

# Council housing transfers

Key messages / Prepared for the Auditor General for Scotland and the Accounts Commission

March 2006



# Key messages

## Introduction

**1.** Scotland's councils provide some 364,000 homes at affordable rents, allocated on the basis of need. This is half the number they provided ten years ago, mainly because of housing stock transfers and right-to-buy sales. In the same period, homes provided by other not-for-profit landlords, such as housing associations, have tripled.

**2.** Housing transfer is the sale of all or part of a public body's housing stock to an alternative, not-for-profit landlord.

**3.** The Scottish Executive is encouraging transfers because they offer scope to increase investment and tenant control, thereby improving living conditions, promoting better services and more effective housing management and, ultimately, fostering community regeneration.

**4.** This report is about the most recent transfers of council housing ([Exhibit 1](#)):

- Under the New Housing Partnerships (NHP) programme launched in 1997, 103,000 homes have transferred to new landlords in nine council areas. The three largest transfers in Glasgow (81,400 homes), Dumfries & Galloway (11,900 homes) and Scottish Borders (6,700 homes) were all completed in 2003.
- The Glasgow transfer resulted in the creation of Glasgow Housing Association Limited (GHA), the largest not-for-profit housing association in the UK and a substantial business in Scotland in its own right.
- Under the Community Ownership Programme (COP) launched in 2004, six other councils are planning to transfer a total of 50,000 homes in 2006 and 2007.

**5.** In all cases, tenants must approve each transfer by ballot before it can proceed.

**6.** Since 1998, the Scottish Office and the Scottish Executive have spent some £258 million on the NHP, including direct support for transfers and wider initiatives. HM Treasury has provided £1.3 billion for early redemption of councils' housing debt on transfer.

## The study

**7.** We examined how well the housing transfer policy has been implemented, and whether transfers have provided good value for money by:

- consulting with the Scottish Executive and Communities Scotland
- collecting and reviewing information on local authority housing management
- reviewing seven transfers completed between 1999 and 2004, and one transfer in progress
- surveying 600 tenant groups.

## Housing transfer policy

**8.** For some Scottish councils, comparatively high rents and a legacy of high historic housing debt have constrained their ability to improve poor quality housing. Council surveys funded under NHPs indicate £7.5 billion is needed to improve current housing.<sup>1</sup>

**9.** Council housing transfers are a means to tackle these problems and increase investment. In opting for transfer there are significant financial advantages for tenants and councils. The biggest financial consideration for councils is the prospect of historic debt repayment combined with the

opportunity for increased housing investment in their local area. The impact for central government is more complex.

**10.** The high investment required in transferred housing means that the price achieved has always been less than the cost of repaying outstanding debt held by the council, and less than the value of the housing recorded in the council's balance sheet ([Exhibit 2](#)). In addition to the £1.3 billion for debt redemption so far, HM Treasury could pay a further £0.4 billion if the six current transfers all go ahead.

**11.** The impact of this debt repayment is to allow income from rents to be invested in improving service to tenants and the quality of the housing stock, rather than servicing historic debt.

## The management of transfers is improving

**12.** New guidance in 2004 from the Scottish Executive and Communities Scotland applies to the housing transfers due to complete in 2006 and 2007. The new guidance benefits from the experience gained from earlier transfers.

**13.** For the transfers completed before 2004, the Executive's guidance did not provide a good 'route map'.

**14.** The Scottish Executive and Communities Scotland had a lot of experience of the earlier Scottish Homes transfer programme but council transfers were more complex. The workload proved to be greater than forecast and the first transfers took an average of three-and-a-half years to complete. There were limited incentives to contain the £59 million transaction costs.

<sup>1</sup> Many councils revisited their housing condition surveys in 2004 and 2005. Communities Scotland is assessing the results, to be published as soon as possible.

## Exhibit 1

Council housing transfers in Scotland under NHP and COP

| New Housing Partnerships 1998 to 2004 |                | Community Ownership Programme 2004 to 2007                |               |
|---------------------------------------|----------------|---|---------------|
| Homes transferred                     |                | Forecast homes to be transferred                          |               |
| Glasgow City                          | *81,400        | Highland  | 14,500        |
| Dumfries & Galloway                   | *11,900        | Renfrewshire  | 13,400        |
| Scottish Borders                      | *6,700         | Inverclyde  | 8,600         |
| Dundee City                           | *1,500         | Stirling  | 5,700         |
| East Dunbartonshire                   | *900           | Argyll & Bute   | 5,600         |
| North Lanarkshire                     | *600           | Western Isles   | 1,900         |
| North Ayrshire                        | 200            | <b>Total homes proposed for transfer</b>                  | <b>49,700</b> |
| Edinburgh                             | *300           |   |               |
| Renfrewshire                          | 100            | Edinburgh<br>(rejected by tenant ballot<br>December 2005) | *23,000       |
| <b>Total homes transferred</b>        | <b>103,400</b> |   |               |

Note: \* Transfers that were examined as part of this study.

Source: Audit Scotland

## Exhibit 2

Price, debt repayment costs and book value for three whole housing transfers

| Transfer            | Date       | Transfer price<br>(£ million) | PWLB debt<br>redemption costs*<br>(£ million) | Book value<br>of houses**<br>(£ million) |
|---------------------|------------|-------------------------------|---|--|
| Glasgow             | March 2003 | 25                            | 1,130   | 868                                      |
| Scottish Borders    | March 2003 | 23                            | 81  | 56                                       |
| Dumfries & Galloway | April 2003 | 33                            | 109   | 91                                       |
| <b>Total</b>        | <b>-</b>   | <b>81</b>                     | <b>1,320</b>                                  | <b>1,015</b>                             |

Notes: \* The Treasury calculate debt redemption charges in accordance with *Government Accounting*, 29.2.19. The charges represent the present value of the future payments of principal and interest which would have been paid if the original repayment schedule had been met.

\*\* Balance sheet value at March 2002 (Glasgow and Scottish Borders), or March 2003 (Dumfries & Galloway). Councils use different approaches for valuing houses for their balance sheets and for housing transfers. For further information see *Guidance on Stock Valuation for Resource Accounting*, Office of the Deputy Prime Minister, 2005.

Source: Audit Scotland



## Exhibit 3

Before and after investment in housing improvements for seven transfers

| Whole housing transfers          | Transfer peak investment promise/latest plan                        | Annual average council housing investment 1996-2003* |
|----------------------------------|---|--|
| Glasgow                          | Average £129 million a year for ten-and-a-half years after transfer | £71 million a year                                   |
| Scottish Borders                 | Average £4 million a year for 13 years after transfer               | £4 million a year**                                  |
| Dumfries & Galloway              | Average £14 million a year for ten years after transfer             | £10 million a year                                   |
| Partial transfers                | Transfer investment per home, per year (over 30 years)              | Council investment per home, per year 1996-2005*     |
| Edinburgh (Craigmillar Castle)   | £1,470  | £920   |
| East Dunbartonshire (Hillhead)   | £1,340  | £760   |
| North Lanarkshire (Old Monkland) | £1,650  | £600   |
| Dundee (Ardler)                  | £2,120  | £690   |

Notes: \* Council expenditure adjusted to constant 2005 prices.

\*\* While this was the level of expenditure pre-transfer, the council could not maintain this level of expenditure in future because of the expected continued loss of housing through right-to-buy sales and tenants' choice transfers.

Source: Audit Scotland

**15.** There were no pilot projects to help the planning and implementation of the first council housing transfers, which included Glasgow with the biggest challenges and therefore a policy priority. The Executive felt that an approach involving pilot projects would have taken years longer and would not be defensible given the requirement for investment to tackle the urgent problems of social housing in Glasgow.

**16.** Improvements to the process mean that current transfers are expected to complete in just over two years and better financial controls with a clear gateway process are now in place.

**17.** The Executive did not control the total costs of the major Glasgow transfer using clearly defined gateways with financial limits. At certain key stages of this transfer in 2002 and 2003, it was necessary for the Executive to agree significant financial changes, including £409 million grant to support the business plan of the GHA in its first ten years.

**18.** Decisions about early transfers were made on the basis of limited information about where investment was most needed nationally. Responsibility for housing investment was primarily a matter for councils locally to determine. The Scottish Housing Quality Standard, introduced in 2004, provides, for the first time, a national target for the condition and quality of houses, to be achieved by 2015. It offers a much clearer basis for directing, evaluating and monitoring the major investment required.

### **The new landlords are delivering higher investment and rent increases within the guaranteed limits and tenants consider service is better**

**19.** One of the primary aims of council housing transfers was to free up investment to improve the quality of social housing by writing off historic debt.

**20.** From our review of seven completed transfers, we identified planned investment levels of some £3.2 billion over 30 years to improve the quality and condition of homes transferred to new landlords. In most cases this is significantly more than councils previously spent. For example,

the GHA's plans will nearly double investment compared to the council's in the last seven years before transfer ([Exhibit 3](#)).

**21.** For at least five years after each transfer, annual rent increases are guaranteed at no more than one per cent in real terms. This is markedly less than the average rate of increase by all councils (average increases of three per cent a year in real terms between 1996 and 2004).

**22.** Councils are not monitoring improvements in tenant service systematically. However, our survey of tenant groups suggests improvement. Sixty-four per cent of the tenant groups responding to our survey believed the quality of repairs and maintenance had improved after transfer.

### **Transfers have promoted greater tenant control, though there is more still to be achieved**

**23.** Under the Executive's community ownership policy, transfers should also promote tenant control, more effective housing management and area regeneration.

**24.** Every transfer landlord now has tenants making up at least a third of its governing body, with additional places held by other community representatives. Sub-committees of the governing body or delegation of powers to other tenant-led organisations give tenants a further direct role in decision-making.

**25.** But effective tenant participation and control is about more than having tenants on the governing body. Good landlords should have effective tenant participation and the community ownership policy requires community empowerment. Councils and new landlords have interpreted these requirements in different ways, leading to variation in their approach to tenant involvement

**26.** Our work suggests tenant participation has increased after transfer in most cases. Fifty-seven per cent of tenant groups with experience of transfer felt it had brought a big improvement. However, 26 per cent considered transfer had made no difference in this respect while ten per cent thought it was worse. There remains scope to spread best practice more effectively, to ensure the greatest degree of tenant control.

**27.** Effective tenant control and participation is a key issue for the GHA. GHA's tenant surveys show improvement in satisfaction with its housing services. The delegation of responsibility to 64 tenant controlled local housing organisations (LHOs) after transfer allows a high level of direct tenant participation. However, while LHOs have responsibility for management of the homes, they will not have full control until they own them. GHA plans to increase tenant control by transferring ownership of most of its homes to the LHOs by 2008. But there are complex issues to be resolved and these plans for second-stage transfer are still subject to uncertainty.

**28.** Communities Scotland's first regulatory inspections of the new transfer landlords later in 2006 will be an important test of their effectiveness and performance including tenant empowerment. Until inspections have been completed it is difficult to be sure about the new landlords' performance concerning tenant control and wider expectations in relation to participation. As part of each inspection tenants will be asked for their views about their landlord. This will provide a stronger basis for judging the landlords' performance in empowering tenants as part of the community ownership objective.

### **Better, clearer measures are needed to assess impact and value for money**

**29.** Competition has not been used for whole housing transfers. In each case transfer plans have been subject to significant scrutiny. While the evaluation reflected the practice at the time, the Executive has now introduced better evaluation rules, learning from the experience of the early transfers.

**30.** Without assurance from competition and in the absence of targets or outcome measures in some areas it is difficult to be sure that terms for the initial housing transfers provide the best possible value for money. For example, although the GHA's plans provide for its management cost to fall steadily over its first ten years of operations, its forecast average management cost over 30 years will be £834 per house, per year, in real terms. This appears well above other landlords' costs. But comparisons have to be treated with caution because there is no guarantee that different landlords account for management costs consistently.

**31.** Communities Scotland, individual councils, the Executive and private funders monitor the performance of new landlords after transfer. The early indications are that transfer is delivering additional investment and other benefits to tenants. But there is currently no national framework to monitor improvements with regard to the wider objectives of the programme.

### **Looking ahead**

**32.** It is important that the Scottish Executive continues to develop its evaluation framework to ensure value for money in future transfers. Communities Scotland's regulatory role also enables it to lead in assessing the impact of the transfer policy.

**33.** The Executive's recently introduced standard pricing model aims to promote better evaluation and value for money in housing transfers, and Communities Scotland is improving how it compares operating costs between landlords. These sources of information should enable the Executive to test cost-effectiveness in future transfer decisions.

**34.** The Executive should seek additional benchmarks or measures to help evaluate performance for its wider housing transfer policy goals, including measures for quality of service and tenant involvement and empowerment.

**35.** Councils need to know how much they need to spend on their retained housing to achieve the Scottish Housing Quality Standard by 2015. They need to assess how the necessary investment can be made, while maintaining good service and affordable rents for their tenants. By April 2007, Communities Scotland aims to have agreed a strategy with all councils to ensure they either have a feasible delivery plan, or are progressing with a transfer which will secure the required housing quality standard. Audit Scotland will continue to monitor these developments.

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