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Briefing Paper

Scottish Social Housing Finance

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Introduction

This briefing paper considers the financial position of Scottish social housing – including local authority housing and housing associations with particular reference to the latest published accounts that cover 2014/15.

Scottish Government: Housing Policy

Social housing in Scotland is housing owned and managed by public authorities (predominately councils) and housing associations (registered social landlords).

The Housing (Scotland) Act 2014 will end the right to buy in Scotland, give social landlords more flexibility in the allocation and management of their housing stock and introduce a first-tier tribunal to deal with disputes in the private rented sector. It will also give local authorities new discretionary powers to tackle disrepair in the private rented sector, introduce a new regulatory framework for letting agents in Scotland, modernise site licensing for mobile homes sites with permanent residents, place new requirements on private sector landlords to fit carbon monoxide detectors in properties with carbon-emitting appliances and to carry out electrical safety checks every five years.

Provisions ending the 'right to buy' come into effect on 1st August 2016. A registered social landlord must now consult its tenants before the landlord becomes a subsidiary of another body.

The Scottish Social Housing Charter sets sixteen standards and outcomes that all social landlords should be achieving for their tenants and other customers.

The Energy Efficiency Standard for Social Housing aims to improve the energy efficiency of social housing. It will help to reduce energy consumption, fuel poverty and the emission of greenhouse gases. It will make a significant contribution to reducing carbon emissions by 42% by 2020 and 80% by 2050 in line with the requirements set out in the Climate Change (Scotland) Act 2009.

The Scottish Housing Quality Standard is the Scottish Government's principal measure of housing quality in Scotland. It is a set of five broad housing criteria that must all be met if the property is to pass the standard. These criteria comprise of 55 elements and nine sub-elements against which properties need to be measured. The purpose of introducing a minimum housing standard in Scotland is essentially to provide a 'floor' below which a property should ideally not fall. In the case of the social housing sector (local authority landlords and registered social landlords), the Scottish Government set a policy target for those landlords to bring their stock up to every element of the standard (where applicable) by April 2015.

The aim of the Council House Building Programme, introduced in 2009, was to incentivise local authorities to build new homes – the first such central government support to councils in a generation.

From 2012/13 onwards, funding for council homes has been brought into one budget for both council and registered social landlord funding streams. This enables each council to exercise its strategic role more flexibly, and to put forward to the Scottish Government its proposals for social and affordable housing developments, based on their local housing strategy.

Under the Affordable Housing Supply Programme for 2011/12 to 2015/16 the Scottish Government's planned spending on affordable housing will be more than £1.7billion. Over £1billion has been allocated from the Scottish Government housing supply budget in the form of resource planning assumptions to council areas across Scotland for the four years to March 2016, including the Transfer of Management of Development Funding budgets for Glasgow and Edinburgh.

Under the Affordable Housing Supply Programme for 2016/17 to 2020/21 the Scottish Government has announced that it will accelerate the supply of affordable housing in Scotland to deliver 50,000 affordable homes, of which 70% will be for social rent, and that is backed up with investment of at least £3billion.

In 2016/17 the Scottish Government plans to invest over £572million in the Affordable Housing Supply Programme. Scotland's local authorities have been allocated a share of over £406million in grant subsidy to deliver more affordable homes for 2016/17, over £100million more than the allocation in 2015/16.

The remaining £166million will be managed centrally, with £80million already announced to help up 2,000 first time buyers under the Open Market Shared Equity Scheme. The rest will go to other affordable housing projects, including those that promote innovation, homes built to a greener standard and for the Home Owners' Support Fund.

The Scottish Government considers that securing optimal outcomes from the programme requires long-term planning. To permit the necessary advanced planning, council areas have been advised of their minimum resource planning assumptions for the three years to March 2020. Scottish Government Housing Supply and Innovation Division area teams agree these programmes with the councils to ensure that the overall balance of the programme, the respective subsidy levels for council and registered social landlord projects, the mix of developers in each area, and other matters, are in line with the Scottish Government's national strategies for housing supply. This approach has provided a stronger strategic role for council areas.

In addition to knowing their planning assumptions for 2016/17, the Scottish Government considers that councils also need as much advance notice as possible of their full Resource Planning Assumptions for 2017/18 and beyond. Therefore they are now committed to a new offer of five year resource planning assumptions for all 32 councils following the 2016 Spending review.

Local Authority Housing Revenue Accounts

The Scottish Government published the latest edition of the Housing Revenue Account Statistics in November 2015. This bulletin presents statistics on Local Authority housing income and expenditure in Scotland from their Housing Revenue Accounts. It covers the period 1997/98 up to budgeted estimates for 2015/16. Actual values for 2014/15 are also shown. Topics include:

- Council housing stock and rents
- Management and maintenance of council stock
- Council stock void losses and tenant rent arrears
- Council housing debt
- Capital expenditure by councils

Key points that are identified include:

- Balance of housing revenue account income and expenditure:
  - Total housing revenue account income (£1.1billion) is forecast to exceed total housing revenue account expenditure (£900million) in 2014/15 (a surplus of £205million). 2013/14 was also in surplus.
- Council housing stock and rents:
  - Councils had an estimated 314,400 houses in Scotland in 2015, a decrease of around 1,150 since 2014.
  - Average council rent being paid into housing revenue accounts is expected to be £66 per week in 2015-16. Average rent is expected to range from £50 per week in Moray to £90 per week in the City of Edinburgh.
  - Council rents have increased by around 38% in the period from 1997/98 to 2014/15 in real terms.
- Management and maintenance of stock
  - Average expenditure on management and maintenance is expected to be £1,880 per house in 2014/15 that is expected to increase to £1,930 in 2015/16. Within this total:-
    - Supervision and management costs were £730 per house in 2014/15 and are expected to increase to £780 in 2015/16 They have risen faster than rents over the period since 1997-98.
    - Repairs and maintenance costs are expected to be £1,145 per house in 2014/15 that is expected to increase to £1,150 per house in 2015/16. These costs have risen in line with rents in the period since 1997/98.

- Void losses and rent arrears
  - Councils expect to lose £20million due to voids in all properties on their housing revenue accounts in 2015/16. This represents 1.9% of the Standard Rental Income on these properties and is at about the same level as the three previous years, well below the peak of 3.7% in 2002/03.
  - At 31st March 2015, rent arrears on all properties on councils' housing revenue accounts stood at £55million, representing 5.5% of the Standard Rental Income on these properties. This is an increase of £5million since 31st March 2014.
- Housing Debt
  - Local Authorities are budgeting to spend £280million on loan charges (including interest, capital repayment and loan fund expenses) in 2015/16, an increase of £30million since 2014/15. Total council housing debt increased by £350million in the year to March 2015 to reach £3.6billion.
- Capital Expenditure
  - Local Authorities' housing capital expenditure was £665million in 2014/15, a decrease of £2million since 2013/14.
  - Of the £665million capital expenditure in 2014/15, £430million was spent on improvements to existing dwellings and £195million was spent on new construction and conversion.

In 2014/15 the 26 Local Authorities with their own housing stock raised a total of just over £1billion in income (net of void losses) from standard rents on their houses and a further £24million in rent from other housing revenue account properties such as garages.

The average council house rent was £64.01 per week in 2014/15 and was expected to increase by £1.94 in 2015/16. Within the overall Scottish average, there is a wide variation between councils in average rents, from £49.87 per week in Moray (2014/15) to £90.68 per week in the City of Edinburgh. In the years between 1997/98 and 2014/15 rents increased by around 38% in real terms.

These figures are 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 which spends some time un-let and those for which rent is not successfully collected.

The considerable variation in rents between authorities reflects historic circumstances and decisions in different local authorities – especially regarding historic levels of borrowing as well as policies on rents. As a generalisation, authorities with the higher rents also tend to have higher levels of debt. Some commentators perceive this to be a problem as the resultant rents do not reflect differences in property values, incomes or the standard of dwellings in the different local authorities.

The real increases in rents, that have been apparent for some years, have been driven mainly by the need to generate resources to support 'prudential borrowing' that has been used to fund the investment required to achieve the Scottish Housing Quality Standard. These rent increases have also caused some concern, partly because of the potential implications for affordability and partly because of their implications for the housing benefit budget that is in the process pf being transferred from the Department for Work & Pensions to the Scottish Government.

Housing Benefit accounts for a high proportion of council rent income. In 2015/16, rent rebate subsidy for council house tenants is expected to be around £595million, representing 55% of total income from standard rents. In 2014/15, rent rebate subsidy as a proportion of standard rents varied from 29% in the Shetland Islands to 72% in Dundee City.

In 2014/15, the 26 Local Authorities with council houses spent £1,880 per house that is expected to increase to £1,930 in 2015/16.

Planned spending for 2015/16 ranges from £1,685 per house in Midlothian to £2,450 in the City of Edinburgh. 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 and maintenance expenditure should be treated with caution. However, some commentators have asked whether this provides evidence of differing levels of value for money in different authorities and suggest that despite the general assertion being made that comparisons should not be made between ‘apples and pears’ no convincing explanation of the differences has yet to be offered.

Within overall management & maintenance expenditure, average annual supervision and management costs were £730 per house in 2014/15, and are expected to rise to £780 per house in 2015/16. Between 1997/98 and 2014/15, expenditure per house on supervision and management increased by 81% in real terms over and above general inflation levels. Some commentators have questioned whether this increase in expenditure represents value for money.

Supervision and management costs in 2015/16 are expected to range from £560 per house in North Lanarkshire to £1,395 per house in Perth & Kinross. The Scottish Government maintains that 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. However, if I were responsible for housing management in an authority with relatively high supervision and management costs I would like to understand why my costs were relatively high.

Average annual expenditure on repairs and maintenance was £1,145 in 2014/15, and is expected to rise to £1,150 in 2015/16. Between 1997-98 and 2014/15, expenditure per house on repairs and maintenance increased by 35% in real terms over and above general inflation levels. Estimated spending on repairs and maintenance in 2015/16 ranges from £640 per house in the Shetland Islands to £2,460 per house in the Orkney Islands. Again, it would be interesting to understand the reasons for these variations and whether they reflect differences in the value for money that is achieved.

Loan charges mainly cover the repayment of principal and interest on outstanding debt on council houses. Local Authorities are budgeting to spend £280million on loan charges in 2015/16, an increase of £30million on 2014/15. Loan charges represent around 28% of all local authority housing expenditure (excluding capital spend) in 2014/15. Since the introduction of prudential borrowing as a way of funding the Scottish Housing Quality Standard in 2004 there has been an increase in borrowing and therefore an increase in loan charges. As noted above, variations in loan charges are a major contributory factor to variations in rents.

Councils project that they will lose £20million due to un-let properties held on their housing revenue accounts in 2015/16. This represents 1.7% of Standard Rental Income and is at about the same level as the two previous years, well below the peak of 3.7% in 2002/03. From 2008/09 the statistics collected from local authorities have separately identified rents lost from un-let 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 un-let dwellings represent around 1.9% of total rent income on these dwellings in 2014/15.

The proportion of rent on dwellings expected to be lost through voids in 2014/15 was highest in West Dunbartonshire (4.1%) and lowest in North Ayrshire (0.5%). The Scottish Government considers that 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.

Total rent arrears on all properties on housing revenue accounts at 31st March 2015 were estimated at £55million, an increase of almost £5million since 31st March 2014. Nationally, rent arrears at 31st March 2015 represent 5.5% of Standard Rental Income on all properties on the housing revenue account compared with 5.0% as at 31st March 2014. 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 as at 31st March 2015 totalled £53million that was 5.5% of rent income from these dwellings. Rent arrears on dwellings varied from 11% of rent income from dwellings in Midlothian to 2.5% in the Moray. As at 31st March 2015 there were around 84,800 council tenants in arrears, a decrease of 6,670 tenants or 7% compared to 31st March 2014. The number of former tenants in arrears decreased to 32,125 as at 31st March 2015 from 33,970 in the previous year, a decrease of 5% or 1,845.

The increase in total arrears at the same time as the number of tenants in arrears has reduced means that the level of arrears for the individual tenants who are in arrears has increased significantly. This may be connected to the changes to the welfare system being introduced by the United Kingdom government.

In their 2014/15 budgets, councils wrote-off £7.3million of outstanding rent as unrecoverable. This represents 0.7% of Standard Rental Income. Write-offs for 2014/15 varied from 0.0% in East Renfrewshire to 1.4% in Renfrewshire. Amounts of arrears written-off by councils can be influenced by councils' accounting policies and judgements on whether arrears are recoverable.

In 2014/15 Scottish Local Authorities had a surplus on their housing revenue accounts (i.e. income minus expenditure) to total £205million. Most or all of this is invested back into the housing revenue account stock in terms of capital expenditure including new build and repairs. In the same period councils' housing revenue account reserves increased from £85million in 2014 to £95million in 2015, an increase of £10million. Some, but not all, local authorities retain a small reserve fund to cover any costs from unforeseen issues arising.

In 2014/15, £190million was budgeted to be used to fund capital expenditure on the council housing stock. This expenditure, often called 'Capital from Current Revenue (CFCR)' funds modernisation of existing houses or new housing developments. There was variation among councils on capital from current revenue expenditure, for example in 2014/15, Fife Council budgeted £30million while Midlothian Council budgeted nil.

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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. Several councils budgeted to transfer a small part of their surplus to reserve funds in 2014/15 totalling £14million. Seven councils budgeted to transfer money from the Reserve Fund and the General Fund into the housing revenue account in 2014/15 totalling £8million.

Councils estimated that total housing revenue account debt totalled nearly £3.6billion as at 31st March 2015, an increase of £350million since 31st March 2014. Part of the increase in debt since 2007 is a consequence of increased borrowing by councils to meet the capital costs of new build housing and improvements to existing houses and reductions in receipts from the sale of council houses.

A Local Authority may borrow to fund their capital expenditure. Local authorities may borrow from a number of sources including banks and other financial institutions. Most local authorities borrow from the United Kingdom Government's Public Works Loan Board. In addition to borrowing local authorities may finance capital investment through other credit arrangements such as finance leases and Public Finance Initiatives including the Non Profit Distribution model. The Non Profit Distribution model was developed and introduced as an alternative to, and has since superseded, the traditional private finance initiative model in Scotland. The sum of borrowing and any credit arrangement to finance capital investment is capital debt.

Local Authorities' total capital expenditure on housing, financed from all sources (including new borrowing, useable receipts and financed from current expenditure), totalled £665million in 2014/15, an increase of £45million since 2013/14. Capital expenditure can vary substantially from year-to-year and also between areas. For example Fife Council spent £70million on capital expenditure in 2014/15 whilst the Shetland Islands Council spent £2.5million.

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 2014/15 councils spent £430million on enhancements to existing buildings and £195million on new house building and conversions. In 2014/15 councils with the greatest expenditure on new dwellings and conversion were Highland Council (£25million) followed by East Ayrshire Council (£20million).

Councils raised £40million of capital receipts 2014/15. This is considerably lower than the £135million raised in 2008/09 and £230million raised in 2007/08. Capital receipts come mainly from 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 is primarily linked to the downturn in the housing market and is another reason that is leading to the increase in housing revenue account debt.

The Scottish Government issued 'Disposal of assets from Housing Revenue Accounts – Guidance on Scottish Ministers' Consent' in March 2016. This guidance sets out the procedure that councils should follow when seeking consent to dispose of assets from their Housing Revenue Account or for transfers between the General Fund and housing revenue account.

The Scottish Government 'Guidance on the Operation of Local Authority Housing Revenue Accounts (HRAs) in Scotland' will be updated in due course to reflect the changes in the consent process. For the first time since Housing Revenue Accounts were enacted through the Housing (Scotland) Act 1987, this guidance will bring together in one place, the role of the housing revenue account, how it must operate, who the resources contained within it are meant to benefit and what outcomes can be expected from those resources. Much of the material in the Guidance reinforces the principles of the Scottish Social Housing Charter.

Housing Association Finances

The Scottish Housing Regulator publishes an annual analysis of the finances of registered social landlords. The most recent edition covers 2015 and was published in March 2016. This report provides analysis, trend information and commentary based on aggregate information.

The Scottish Housing Regulator collects annual accounts, financial projections, loan portfolio details, and the annual report on the Charter from around 160 Registered Social Landlords. Each year they also carry out a detailed risk assessment on the financial health of each registered social landlord. Whether and how they engage with individual registered social landlords depends upon their assessment of the financial risk in each case. Following the 2014/15 risk assessment they published 65 regulation plans and 44 (around 30% of all registered social landlords) had financial health as the principal driver for the regulator's engagement.

The Scottish Housing Regulator also attempts to look at all registered social landlords taken together through the interpretation of aggregates from the annual accounts, loan portfolio details and financial projections, augmented where appropriate by information from the annual report on charter.

The report shows that in 2014/15 the annual turnover of the sector increased by 4.2% from £1.3million to £1.4million, but that the cash generated from operations was slightly less than the £412million generated in 2013/14, at £406million. Registered social landlords generated more than £3 from operations for each £1 paid in interest for the fourth successive year. The sector's net surplus was £124million, a 24% increase on 2013/14 when it was £96.6million. Only nine housing associations had a net deficit, the lowest number in five years. The overall increase in costs is made up of a 1.6% increase in operating costs and a 9.4% increase in interest payable resulting mainly from a higher level of debt while interest rates remain low.

Cash generated from operations fell by 1.4% to £406million. However, the Scottish Housing Regulator does not see this modest reduction as indicative of a decline in financial health. They point out that there was an underlying increase in cash generated of 2.6% if the effect of a substantial increase in pension deficit contributions is excluded. For the fourth successive year, registered social landlords generated more than £3 from operations for each £1 paid in interest. The Scottish Housing Regulator considers that this strong cash position should continue to give comfort and assurance to lenders and other stakeholders.

The main financial figures are as follows:

- Annual turnover was £1,374million, an increase of 4.2% on the previous year.
- Operating costs rose at a rate of 1.6% while interest payable rose by 9.4%.
- Total cash generated from operations was £406million, a small reduction on the previous year.
- Cash generated fell by 1.4% but there was an underlying increase (excluding an increase in pension costs) of 2.6%.

- The net surplus was £120million, an increase of almost 24% in the year.
- The operating surplus on social lettings activities increased by 8.1%. The deficit on other activities fell by 3.2%.
- The Scottish Housing Regulator calculates that average annual rent was £3,763 based on information provided in the annual accounts.
- Average rent increased by 3.0%. Inflation as measured by the Consumer Price Index fell by 0.1%.
- Average remuneration (including employers' national insurance and pension contributions) was £34,310.
- Average remuneration rose by 7.1%. The underlying increase (excluding an increase in pension costs) was 3.0%.
- Total arrears were £52.1million, an increase in monetary terms but a reduction as a proportion of rent due.
- Former tenant arrears rose by 9.0% but current tenant arrears actually fell by 3.2%.
- Registered Social Landlords spent almost £702million in the acquisition and construction of properties, an increase of 15.1%
- Grants received increased by 25.9% while loans advanced fell by 22.1%.
- Total investment in social housing assets at the end of 2014/15 was almost £13billion.
- More than 60% of investment comes from public funds with private funding (borrowing and reserves) just below 40%.
- Total private investment in social housing exceeded £5billion for the first time.
- 37.5% of total spend on new construction was financed by government grant in 2013/14. In 2014/15 it was 41.1%.
- 4,286 Registered Social Landlord employees have no pension provision. This number is likely to fall as auto-enrolment proceeds.
- In 2014 approximately 65% of RSL employees were enrolled in a pension scheme, by 2015 this had risen to 71%.

The Scottish Housing Regulator considers that one of the most important risks in any business plan relates to future rent levels. Most registered social landlords continue to rely on above inflation increases in rents. The Scottish Housing Regulator sees a reliance on above inflation increases in rent as a potential risk to the financial health of some registered social landlords given the uncertainty about the future of the welfare system and the risk that the income of those in work may not increase in real terms.

Overall staffing numbers remained the same in 2015 although this masks a modest increase in direct labour staff and marginal reductions in office-based employees and care and support staff. Staff costs and average remuneration continue to rise. Most registered social landlords are planning real terms pay increases for staff over the next four years. The Scottish Housing Regulator has warned that this may present some challenges for some registered social landlords especially if there is uncertainty about their ability to increase rent in real terms.

Two thirds of registered social landlords are members of the Scottish Housing Associations Pensions Scheme (SHAPS). In 2014/15 pension deficit contributions to SHAPS increased by almost 200% because of under-funding identified in the 2012 actuarial valuation. The interim results of the 2015 valuation indicate a substantial increase in the funding ratio. Unless a decision is made to shorten the recovery period it is unlikely that there will be further widespread increases in deficit contributions in the next three years. However, pension financing remains a significant area of risk for many registered social landlords.

In the year ended 31st March 2015 there was a further substantial increase in the number of employees for whom registered social landlords made pension contributions. Despite that almost 30% of employees within the sector still have no pension provision. It is likely that this number will fall as auto-enrolment proceeds. This will represent a substantial and recurring addition to the cost base of those registered social landlords that are affected and the Scottish Housing Regulator considers that this should be taken into account in future financial forecasts and business planning.

Most of the major lending and investment institutions that operate within the sector continued to look for new opportunities to invest. Also, in the past year the Scottish Housing Regulator has been approached by a number of potential investors, currently out-with the sector who are keen to lend. From this they conclude that the lending and investment market is continuing to function to provide adequate finance for registered social landlords to fund viable capital projects.

Interest payable in the year increased by more than 9% and the proportion of turnover required to meet interest charges increased from 9.8% to 10.3%. This trend towards increased debt and increased capital financing costs taking an increased proportion of increased rents may prove to be significant.

The implementation of Financial Reporting Standard 102 for financial statements for periods beginning on or after January 2015 is likely to create difficulties in calculating some covenants on a consistent basis. Most lenders and registered social landlords are reporting good progress on discussions on this matter. The Scottish Housing Regulator is encouraging all registered social landlords to discuss this matter with their lenders and to inform them if they are anticipating or experiencing difficulties.

Around eighty registered social landlords are presently developing new social housing with grant assistance from the Scottish Government and private borrowing secured on housing stock. The Scottish Housing Regulator's analysis leads them to conclude that an additional ten registered social landlords are planning to start developing over the period of the next five years. This number may increase further as a result of the increase in grant rates announced by the Scottish Government in 2015.

Housing associations spent £702million on the acquisition and construction of houses, an increase of 15%. However, this is still lower than three years ago when £806million was spent. The total private investment in social housing exceeded £5billion for the first time. The regulator said private investment in social housing had grown 'more than fivefold' in less than twenty years.

For the second successive year there was an increase in capital grants received by registered social landlords. In 2014/15 grants were a more significant source of new finance for development than private finance for the first time in many years.

There was a marginal increase in total rent arrears in monetary terms although arrears as a proportion of rent due declined from 4.95% to 4.79%. And although arrears increased in monetary terms the amount owed by current tenants fell for the second successive year. In 2013/14 void losses rose to a five year high of over £15million and in 2014/15 they remained at that level. This is an interesting contrast with the position in local authorities where levels of arrears and bad debts are tending to increase.

From their regulatory engagement the Scottish Housing Regulator concludes that registered social landlords are working hard to minimise the impact of the changes in the welfare system and that the work done to date is proving effective.

Each year the Scottish Housing Regulator sets out their view of the major risks to the financial health of registered social landlords and their regulatory expectations as to how these risks should be managed. Based on their overall analysis of the sector they have concluded that in 2015 most registered social landlords were successfully managing these risks and in so doing were continuing to comply with Regulatory Standard Number three, that requires each registered social landlord to manage its resources to ensure its financial well-being and economic effectiveness.

However, the Scottish Housing Regulator considers that the risks to the financial health of registered social landlords remain considerable. They consider that a key risk relates to rents and rent levels. In particular, they consider that it is clear from registered social landlords own financial information that most intend to continue to increase rents at a rate that is above inflation and that many would face serious financial challenges if this policy could not be sustained. In addition, they consider that familiar issues such as welfare reform, pension finance and diversification remain as risks for many within the sector.

Against that background the Scottish Housing Regulator considers that there is a vital role for governing bodies to be aware of the risks to the registered social landlord and to assure themselves that these risks are being managed effectively. This is particularly important at a time when the Scottish Government will be looking to registered social landlords to help it to deliver its targets for new social housing. Notwithstanding the recent rise in grant rates the proposed increase in new construction is likely to mean an increase in financial gearing for some registered social landlords and the Scottish Housing Regulator considers that this will require the highest standards of management and governance.

Ian Brennan, Director of Regulation (Finance & Risk) at the Scottish Housing Regulator, said that:

"Once again the aggregate accounts show a healthy surplus and a strong cash position. We also see that rents are rising in real terms and that most RSLs are planning to continue above inflation increases for the next five years. We are aware that many registered social landlords are making considerable efforts to ensure that rents remain affordable for tenants and all registered social landlords need to set rents in a way that places affordability for tenants at the centre of their planning."

David Bookbinder, Director of Glasgow and West of Scotland Forum of Housing Associations, said:

"Our data shows the average size of rent increase this year is clearly significantly down on the previous years. Housing associations are making efforts to achieve a balance between a business plan which looks at modernising the stock over a long period of time and keeping rents genuinely affordable – it's always a balance. There's been a re-balancing towards smaller rent increases this year."

Mary Taylor, chief executive of the Scottish Federation of Housing Associations, said housing associations keep rents 'constantly under review' and the Scottish Federation of Housing Association's latest analysis shows that they are 'getting the balance right'.

Local authorities in Scotland have also tended to increase council house rents by more than inflation during recent years so the affordability issue could be expected to apply to them as much as to housing associations. The devolution of some welfare budgets to the Scottish Parliament may also mean that real increases in rents could have budgetary implications for the Scottish Government. However, despite recent increases in social rents in Scotland and the United Kingdom government policy of reducing rents in England by 1% a year over the next four years, social rents in Scotland remain lower than those in England.

Welfare Reform

The United Kingdom Government is implementing a major programme of reform to the welfare system. Although welfare is a reserved matter, these measures impact on policy areas that are devolved to the Scottish Government such as health, social care and housing. Changes to Housing Benefit include reductions to Housing Benefit in the private and social rented sectors and, through Universal Credit, the introduction of direct payments of housing costs to tenants in the social sector.

The Scottish Government says that it is doing what it can within the limits of its powers to protect vulnerable people in Scotland and support people and organisations affected by the reforms. This includes providing funding to councils to fully mitigate the under-occupation penalty (a measure that reduces housing benefit for people who are considered to be under-occupying their homes) through Discretionary Housing Payments.

The Scotland Bill (currently before the United Kingdom Parliament) includes a power for the Scottish Parliament to vary the housing cost element of Universal Credit (including varying the under-occupancy charge). Scottish Ministers are committed to using these powers to abolish the under-occupation penalty as soon as possible.

Conclusions

The Scottish Government is pursuing policies that are broadly in support of affordable and social housing in Scotland. In particular, there continues to be a substantial affordable housing investment programme available to councils and registered social landlords.

Local authorities account for income and expenditure on social housing through housing revenue accounts. Housing revenue accounts continue to be viable although they continue to report increased expenditure on management, increased capital financing costs arising from increased debt taken on to finance expenditure on the Scottish Housing Quality Standard and therefore increased rents.

Similarly, the housing association sector continues to be financially viable although the Scottish Housing Regulator has recently raised concerns about the long-term affordability of rents in view of the trend, in common with the local authority sector, for rents to increase faster than either prices or incomes.

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June 2016

Social housing is becoming increasingly important in Scotland at a time of rising demand for affordable housing and constrained resources. Scottish local authorities and housing associations face significant challenges. Housing association turnover is increasing but surpluses have started to decline. The economic background is one of austerity. Terms on which loans are available are less favourable than in the past but a significant level of development is still taking place. The Scottish Government has passed the Housing (Scotland) Act 2014, reformed the Scottish Housing Regulator and is ending the 'Right to Buy'. The Scottish Housing Regulator's new approach emphasises 'Value for Money'. The United Kingdom government has 'reformed' welfare with significant implications for Scottish tenants and landlords but some welfare powers have now been devolved to Scotland.

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. Many people have already attended and benefited from this course. You could also benefit from our seminar and workshop at which you will learn:

'All You Want to Know about Scottish Social Housing Finance 2016'

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 local authority housing services work?
- How do the finances of Scottish Housing Associations work?
- How is the development of new social housing funded?

Delegates will gain an overview of Scottish social housing finance and will keep up to date with developments. The session 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 2016'

Venue and Date:
Edinburgh: Novotel Central Hotel – Tuesday 7th June 2016

For further information or to make a booking please visit our website at: http://www.awics.co.uk/scotfin16.asp

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Webinars

In July we will be holding two webinars that will look specifically at Scottish issues:
- Scottish Local Authority Housing Finance - 7th July 2016
- Scottish Housing Association Finance - 21st July 2016

Details of all our webinars can be found on our website at: http://www.awics.co.uk/webinars.asp

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Our other Seminars

Details of all our seminars are available on our website at: http://www.awics.co.uk/seminars2016.asp

Our other seminars include:
- All You Want to Know about Local Authority Housing Finance
- All You Want to Know about Service Charges in Social Housing

Our seminars are held at venues in Cardiff, Edinburgh, Leeds and London.

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

Services that we offer include:
- Management Consultancy – http://www.awics.co.uk/ManagementConsultancy.asp
- Interim Management – http://www.awics.co.uk/interimmanagement.asp
- Regional Seminars — http://www.awics.co.uk/Seminars2016.asp
- Webinars – http://www.awics.co.uk/webinars.asp
- In-House Training — http://www.awics.co.uk/inHouseCourses.asp
- Independent Residents' Advice — http://www.awics.co.uk/IndependentTenantAdvice.asp
- Technical Books — http://www.awics.co.uk/publications.asp
- Information Service — http://www.awics.co.uk/aboutUs.asp