on low incomes. Many will be claiming housing benefit under the new Universal Credit system.

In order to help inform the research, an analysis was carried out of the housing benefit profile of the tenants of all the stock owning Scottish authorities. This was based on data at March 2012 drawn together from the Scottish local authority housing statistical return to the Scottish Government.

The results are included in **Figure 16** below, which shows the proportion of tenants claiming full housing benefit, claiming partial housing benefit and those not claiming benefit. (*Note that a few authorities had not distinguished between full and partial benefit in their returns and had been grouped in the full benefit category).*

The picture shows quite a marked difference across Scottish local authorities. Some authorities such as Shetland, Midlothian and Aberdeen City have between 40% and 45% of tenants who are claiming housing benefit, whilst Edinburgh in particular stands out as having over 80% of tenants claiming housing benefit.



Whilst this can only show a snapshot at a particular point in time, it does demonstrate that there are apparently quite significant geographic differences in the proportion of tenants paid HB across Scotland. Further analysis of the profiling would need to take place to assess the affordability of rent increases, particularly for those who are not on benefit. Income distribution among council tenants and those seeking housing is not well documented, and data is not routinely collected by councils, which is a significant gap in the housing planning process.

However limited evidence suggests that some tenants may have more capacity to pay higher rents than others. Recent research by Arneil Johnston of tenants across four Scottish authorities found that on average 78% could afford social housing rents, 65% could afford a mid-market rent and 47% could afford market sale. Hence, both research figures suggest a potential imbalance between what people can afford and available housing supply (not least of intermediate rent). More work in this area is clearly essential.

Allied to this is the potential extra cost to the public sector purse of paying some of the higher rents through housing benefit. At present we understand that local authorities recover the bulk of housing benefit payments from the UK Government via the Department of Work and Pensions (DWP). The 'Block Grant' paid to the Scottish Government is calculated separately.

Whilst in England there is a cap on the amount of Housing Benefit Subsidy paid by the DWP to local authorities for their own tenants *(known as the 'Limit Rent')* this does not apply in Scotland, where an alternative, less punitive, '*Disproportionate Rent Increase'* rule applies. This rule essentially prevents Scottish authorities from setting higher rents to tenants on Housing Benefit in order to extract extra subsidy from the DWP.

In the last Chancellor's Budget presented on the 19 March 2014 it was announced that the UK Government would be capping the overall amount it pays in certain benefits – including housing benefit paid through the Universal Credit.

Further detail on how exactly this will be implemented is awaited, including whether this will be capped regionally in England and specifically in Scotland, Wales and Northern Ireland.

In practice benefit payments are largely demand led and the way in which this will be controlled, perhaps through a similar system to the *Limit Rent*, has yet to be established.

Clearly the effect of such a cap when implemented could have an effect on the PRS as well as the local authority and RSL sectors.

In our view, the implementation of the new benefit arrangements needs to take account of the wider impacts on the demands for more subsidised housing. This should include in particular the scope to use grant / public land and the ability to take on additional public borrowing to support more new build or acquisition, although clearly this might also be constrained by any wider constraints on public borrowing. In the longer term more social housing funded through higher rents and more borrowing will reduce the cost of the benefit bill – a significant proportion of which is now being paid to tenants on low incomes in the PRS - through less reliance on a private rented sector which, due to higher rents, consumes more housing benefit and often for accommodation which is of significantly lower quality than social rented.

This issue may also have a bearing on some of the economic arguments relating to the Scottish independence referendum. The extent of our research does not unfortunately allow us to examine this in any depth but clearly the costs and benefits of housing are currently a key issue both sides of the border. These costs and benefits are slightly obscured at present by the way in which economic information is assembled and reported at a UK level but we believe would merit further analysis in the coming months.

13 Conclusion

The research which has been carried out during this study has sought to identify the scope of Scottish local authorities to charge higher rents and take on more debt in order to support a programme of new build or acquisition in Scotland.

The demand for more social housing has previously been captured in recent reports by Audit Scotland amongst others. Our research further established that in recent years the PRS has increasingly been relied on to meet the housing needs of those on lower incomes. The cost of this has had to be met through a higher housing benefit bill.

The research that we have carried out suggests that local authority rents in Scotland are lower than in the Scottish RSL sector and across comparable local authority regions in England. The same also applies to the level of borrowing. Our high level analysis indicates that an average increase of £10 per week phased in over 10 years could generate between 24,000 and 40,000 new social dwellings over the period depending on the level of grant support. This would only increase average debt per dwelling to around £12,700 which is approximately the borrowing cap for authorities in the least-indebted region in England (the North West).

Whilst further research on the affordability of this to tenants will need to be carried out, our initial analysis suggests that there are differences across Scotland which would warrant more analysis.

Introducing a new approach to rents would require further discussion between the Scottish Government and the stock holding authorities in order to develop a workable system.

Although current evidence suggests that there is little appetite for bigger rent increases; with a picture of rents increases of only 1% p.a. in real terms between 1999/2000 - 2012/13. This could be down to a number of factors, e.g. political reluctance, acute prudence over increasing borrowing or concerns over affordability. However, while there may be reluctance to increase rents and borrowing there could be considerable savings and payback in the longer term through the provision of much needed new housing supply.

Further analysis of the wider effects would need to be carried out, taking on board the economic impact both on the housing benefit bill and on borrowing levels. In our view this would be a matter worthy of further research, particularly given the new controls being implemented by the UK government on overall benefits. This would help to inform the current debate on the level of independence exercised by local authorities and the Scottish Government and their ability to deliver much needed new social housing.

Appendix 1 – Acknowledgements

Assistance and information for this report was provided from a number of different sources. We would like to offer our thanks to the various organisations and individuals who provided time and information.

Jim Hayton - ALACHO

Kirsty Wells – HouseMark Scotland

Heather Anderson – South Ayrshire Council

Eleanor Currie – South Ayrshire Council

John McIntyre – Renfrewshire Council

Caitlin McCorry – East Lothian Council

Joe Reilly – West Dunbartonshire Council

David McGhee – Falkirk Council

Mike Wood – South Lanarkshire Council

John Kilpatrick – South Lanarkshire Council

Ian McCulloch – North Lanarkshire Council

Gillian Campbell – City of Edinburgh

Lisa Mallon – City of Edinburgh Council

David Walker – City of Edinburgh Council

Murray Sharp – Clackmannanshire Council

HouseMark Scotland's local authority members for sharing their HouseMark benchmarking data on an anonymous basis.

Appendix 2- References

Figure 1 - Profile of Scottish rented sector by landlord from 1990 – 2011

https://www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants - Table 107

Figure 2a - Graph showing time series of number of PRS tenants in Scotland claiming benefit between Nov 2008 and Nov 2013

Users may need to register first with Stat Xplore: https://stat-xplore.dwp.gov.uk/

https://sv.stat-xplore.dwp.gov.uk/views/#view=hbview4&selectedWafers=2420&selectedColumns=63,0

Figure 2b – Graph showing time series of number of social housing tenants in Scotland claiming benefit between November 2008 and November 2013

https://stat-xplore.dwp.gov.uk/ - Users may need to register first

https://sv.stat-xplore.dwp.gov.uk/views/#view=hbview4&selectedWafers=2420&selectedColumns=63,0

Figure 3a - Profile of PRS tenants claiming benefit by amount claimed – comparison between November 2008 and November 2013

https://stat-xplore.dwp.gov.uk/ - Users may need to register first

https://sv.stat-explore.dwp.gov.uk/views/#view=hbview3&selectedWafers=275&selectedColumns=2&selectedRows=0,1,2,3,4,5,6,7,8,9,10

Figure 3b – Profile of Scottish Social rented tenants claiming benefit by amount claimed – comparison between November 2008 and November 2013

https://sv.stat-xplore.dwp.gov.uk/views/#view=hbview3&selectedWafers=275&selectedColumns=1&selectedRows=0,1,2,3,4,5,6,7,8,9,10

Figure 4 - Local Housing Allowances by bed size across BRMAs in Scotland for 2013/14

http://www.scotland.gov.uk/Topics/Built-Environment/Housing/privaterent/tenants/Local-Housing-Allowance/figures/lha-2013-2014

Figure 5 – Housing Statistics for Scotland – RSL new build completions (1996 – 2013)

http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/NewBuildHA

Figure 6a – Comparative average Scottish local authority and housing association rents by local authority district (2012/13)

http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/HRA2008-09

http://www.scottishhousingregulator.gov.uk/publications/performance-tables-%E2%80%93-rents

Figure 6b - Comparative average Scottish Rent with average regional actual and target rents in England (2012/13) and median (with and w/o London)

https://www.gov.uk/government/publications/the-housing-revenue-account-self-financing-determinations--2

https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies Table 702

Figure 7 -Average (open market) property prices across Scotland and English regions (1999)
www.gov.uk/government/statistical-data-sets/live-tables-on-housing-market-and-house-prices-Table 508

Figure 8 - Average (open market) property prices across Scotland and English regions (2013)

www.ons.gov.uk/ons/rel/hpi/house-price-index/february-2014/rft-monthly-and-qtly-february-14.xls-Table 2 Row 176

Figure 9 - Heat map showing median earnings by constituency across England, Scotland and Wales (all employees) (2011). ONS [Office for National Statistics]

Figure 10 - Average HRA debt per dwelling across stock owning local authorities in Scotland (2013)

http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/HRATables

Figure 11 - Comparative average Scottish Local Authority HRA Debt with average HRA debt across English regions (2012/13)

www.gov.uk/government/publications/the-housing-revenue-account-self-financing-determinations--2-tsDebt

Figure 12 - Comparative indices for HRA Management and Maintenance costs against RPI, CPI and Earnings Index from 1999/2000

www.ons.gov.uk/ons/rel/cpi/consumer-price-indices/march-2014/consumer-price-inflation-reference-tables.xls Tables 6a, 6b, 6c AND 35a, 35b, 35c

www.ons.gov.uk/ons/rel/lms/labour-market-statistics/april-2014/table-earn01.xls

AWE Total Pay Index

www.scotland.gov.uk/Topics/Statistics/Browse/Housing-regeneration/HSfS/HRATables-tsAveSup&Man

www.scotland.gov.uk/Topics/Statistics/Browse/Housing-regeneration/HSfS/HRATables-tsAveRep&Main

Figure 13 - Percentage increase in Management & Maintenance costs for all stock holding Scottish Local Authorities

www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/HRATables-tsAveMan&Main

Figure 14 - Anonymised Data for HouseMark Members showing Housing Management Direct and Overhead Costs 2012/1. Source HouseMark Core benchmarking www.housemark.co.uk

Figure 15 - Anonymised Data for HouseMark Members showing Proportion of Operating Costs across main cost headings 2012/13. Source HouseMark Core benchmarking – Source HouseMark Core benchmarking www.housemark.co.uk

Figure 16 - Proportion of local authority tenants on full, partial and no benefit across Scottish local authorities

www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/HRATables-tsHousBen

Appendix 3- High level analysis of rent income and new build programme

Scotland													
High Level Analysis of Rent Income and Newbuild Programme													
Existing LA Rent	£	60.00											
Existing HRA Debt in Scotland (£m)	£	2,991.9											
Existing LA Stock		315,000											
Debt per Unit	£	9,498											
Weeks in year (net of 4% bad debts / voids)		50	1	2	3	4	5	6	7	8	9	10	
Average Rent increases by	£	10.00											
Additional Income per annum (£m) phasing	£	157.5	£ 15.8	£ 31.5	£ 47.3	£ 63.0	£ 78.8	£ 94.5	£ 110.3	£ 126.0	£ 141.8	£ 157.5	

Summary of Options												
										1		2
Number of new units per annum										2,400		4,000
Build Cost per dwelling (£)									£	90,000	£	90,000
Total cost per annum (£m)									£	216.0	£	360.0
Scottish Govt Grant per dwelling (£)									£	-	£	30,000
Scottish Govt Grant total (£m)									£	-	£	120.0
Programme over years =		10						No of Units		24,000		40,000

Option	1											
Year		1	2	3	4	5	6	7	8	9	10	
Rent income from new units per annum (£m)		£ 8.4	£ 16.8	£ 25.2	£ 33.6	£ 42.0	£ 50.4	£ 58.8	£ 67.2	£ 75.6	£ 84.0	
Total cost (£m)		£ 216.0	£ 216.0	£ 216.0	£ 216.0	£ 216.0	£ 216.0	£ 216.0	£ 216.0	£ 216.0	£ 216.0	
Additional Rent Income from existing dwellings		£ 15.8	£ 31.5	£ 47.3	£ 63.0	£ 78.8	£ 94.5	£ 110.3	£ 126.0	£ 141.8	£ 157.5	
Scottish Govt Grant (£m)		£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	£ -	
Borrowing requirement (£m)		£ 200.3	£ 184.5	£ 168.8	£ 153.0	£ 137.3	£ 121.5	£ 105.8	£ 90.0	£ 74.3	£ 58.5	
Implied Internal Rate of Return *		4.19%	4.37%	4.55%	4.76%	4.98%	5.22%	5.49%	5.79%	6.12%	6.49%	
Year		1	2	3	4	5	6	7	8	9	10	
Stock	315,000	317,400	319,800	322,200	324,600	327,000	329,400	331,800	334,200	336,600	339,000	
Debt (£m)	£ 2,991.9	£ 3,192.2	£ 3,376.7	£ 3,545.4	£ 3,698.4	£ 3,835.7	£ 3,957.2	£ 4,062.9	£ 4,152.9	£ 4,227.2	£ 4,285.7	
Average Debt Per Unit (£)	£ 9,498	£ 10,057	£ 10,559	£ 11,004	£ 11,394	£ 11,730	£ 12,013	£ 12,245	£ 12,426	£ 12,558	£ 12,642	
Debt index per unit	100%	106%	111%	116%	120%	123%	126%	129%	131%	132%	133%	

Option	2											
Year		1	2	3	4	5	6	7	8	9	10	
Rent income from new units per annum (£m)		£ 14.0	£ 28.0	£ 42.0	£ 56.0	£ 70.0	£ 84.0	£ 98.0	£ 112.0	£ 126.0	£ 140.0	
Total cost (£m)		£ 360.0	£ 360.0	£ 360.0	£ 360.0	£ 360.0	£ 360.0	£ 360.0	£ 360.0	£ 360.0	£ 360.0	
Additional Rent Income from existing dwellings		£ 15.8	£ 31.5	£ 47.3	£ 63.0	£ 78.8	£ 94.5	£ 110.3	£ 126.0	£ 141.8	£ 157.5	
Scottish Govt Grant (£m)		£ 120.0	£ 120.0	£ 120.0	£ 120.0	£ 120.0	£ 120.0	£ 120.0	£ 120.0	£ 120.0	£ 120.0	
Borrowing requirement (£m)		£ 224.3	£ 208.5	£ 192.8	£ 177.0	£ 161.3	£ 145.5	£ 129.8	£ 114.0	£ 98.3	£ 82.5	
Implied Internal Rate of Return *		6.24%	6.47%	6.71%	6.98%	7.26%	7.57%	7.91%	8.28%	8.68%	9.13%	
Year		1	2	3	4	5	6	7	8	9	10	
Stock	315,000	319,000	323,000	327,000	331,000	335,000	339,000	343,000	347,000	351,000	355,000	
Debt (£m)	£ 2,991.9	£ 3,216.2	£ 3,424.7	£ 3,617.4	£ 3,794.4	£ 3,955.7	£ 4,101.2	£ 4,230.9	£ 4,344.9	£ 4,443.2	£ 4,525.7	
Average Debt Per Unit (£)	£ 9,498	£ 10,082	£ 10,603	£ 11,062	£ 11,463	£ 11,808	£ 12,098	£ 12,335	£ 12,521	£ 12,659	£ 12,748	
Debt index per unit	100%	106%	112%	116%	121%	124%	127%	130%	132%	133%	134%	

*** This is based on the rent income generated from the new dwellings and is used as a guide to assess the maximum affordable rate of interest before authorities need to use reserves. Assumes mgmt, mtce & future major repairs can be accommodated from the existing operating base and the surplus from the Rate of Return. All costs and income stated at current prices.**