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Adrian Waite (Independent Consultancy Services) Limited

Briefing Paper

Scottish Local Authority Housing Income and Expenditure

February 2014

Introduction

The Scottish Government published its latest 'Local Authority Housing Income and Expenditure' statistics on 15th November 2013. This briefing paper summarises and comments on the statistics.

The summary provides the latest information on, and key trends in, Local Authority housing revenue account income and expenditure in Scotland. It covers the period 1997/98 up to Local Authorities' budgeted estimates for 2013/14. The 2013/14 figures are estimates only and they will be revised in next year's bulletin. The obligation on Scottish local authorities to account for expenditure and income on council housing through a ring-fenced housing revenue account is derived from the Housing (Scotland) Act 1987.

Over the period of this report, six councils transferred their housing stock to the housing association sector, the largest of these being Glasgow from 2003/04. These transfers affect comparisons over time.

A small number of data are included which detail capital expenditure where this is relevant to Local Authority housing. These data are sourced from councils' Capital Returns to the Scottish Government.

Housing Stock

There were an estimated 315,200 council houses in Scotland in September 2013. This is a small reduction of around 600 since September 2012. The number of council houses has fallen by around 50% from September 1997 to September 2012. About 150,000 of the 300,000 reduction was due to sales to sitting tenants, around 100,000 was due to the transfer by six councils of their total housing stock to housing associations, about 50,000 was due to demolition of unsuitable stock

The decrease in council housing stock has slowed in recent years, particularly from 2008. This is mainly because of reductions in council house sales to sitting tenants and additions to council housing through new council house building. Fourteen councils are expecting their council housing stock to increase in the year to September 2013.

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Revenue Income and Expenditure

In 2012/13, rents for council houses accounted for over 93% of revenue income on councils' housing revenue accounts. Managing and maintaining the houses accounted for 66% of the expenditure, while loan charges (the cost of servicing housing debt) accounted for about 29%. Other sources of income for Local Authorities include rents on hostels and other properties such as garages or lock-ups and also interest, grants from central government, and other charges to tenants for special services. Money is also spent on things such as upkeep of hostels (in some council areas) and other properties, writing-off rent arrears and paying council tax on void properties.

In any given year, income on councils' housing revenue accounts generally exceeds expenditure and council housing makes a financial surplus at Scottish level. The majority of this surplus is invested back into the housing stock as part of the Capital Programme (Capital Funded from Current Revenue (CFCR)). In most years balances carried forward at the end of the year broadly match balances inherited at the beginning of the year.

During 2013/14 income is expected to be £1,069million across Scotland and expenditure to be £911million. The difference between income received during the financial year and that spent on direct costs of running the housing programme gives the housing revenue account surplus or deficit for the year. In 2013/14, only Falkirk council expects to have a deficit (of £1.2million). The majority of councils expect to have a surplus, while the remainder expect to break even. The projected surplus for Scotland is expected to be £158million in 2013/14.

Rents

There were an estimated 315,200 council houses in Scotland on 30th September 2013, a fall of a little under 600 in the year from September 2012.

Average council rent being paid in 2013/14 is £61.20 per week, an increase of £2.18 per week since 2012/13. Average rent ranges from £46.93 per week in Moray to £84.25 per week in Edinburgh.

Council rents have increased by 1.0% per year on average in the sixteen year period from 1997-98 to 2013-14 in real terms – i.e. above the Retail Prices Index.

The trend for council house rents to increase in real terms therefore continues as does the significant variation in rent between different authorities. The main reason for the real increases in rents during recent years has been the need to fund increased borrowing to fund the Scottish Social Housing Quality standard and new build council houses. Variations in rents between different local authorities reflect differences in costs, especially capital financing costs that reflect different levels of borrowing.

During 2013/14 the 26 Local Authorities with council houses are budgeting to raise a total of £993million in income from standard rents on their normal lettings stock and a further £27million in rent from other housing revenue account properties such as shops and garages. The average council house rent of £61.20 per week in 2013/14 is an increase of £2.18 (3.7%) over the average of £59.02 per week in 2012/13. This continues a trend of rent increases exceeding inflation that is required to enable councils to meet increased capital financing costs caused by increased borrowing to finance their capital programmes. In the sixteen years between 1997-98 and 2013-14, rents increased by around 14% in real terms over and above general inflation levels.

Within the overall Scottish average, there is a wide variation between councils in average rents, from £46.93 per week in 2013/14 in Moray to £84.25 per week in Edinburgh. These variations mainly reflect variations in capital financing costs caused by variations in the levels of debt that are at different levels in different authorities principally due to decisions that have been taken over a long time period about levels of capital expenditure and financing.

It should be noted that these figures may be expected to be lower than rents reported in other publications as, rather than taking a weighted average of set rents charged to tenants, they instead reflect the amount earned by the council in respect of each property owned (calculated by dividing the Council's Standard Rental Income on Houses by the total letting stock at September). This method takes into account the proportion of housing that spends some time unlet and those for which rent is not successfully collected. Housing Benefit accounts for a high proportion of council rent income. In 2013/14, rent rebates for council house tenants are expected to be £583million, representing 58% of total income from standard rents. Rent rebates as a proportion of standard rents varies from 34% in Midlothian to 73% in Dundee.

Arrears and Voids

Councils expect to lose £17.5million through voids, being 1.7% of standard rental income. This represents good performance as there has been no increase in voids and the level remains less than half the 3.7% that was recorded in 2002/03.

However, there was an increase in arrears to £40.3million in March 2013. This is an increase of £4.1million since the previous year and represents 4.0% of standard rental income compared with 3.8% the previous year. This level of arrears is a concern and reflects the effect of the recession. Welfare reforms introduced by the United Kingdom government are expected to increase this figure further.

From 2008/09 the statistics collected from Local Authorities have separately identified rents lost from unlet dwellings from rents lost from other properties such as hostels or garages held on their housing revenue accounts. For Scotland as a whole rents lost because of unlet dwellings represent around 1.4% of total rent income on these dwellings.

The proportion of rent on dwellings expected to be lost through voids in 2012/13 is highest in West Dunbartonshire (4.3%), Perth & Kinross (3.1%) and East Ayrshire (2.8%). Levels of rent lost may be strongly influenced by factors such as different levels of demand for properties, different void management practices and targets, decanting for improvement or investment programmes or the inclusion of properties awaiting demolition. However, levels of voids remain high in many authorities.

From 2008/09 the statistics collected from Local Authorities have separately identified rent arrears on dwellings from rent arrears in other properties held on councils' housing revenue accounts. For Scotland as a whole, rent arrears on dwellings at 31st March 2013 totalled £38.3milion that was 4.0% of 2012/13 rent income from these dwellings. Rent arrears on dwellings varied from 1.7% of rent income from dwellings in North Lanarkshire to 9.2% in East Renfrewshire, 8.5% in East Lothian and 8.4% in Midlothian. Levels of arrears are considered to be high and are increasing and there are significant differences between authorities that may not be entirely explainable through differing socio-economic factors.

At 31st March 2013 there were around 91,469 council tenants in arrears, an increase of around 5,980 since 31 March 2012. The number of former tenants in arrears also increased by 3,300 to reach 33,135 at 31st March 2013.

During 2012/13 councils wrote-off £7.9million of outstanding rent as unrecoverable. This represents 0.8% of standard rental income. Write-offs for 2012/13 vary from 0.15% in Aberdeen City to 2.3% of net rent income in South Ayrshire. Amounts of arrears written-off by councils can be influenced by councils' accounting policies and judgements on whether arrears are recoverable.

In November 2013 a spokesman for the Confederation of Scottish Local Authorities told 'The Herald' that:

"Councils have an excellent track record in collecting rent arrears. Councils pursue rent arrears vigorously but inevitably some tenants will experience difficulties in paying their rent, especially during difficult economic times. In these circumstances councils are working successfully with tenants to find ways to help them spread the cost."

Management and Maintenance

Average expenditure on management and maintenance is expected to be £1,862 per house, an increase of £87 per house since 2012/13. Within this total:-

- Supervision and Management costs are expected to be £758 per house in 2013/14, an increase of £59 per house since 2012/13 and have risen faster than rents over the period since 1997/98;
- Repairs and maintenance costs are expected to be £1,104 per house in 2013/14, which is £26 per house higher than in 2012/13. These costs have risen in line with rents in the period since 1997-98.

The trend for supervision and management costs to increase faster than repairs and maintenance costs continues.

In 2013/14, the 26 Local Authorities with council houses estimate spending £600million on the management, repairs and maintenance of their council houses. This expenditure represents £1,862 per house, an increase of £87 (4.9%) per house since 2012/13. This continues a trend for expenditure on management and maintenance to increase in real terms. Planned spending ranges from £1,613 per house in West Dunbartonshire to £2,402 in Edinburgh.

Within overall management and maintenance expenditure, average annual supervision and management costs are estimated to be £758 per house in 2013/14, an increase of £59 (8.4%) per house since 2012/13. During the sixteen years between 1997/98 and 2013/14, expenditure per house on supervision and management increased by 66% in real terms. Supervision and management costs in 2013/14 are expected to range from £384 per house in Shetland to £1,318 per house in Perth & Kinross.

Average annual expenditure on repairs and maintenance is estimated to be £1,104 per house in 2013/14, which is £26 (2.4%) per house higher than in 2012-13. In the seventeen years from 1997/98 to 2013/14, expenditure per house on repairs and maintenance increased by 15% in real terms. Estimated spending on repairs and maintenance in 2013/14 ranges from £687 per house in Perth & Kinross to £1,534 per house in Orkney.

The trend for real increases in expenditure and the variation in expenditure between authorities has led some commentators to question whether we can be sure that value for money is being achieved in all cases.

The Scottish Government points out that differing accounting practices and differing service provision amongst local authorities mean that the figures for individual authorities may not always be directly comparable and the estimates for management & maintenance expenditure should be treated with caution. In the case of management costs, as local authorities differ in the extent to which central administration and related service costs are included, individual figures may not always be directly comparable.

This apparent inconsistency in the financial information makes it difficult for local authorities, tenants and the Scottish Government to consider whether value for money is being achieved. It may therefore be appropriate for consideration to be given to ensuring greater consistency either in the preparation of accounts or in the preparation of financial information so that more meaningful comparisons can be made.

Housing Debt

The recent trend for increases in capital financing costs continues with local authorities budgeting to spend £267million (including interest, repayments of principal and debt management costs) in 2013/14. This is an increase of £43.7million compared with 2012/13.

The increased capital financing costs are largely caused by increased debt. Total council housing debt is expected to increase by £273million during 2013/14 to reach £3,073million by March 2014. The additional borrowing is to fund the Scottish Housing Quality Standard and the construction of new homes.

Shetland Islands Council has the highest housing revenue account debt in relation to its housing stock in Scotland. In the past it has received Housing Support Grant from the Scottish Government to assist with the capital financing costs. However, in December 2013 it was announced that the United Kingdom Treasury is to hand over £10million towards paying off Shetland Islands Council's historic housing debt of £40million. The announcement was made as part of the Autumn Statement.

The Council has been in discussions with the United Kingdom and Scottish governments in an attempt to address the debt which would have allowed the council to maintain its rents at an affordable level. The debt was built up during the construction boom of the 1970s when the authority paid for new houses for workers building the Sullom Voe oil terminal.

Final arrangements that should unlock a total package from Westminster and Holyrood worth £20 million to provide debt relief and support for future house building projects were agreed in February 2014. The Council has already agreed to write off £10million and the total package will bring the debt liability on the Council’s Housing Revenue Account down to a manageable level of around £16million. The remainder of the debt will be refinanced externally over an extended period of time, allowing the council to maintain affordable rent levels into the future.

Shetland Islands Council said the news was 'extremely welcome' and that it is 'very heartening to see our contribution to the national economy recognised at the highest level'. Cecil Smith, Chair, Social Services Committee, told the 'Scottish Housing News that:

"I would like to pay tribute to the work that has been done by our officers, and my fellow Council members, to help resolve this situation. I'd also like to thank our MP Alastair Carmichael, who has worked so hard on our behalf."

Council leader Gary Robinson said:

"This is a tremendous outcome. Our councillors and officers have put a great deal of energy and effort into reaching this point. The Shetland Tenants Forum was also closely involved, and I'm extremely happy that this means we will be able to maintain affordable rents for existing tenants. It also opens the way for much-needed investment in affordable housing."

Convener Malcolm Bell added:

"I'm very pleased that this process has led to such a positive outcome. I'd like to pay tribute to the UK and Scottish governments in bringing this matter to such a satisfactory resolution - and particularly the role played by our MP, Alistair Carmichael."

Capital Expenditure

Local Authorities' total capital expenditure on housing, financed from all sources (including new borrowing, useable receipts and financed from current expenditure), is forecast to total £682million in 2013/14, an increase of £74.7million since 2012/13. £470.2million will be spent on improvements to existing homes and £174.6million will be spent on constructing new homes and conversions.

Capital expenditure can vary substantially from year-to-year and also between areas. Fife Council plans to spend £56million and Edinburgh £51million on capital expenditure in 2013/14, whereas Shetland has budgeted to spend £3.2million and East Renfrewshire has budgeted to spend £3.3million. Part of the explanation for higher capital expenditure is the fact that councils are building new houses, adding considerably to capital spend in a given year. In 2013/14 councils with the greatest expenditure on new dwellings and conversion are Falkirk (£18.5million), East Lothian (£15.0million), Highland (£14.8million), East Ayrshire (£14.6million) and Edinburgh (£13.0million).

At the same time, capital receipts are declining. Estimated receipts in 2013/14 are £39.8million compared with £46.9million in 2012/13. Prior to the recession capital receipts were much higher at £227.2million in 2007/08 and £135.7million in 2008/09. Restrictions on right to buy sales have also reduced the level of capital receipts. With fewer capital receipts councils have had to borrow more to sustain their capital programmes.

Capital receipts come mainly sales of council houses under Right-to-Buy and so have dropped steeply in the last few years as numbers of sales have fallen. They can also come from sales of housing land following demolition, or voluntary sales to private individuals and businesses and other parts of the wider public sector and transfers of small groups of properties to housing associations or transfers of housing revenue account assets to other parts of the local authority. The reduction in receipts seen recently, and primarily linked to the downturn in the housing market, is another reason which is leading to the increase in housing revenue account debt.

Movements in Housing Revenue Account Reserves

Overall in 2013/14 Scottish Local Authorities as a group expect the surplus on their housing revenue accounts to total £157.8million. In the same period councils expect housing revenue account reserves to fall from £96.1million on 1st April 2013 to £88.1million on 31st March 2014, a decrease of £8.0m.

Councils as a group have a projected £253.9million available to use in 2013/14. This comprises an opening balance of £96.1million plus a surplus for year of £157.8million. Councils have budgeted to use this as follows:-

- Most of this money - £165.1million in 2013/14 - is budgeted to be used to fund capital expenditure on the council housing stock. This expenditure, titled 'Capital from Current Revenue (CFCR)' funds modernisation of existing houses or new housing developments.
- There is variation among councils, with Fife budgeting for £30.9million of CFCR but seven councils, with small or no surpluses or a small deficit for the year, allocating no money to this end in 2013/14.
- Smaller sums are transferred to the General Fund, repairs and renewals fund or other reserve funds in some authorities, while money may also be transferred from reserve funds into the housing revenue account. Two councils, North Lanarkshire (£4.9million) and Clackmannanshire (£0.5million) have budgeted to transfer a small part of their surplus to reserve funds in 2013/14. One council – East Lothian – has budgeted to transfer £1.0million to their General Fund. Four councils Aberdeenshire (£1.0million), East Ayrshire (£0.9million), North Lanarkshire (£0.7million) and Shetland (£2.5million) have budgeted to transfer money from reserve funds into the housing revenue account in 2013/14. One council, Moray has budgeted to transfer money from the general fund to their HRA (£0.7million) in 2013/14.

Conclusions

Budgets for 2013/14 confirm trends that have been evident during recent years in Scottish local authority housing finance. Capital investment continues to increase and is being funded increasingly through borrowing. Costs are increasing because increased borrowing leads to increased capital financing costs and also because of real increases in management and maintenance costs. This is resulting in real increases in rents.

Rents and levels of expenditure vary significantly between different authorities. This is partly due to historic decisions about capital expenditure and financing that have led to different levels of debt but also results from variations in expenditure. This has led some commentators to question whether value for money can be demonstrated to be achieved by all local authorities. However, differences in accounting practices make meaningful comparisons difficult.

Adrian Waite
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All You Want To Know about Scottish Social Housing Finance 2014

May 2014

Social housing is becoming increasingly important in Scotland at a time of rising demand for affordable housing and constrained resources. Scottish housing associations and local authorities face significant challenges. The economic background is one of recession. Terms on which loans are available are less favourable than in the past. The Scottish Government has reduced the Affordable Housing Programme, reformed the Scottish Housing Regulator and is ending the 'Right to Buy'. The United Kingdom government is 'reforming' welfare in a way that has significant implications for Scottish tenants and landlords.

This seminar and workshop is designed for people who are not experts in housing finance, but who need to understand the basics and achieve an overview of what is going on. Do you think that a working knowledge of social housing finance in Scotland would put you or your colleagues in a position of advantage at a time of change such as this?

Whether you are in a Housing Association, Local Authority or another organisation with an interest in Scottish housing; whether you are a Housing Manager, Tenant Representative, Board Member, Councillor or even a member of the Housing Finance Team, you will need some knowledge of social housing finance. You could benefit from our seminar and workshop at which you will learn:

'All You Want To Know about Scottish Social Housing Finance 2014'

The session will answer the following questions:

- What financial environment are Scottish local authorities and housing associations working in?
- How do the finances of Scottish social Housing work?
- How is the development of new social housing funded?
- What are the financial opportunities available to local authorities and housing associations?

  Delegates will gain an overview of Scottish social housing finance and will keep up to date with developments. We believe in quality rather than quality so numbers at each session are limited to twenty to ensure full opportunities for participation. The session includes a participatory case study and is accompanied by a very useful book that is designed for reference after the session entitled: **'All You Want to Know about Scottish Social Housing Finance 2014'**

Venue and Date:
Falkirk: Best Western Park Hotel – 13th May 2014

The seminar is also available in-house.

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About 'AWICS'

'AWICS' is a management consultancy and training company. We specialise in providing support in finance and management to clients in local government and housing in England, Scotland and Wales. We are well known for our ability to analyse and explain complex financial and management issues clearly.

Our mission statement is 'Independence, Integrity, Value'. We therefore provide support to clients from an independent standpoint that is designed to help the client to achieve their objectives. We are passionate about working with the utmost integrity. We believe that we offer the best value for money that is available today!

For more information about us and our services please visit our website at www.awics.co.uk or contact Adrian Waite at Adrian.waite@awics.co.uk

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