

Housing in Scotland



 ACCOUNTS COMMISSION

 AUDITOR GENERAL

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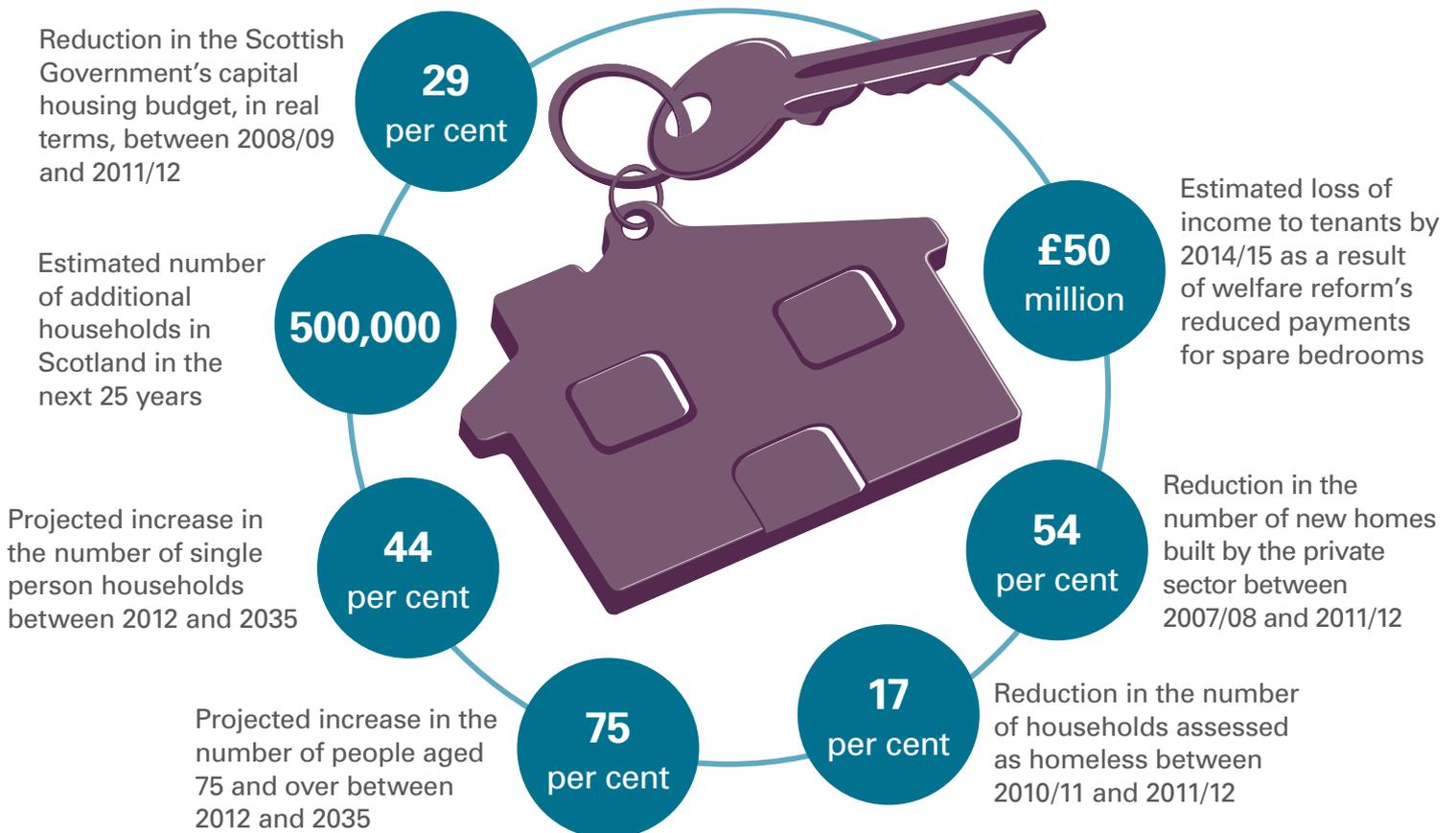
Exhibit data

When viewing this report online, you can access background data by clicking on the graph icon. The data file will open in a new window.

Summary



Key facts



Background

1. Housing is important for people and communities. Well-planned, good-quality housing contributes to strong, resilient communities, and promotes economic growth. It can also have a positive impact on the quality of people's lives. If well planned, it can help prevent additional costs to public sector budgets, such as the health service.¹

2. The UK and Scottish Governments, councils, financial institutions, landlords, regulatory bodies and the construction industry all contribute to housing in Scotland. The housing sector is interlinked, so changes in one part of the sector can directly affect other parts. Housing is also affected by external factors, particularly the strength of the economy.

3. National and local government have a long-established role in housing. Government regulates parts of the housing market and helps people meet their housing needs, particularly those with specific needs or on lower incomes. The housing sector is wide-ranging and includes services from planning and construction through to support and advice to tenants. The sector can help people who live in, or want to move to:

- a home that they own
- private rented accommodation
- a home rented from a council or a housing association or cooperative.

4. Housing is a long-term investment and is funded through a mixture of one-off payments and ongoing funding. The sources of these funds are diverse, ranging from loans through to grants and benefit payments.

About the audit

5. Our audit looked at how Scotland's housing sector works, how much public money is spent and what that money delivers. We assessed how well the Scottish Government and councils plan to meet Scotland's housing needs and the main challenges in the future. We were supported throughout the audit by our advisory group ([Appendix 1](#)).

6. Our focus was on the role and performance of the public sector. We also considered the role of housing associations and cooperatives, which we have referred to as Registered Social Landlords (RSLs). RSLs are not-for-profit social landlords, most commonly housing associations. We consulted with the Scottish Housing Regulator (SHR), which regulates how councils and RSLs manage their housing stock, and how RSLs manage their finances and governance. Where relevant, we have considered the role of the private housing sector and how it works with the public sector. Our audit work took place between July 2012 and February 2013 and our conclusions reflect the situation at that time, although we have included updated information where possible. Our findings have identified areas where more detailed performance audit work may be of value. These include the Scottish Government's new build programme, how councils manage housing stock, the efficiency and effectiveness of services for homeless people, and the spend and progress to date on energy efficiency measures. We will consider these areas when developing our future work programme.

7. This report is in three parts:

- Housing in Scotland ([Part 1](#))
- Funding ([Part 2](#))
- Planning and management ([Part 3](#)).

8. In addition to this report, we have published a range of accompanying documents and supporting material on our website:

- [an issues paper for elected council members](#) 
- [a checklist for council officers](#) 
- [a consultant's report on council and RSL housing stock.](#) 

Key messages



- 1** Housing in Scotland is facing significant challenges. The recession has affected the availability of housing and the sector is now working with constraints on lending, competing and increasing demands on capital resources, and reduced government subsidies. Population changes and welfare reform will further increase pressure on the sector. The challenges will require effective leadership and a long-term, coordinated response.
 - 2** The supply of housing is not meeting current levels of need. The number of new private homes built in Scotland has more than halved in recent years while the population is increasing. Our analysis suggests that it could be more than 20 years before there are enough new homes to meet the projected increase in households in any one year. In terms of council and RSL homes, Scottish Government research in 2005 suggested that 8,000 new homes were needed each year. Our analysis suggests that just over 42,000 of the 56,000 council and RSL homes needed since then were built, a shortfall of almost 14,000 homes.
 - 3** Between 2008/09 and 2011/12, Scottish Government revenue budgets for housing fell by 24 per cent in real terms, from £199 million to £152 million and capital budgets by 29 per cent, from £534 million to £378 million. Revenue and capital funding for new homes has been particularly affected and there are significant and competing demands on capital budgets. The Scottish Government is responding by encouraging increased borrowing and alternative models of finance to maximise private investment in housing. These have associated risks that must be carefully managed. To date, the use of alternative models of finance has been limited and the extent to which they can compensate for reduced levels of subsidy is not clear.
 - 4** National and local government recognise that good housing can make a positive contribution to many government priorities, including economic growth, community empowerment and improved health. However, housing does not always play the role that it could. Planning at a local level is challenging; councils have an important role but have few direct powers, and influencing change can be difficult. Effective leadership is required at a national and local level to ensure housing is well planned and linked to other policy areas.
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Key recommendations

The Scottish Government should:

- demonstrate how its long-term vision for housing underpins relevant national policies and informs local planning and practice
- improve its reporting of housing budgets, spend and what the money has delivered to ensure that it is easy to track, takes account of in-year revisions, and provides details on amended spend as and when it occurs
- clarify its expectations of the role alternative models of finance will play in the future financing of council and RSL housing. Provide leadership and support to councils and RSLs in understanding how best these sources of finance can be used and how the risks involved can most effectively be managed
- improve the detail and reliability of national information on housing, including an assessment of the needs of current and future populations. This should assess need for council and RSL homes and affordable homes
- review the financial pressure on the sector, including its ability to meet the national targets and quality standards, and councils' and RSLs' capacity to develop alternative models of finance, and assess the implications for funding for new homes.

Councils should:

- ensure housing strategies and the associated plans and investment decisions are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners including RSLs and tenants
 - review the way housing services are designed and delivered in light of the recent reductions in the number of people assessed as homeless and councils' duties to homeless people
 - review the differences in performance and long-term financial position of their housing stock and develop strategies, including rent strategies, to address future liabilities and maintain the value of the assets.
-

Part 1

Housing in Scotland



Key messages

- 1 The Scottish Government has set ambitious targets for housing and progress has been made. However, housing in Scotland is facing significant challenges from population and policy changes in the next few years. The ageing population is likely to increase demand for adaptations, such as wheelchair access, for supported living and for sheltered housing. The number of single person households is set to rise. This is likely to lead to increased demand for smaller homes. Reforms of the welfare system and environmental policies will further increase pressure on the sector.
- 2 Assessing how many homes are needed, and of what type and where, is difficult. Information is limited on some aspects of current housing supply and need, and there are no consistent definitions for key terms. There is no comprehensive information on existing housing stock, and information on the number of people needing and waiting for a council or RSL home is lacking.
- 3 The supply of housing is not meeting current levels of need. Due to the recession, the number of new private homes has more than halved in recent years and home ownership remains unaffordable for many people. At the same time, Scotland's population is increasing and our analysis suggest that it could be more than 20 years before enough new homes are built to meet the projected increase in households in any one year.
- 4 Scottish Government research in 2005 suggested 8,000 new council and RSL homes were needed each year. This research took place before the recession which is likely to have increased demand for council and RSL housing. Our analysis, based on the 2005 research, suggests that just over 42,000 of the 56,000 council and RSL homes needed since then were built, a shortfall of almost 14,000 homes.

**housing in
Scotland
is facing
significant
challenges**

The balance between privately owned and rented accommodation has changed significantly over the last 40 years

9. The make-up of Scotland's housing stock has changed significantly over the last 40 years:

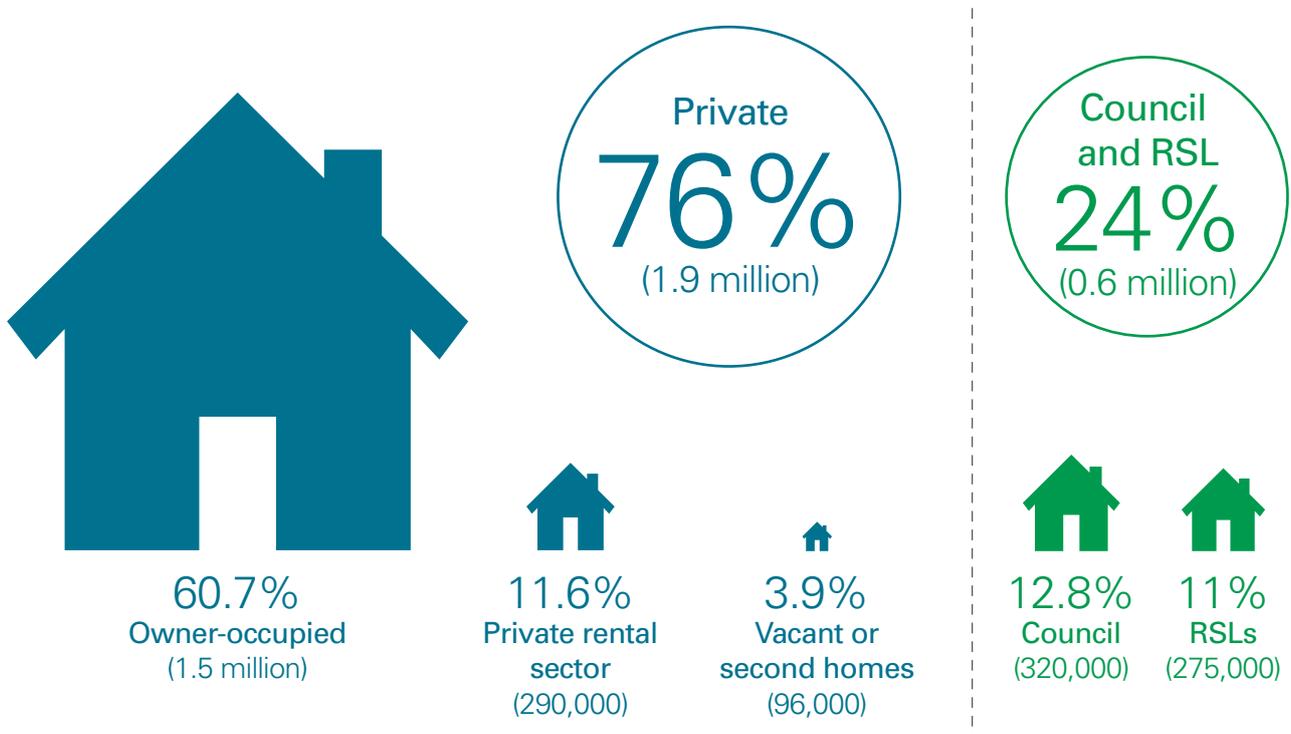
- In the 1970s, about 30 per cent of homes were owner-occupied; by 2011, this had doubled to more than 60 per cent.

- In the 1970s, more than 50 per cent of homes were rented from a council or RSL; by 2011, this had dropped to 24 per cent. In the 1970s, almost all of these were council homes; by 2011, this had fallen to around half.²
- The number of privately rented homes fell from about 20 per cent in the 1970s to less than ten per cent in the 1990s. This has increased slightly since then to just over 11 per cent.^{3,4}
- In 2011, there were 96,000 vacant or second homes in the private sector, just under four per cent of housing stock ([Exhibit 1](#)).⁵

Exhibit 1

Scotland's housing stock, March 2011

Three quarters of homes in Scotland are in the private sector.



Source: Audit Scotland, 2013

Many organisations are involved in providing housing

10. The Scottish Government, councils, RSLs and the private sector all have an important role in housing in Scotland. When we refer to Scotland's housing sector we include these organisations ([Exhibit 2, page 11](#)).

11. The UK Department for Work and Pensions (DWP) provides housing benefit and council tax subsidies for tenants who need help to pay their rent. The UK Government is currently reforming the welfare system, including changes to the way housing benefit is calculated and paid.

Exhibit 2

Organisations involved in housing in Scotland

Many public and private organisations are involved in housing in Scotland, some are UK-wide.

Sector	Organisation	Role
Public sector	Scottish Government	Responsible for setting national strategy and policy, provides funding to councils, RSLs and others and leads national initiatives.
	Councils	Have a legal duty to assess and respond to housing need for their area, including specific legal requirements to tackle sub-standard housing and homelessness. Councils also distribute housing benefit, license houses of multiple occupancy (that is a house with three or more tenants who are not related) and keep a register of all private landlords. Most councils (26 out of 32) also act as a social landlord, that is, they manage and maintain a stock of council homes for rent. ¹
	Scottish Housing Regulator	Regulates how councils and RSLs manage their housing stock, how RSLs manage their finances and governance arrangements, and councils' homeless services.
Not-for-profit sector	Registered Social Landlords	Most commonly housing associations. There are around 160 in Scotland and they range in size from organisations which manage and maintain over 40,000 homes to those with 200 homes. Tenants play an important role in governing many RSLs.
Private sector	Private landlords	Provide homes to rent for tenants, including people receiving housing benefit. Also provide homes for councils to house some people, for example homeless people in need of temporary accommodation. All private landlords must register with councils.
	Housing developers (UK-wide)	Build council, RSL and private homes across Scotland.
	Financial Services Authority, banks and other financial institutions (UK-wide)	Regulate and provide finance for council, RSL and private housing.

Note: 1. Glasgow City, Inverclyde, Argyll & Bute, Dumfries & Galloway, Scottish Borders, and Comhairle nan Eilean Siar have transferred all of their housing stock to RSLs.

Source: Audit Scotland, 2013

12. Various third sector organisations across Scotland, such as voluntary groups and charities, are also involved in housing advice and support services. These organisations generally provide services for specific groups of people such as vulnerable or older people, and people at risk of becoming homeless.

The recession has affected the housing market in Scotland

13. When Scotland's economy entered recession in 2008, there was a significant reduction in lending to both house builders and people planning to buy their own home:

- The number of new homes built by the private sector more than halved from 21,656 in 2007/08 to 10,039 in 2011/12.⁶
- The number of mortgages approved in Scotland more than halved from 104,900 in 2006 to 44,100 in 2011.⁷
- The number of first-time buyers more than halved from almost 10,000 in the second quarter of 2007, to 4,800 in the second quarter of 2012.⁸
- People are living with their parents for longer. Scottish figures are not available but, in 1997, 2.5 million people in the UK aged 20–34 were still living with their parents. This increased by 20 per cent to almost three million in 2011.⁹
- Home ownership remains unaffordable for many people. A property is classed as affordable if it costs no more than 3.5 times a person's annual salary.¹⁰ We estimate that the average property in Scotland costs six times the average salary.¹¹

14. The recession has affected the private housing sector and had major implications for the public sector. It has added to the challenge of how the sector plans to meet housing need in local areas. This includes how it supports people who need help to buy or rent a home and people who are homeless. It is likely that the recession will also have increased demand for council and RSL housing. Since 2007/08, the number of homes built by councils and RSLs each year has increased by about 1,000 to around 6,500 in 2011/12.^{12,13}

Housing supply is not keeping up with need

15. Assessing how many private, council and RSL homes are needed for the future, what type are needed and where, is difficult as it depends on many factors which are liable to change. Projections on the number of households Scotland will have in the future are based on assumptions such as future migration and birth rate.

16. Information is also limited on some aspects of current housing supply and need. For example, there is no comprehensive information on housing needs of people with disabilities. There is no consistent information on the number of people living in unsuitable accommodation. There is also a lack of accurate information on the number of people needing and waiting for a council or RSL home. Although each council with housing stock and some RSLs have waiting lists, they contain an element of double counting and are not routinely reviewed, so they can include people who no longer need or want a council or RSL home.

It is estimated that Scotland will need more than half a million new homes over the next 25 years

17. The Registrar General publishes information on Scotland's population and households. Over the last ten years, Scotland's population has increased by five per cent from just over five million in 2002, to 5.25 million in 2011. The population is projected to continue to grow, increasing by almost ten per cent to 5.76 million in 2035.¹⁴

18. Changes to the way we live and increased life expectancy mean that the number of households has increased by nine per cent from 2.2 million in 2002 to 2.4 million in 2011; and is forecast to increase by a further 21 per cent to 2.9 million in 2035. To meet this projected increase, Scotland would need 21,230 additional homes each year between 2011 and 2035; that is more than half a million additional homes over 25 years.¹⁵

19. In the absence of other information, we have used these projections of the number of new households to look ahead. From this, we estimate that it could take more than 20 years from 2011/12 before enough new homes are built to meet the projected increase in households in any one year ([Exhibit 3, page 14](#)).¹⁶ This does not take into account people who are living in accommodation that does not suit their needs, such as families living in homes that are too small or disabled people living in unsuitable accommodation.

20. Scotland has around 23,000 long-term empty private homes. There are also over 3,000 council homes, and almost 600 RSL homes that have been vacant for over six months, around half of which have been empty for over two years.¹⁷ The Scottish Government's Empty Home Partnership is working with councils, the private sector and Shelter to help use these homes to meet need in some areas.¹⁸

There is unmet need for council and RSL housing

21. The Registrar General's projections are not broken down into privately owned, privately rented, council or RSL homes. However, national statistics published by the Scottish Government suggest that the number of households waiting for a council home has fluctuated over the last ten years. They range from a low of 187,000 in 2003 to a high of 210,000 in 2006.¹⁹ In 2012, around 188,000 households were waiting to rent a council home, almost eight per cent of Scottish households.²⁰

22. The Scottish Government commissioned research in 2005 that showed Scotland needed over 8,000 new affordable homes for rent each year.²¹ At that time, this meant council and RSL housing. However, the approach taken in the research was a matter of significant debate and took place before the recession, which is likely to have increased demand for council and RSL housing.²² In any case, although the number of new homes has increased in recent years, councils and RSLs have not built 8,000 new homes in any recent year. Based on our analysis, just over 42,000 of the 56,000 council and RSL homes needed since then have been built, representing a shortfall of almost 14,000 homes ([Exhibit 4, page 14](#)).

23. In 2011, the Scottish Government set a target of 6,000 new 'affordable homes' a year, 4,000 of which were to be 'social homes' (see [Exhibit 6, page 17](#) for details of all government targets). However, these terms have been used interchangeably and the difference between an affordable home and a social home in terms of tenants' rents is not clear.

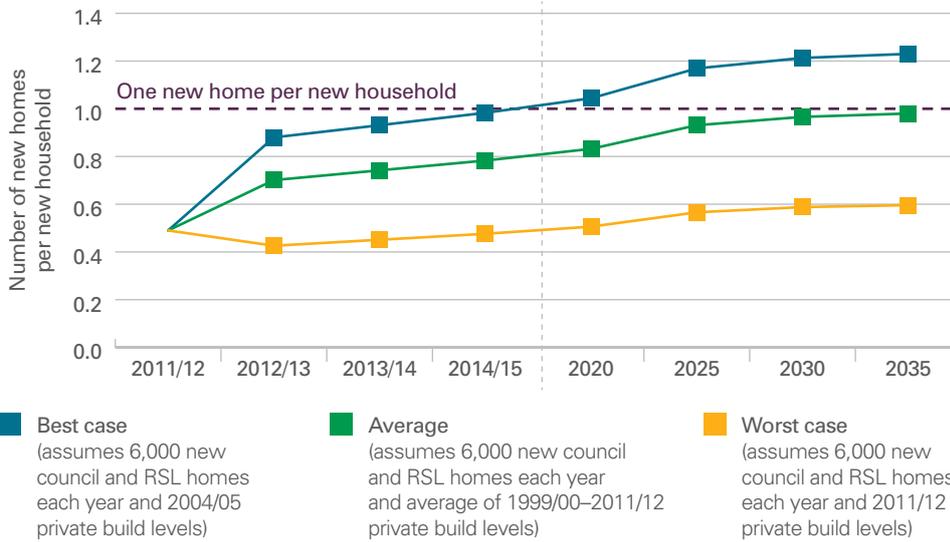
Councils and RSLs have sold over 133,000 homes

24. Since 2000/01, councils and RSLs have sold around 133,400 homes,²³ leaving a net loss of 65,146 council and RSL homes through sales. It is only in recent years that councils and RSLs have built more homes than they have sold ([Exhibit 5, page 15](#)). This is likely to be due in part to the Scottish Government's policy restricting the sale of these homes.

Exhibit 3

Projected number of new homes compared with projected number of new households

It could take more than 20 years before enough new homes are built for the increased number of Scottish households in any one year.



Notes:

1. Annual household projections from National Records of Scotland (previously GROS).
2. Annual new house projections account for lost stock by deducting annual average demolitions since 1999/00.

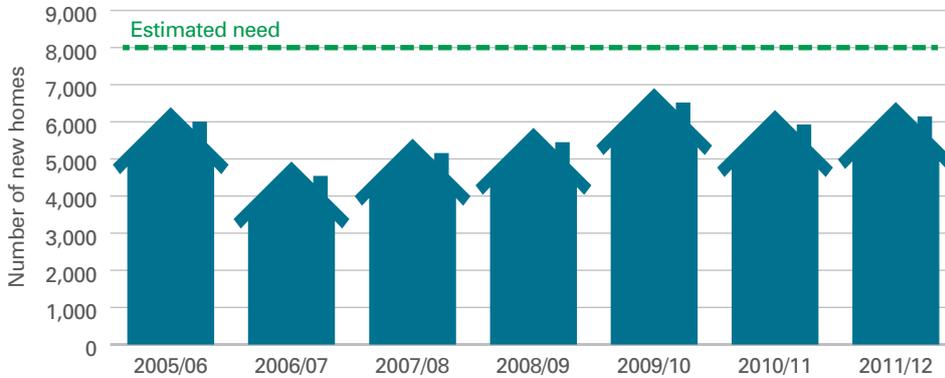
Source: Audit Scotland, 2013



Exhibit 4

Number of new council and RSL homes compared to Scottish Government estimate of need

Councils and RSLs have not built the number of new homes that Scottish Government research in 2005 suggested were needed.



Source: Audit Scotland, 2013



Exhibit 5**The number of council and RSL homes built and sold in Scotland, 2000/01–2011/12**

Only in recent years have councils and RSLs built more homes than they have sold.



Note: New council and RSL homes include conversions but not rehabilitations. We have not included demolitions.

Source: Audit Scotland, 2013



The Scottish Government has set ambitious targets

25. The Scottish Government published its strategy *Homes fit for the 21st Century* in 2011.²⁴ This sets out its vision to provide an affordable home for all by 2020, although what this means is not defined. It outlines the Scottish Government's priorities for the next ten years including the need to build more energy-efficient homes. The strategy highlights the challenges the country faces and sets out the government's approach. It focuses on:

- increasing the number of new homes in Scotland
- improving the quality and energy efficiency of existing homes
- giving people more choice about the type of home they live in.

26. The Scottish Government is helping to fund a range of new housing programmes for people on low to moderate incomes who are unable to buy their own home. Some of these, such as the National Housing Trust's (NHT) mid-market homes, include options for tenants to buy their property after a number of years. To date, there are plans for NHT to deliver around 1,000 new homes.

27. The Scottish Government has also set targets covering the supply of new homes, the quality of council and RSL homes, and homelessness ([Exhibit 6, page 17](#)). Although organisations are generally making progress against the national targets, the Scottish Government has not defined key terms and some of its performance measures could be improved. The Scottish Government's homeless target was to give all unintentionally homeless households the right to settled accommodation. The government monitored progress towards this by measuring the number of homeless households assessed as in priority need rather than the number of homeless households given settled accommodation. On 31 March 2012, 10,743 households were in temporary accommodation and, in 2011/12, almost 2,000 people who contacted their council for help with homelessness had slept rough the previous night.²⁵

Scotland's housing sector is facing a number of other significant challenges

28. Scotland's housing sector must respond to a number of population and policy changes which will affect housing need and demand:

- **Ageing population** – the number of people aged 75 and over is projected to increase by 75 per cent from 421,000 in 2012 to 738,000 in 2035.²⁶ This will result in significant challenges for the housing sector as more people will live for longer, often alone. Demand is expected to increase for supported living and sheltered housing. The number of older people requiring an adaptation to make their home more accessible is estimated to increase by 60 per cent between 2008 and 2033.²⁷ In response, the Scottish Government has recently produced its *Housing for older people strategy* to support changes to care for older people.
- **Single person households** – lifestyle changes mean that the number of single person households is projected to increase by 44 per cent from over 895,000 in 2012 to almost 1.3 million in 2035.²⁸ Housing supply will have to adapt to meet the different needs and demands of these households.
- **Welfare reform** – UK Government reforms of the welfare system include changes to housing benefit. As part of these reforms, working age tenants receiving housing benefit will have their benefit reduced for each spare bedroom in their home.²⁹ This is expected to lead to increased demand for smaller homes, especially one-bedroom homes. However, there may not be enough council and RSL one-bedroom homes. It is estimated that, under the reforms, 60 per cent of tenants will be assessed as needing a one-bedroom property. However, only 26 per cent of occupied council and RSL homes have one bedroom.³⁰ Previously, councils and RSLs did not build many one-bedroom homes as they are less flexible to meet people's changing needs and do not necessarily lead to mixed and sustainable communities. These changes could lead to increased use of smaller homes in the private rented sector at higher costs.³¹
- **Energy efficiency** – UK and Scottish Government environment policies are increasingly expecting Scotland's housing stock to contribute to national reductions in carbon emissions. There will be cost implications for councils, RSLs and the private sector and it will be difficult to improve the energy efficiency of some older homes.

Exhibit 6**Progress with Scottish Government targets**

Organisations are making progress against Scottish Government targets.

Priority	Target	Progress
Affordable homes	To deliver 6,000 affordable homes each year, at least 4,000 of which should be for social rent. (Target set in 2011)	In 2011/12, 6,882 homes were delivered; 5,652 were for social rent. In 2012/13, 6,009 homes were delivered; 4,274 were for social rent. ¹ This target has been achieved for these years.
Homelessness	From 31 December 2012, all unintentionally homeless households have the right to settled accommodation. (Target set in 2003)	All councils now have a legal duty to provide settled accommodation for all unintentionally homeless households – this target has been achieved.
Quality	Social landlords (that is, RSLs and councils) must ensure that their dwellings pass all elements of the Scottish Housing Quality Standard (SHQS) by April 2015. ² (Target set in 2005)	In 2011, 32 per cent of council homes and 55 per cent of RSL homes had met the SHQS. In 2012, 66 per cent of council homes and 82 per cent of RSL homes had met the SHQS. ³
Energy efficiency	Improved design and greater energy efficiency in housing will have contributed to Scotland's commitments to reduce our energy consumption by 12 per cent and our greenhouse gas emissions by 42 per cent by December 2020. ⁴ (Target set in 2010)	Housing contributes to Scotland's energy efficiency targets. Available information shows that residential CO ₂ emissions fell by 18 per cent between 2003 and 2011. ⁵
Fuel poverty	So far as is reasonably practicable, nobody will be living in fuel poverty in Scotland by November 2016. ⁶ (Target set in 2002)	In 2002, 13 per cent of people were living in fuel poverty. In 2011, 30 per cent of people were living in fuel poverty. ⁷

Notes:

1. Target is for this Parliamentary term (2011/12–2015/16). The Scottish Government measure progress against this target by counting the number of homes delivered through the Affordable Housing Supply Programme. These numbers differ from those recorded in the Scottish Government's New Housing Supply statistics.
2. These standards go beyond previous minimum tolerable standards and cover serious disrepair, the energy efficiency of homes, their safety and security, and the condition of kitchens and bathrooms.
3. *Scottish Housing Quality standards: Progress update 2011/12*, Scottish Housing Regulator, 2013.
4. Baseline for emission reduction target is 1990.
5. Greenhouse gas inventory for England, Scotland, Wales and Northern Ireland: 1990–2011, 2013.
6. Fuel poverty is defined as when more than ten per cent of the household income is spent on fuel.
7. *Scottish Household Condition Survey: Key findings 2011*, Scottish Government, 2012.

Source: Audit Scotland, 2013

Recommendations

The Scottish Government should:

- improve the detail and reliability of national information on housing, including an assessment of the needs of current and future populations. This should assess need for council and RSL homes and affordable homes
 - provide clarity by defining social housing and affordable housing in terms of tenure and rent levels, and promote their consistent use and a common understanding across organisations involved in housing
 - evaluate the success of the new build programme, including all new initiatives and schemes designed to support people who cannot afford to buy their own home, to ensure value for money.
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Part 2

Funding



Key messages

- 1** Between 2008/09 and 2011/12, Scottish Government revenue budgets for housing fell by 24 per cent in real terms, from £199 million to £152 million. Over the same period, Scottish Government capital budgets for housing fell by 29 per cent in real terms, from £534 million to £378 million. Revenue and capital funding for new homes has been particularly affected, falling by 35 per cent in real terms, from £555 million in 2008/09 to £361 million in 2011/12.
- 2** Funding arrangements for housing are complicated, change frequently and are hard to track. This makes effective scrutiny difficult. There is scope to improve national and local financial reporting on housing.
- 3** Constraints on lending, national targets and reduced government subsidies are adding to pressures on council and RSL capital budgets. It is not clear whether councils and RSLs have enough money to fund all competing demands. Private housing also requires investment. Welfare reform is expected to bring additional financial pressures. Planned changes to benefits could have significant financial implications for councils, RSLs and the private rented sector.
- 4** The Scottish Government is responding to pressures on finance by encouraging increased borrowing and use of alternative models of finance to maximise private investment in housing. These have associated risks that must be carefully managed. To date, the use of alternative models of finance has been limited and the extent to which they can compensate for reduced levels of subsidy is not clear.

capital
funding
is under
significant
pressure

Scottish Government housing budgets have fallen in recent years

29. As a result of the UK spending review in October 2010, the Scottish budget reduced by over 11 per cent, in real terms, between 2010/11 and 2014/15. The Scottish revenue budget fell by eight per cent and the capital budget by 36 per cent.³² We have used real term changes in budgets in this report, which means that we have allowed for inflation.³³

30. The Scottish Government's housing budget has fallen in recent years. It fell by 28 per cent, in real terms, from £733 million in 2008/09 to £530 million in 2011/12. Future budgets are set to fall further, to £375 million in 2014/15. In real terms, this represents a 49 per cent reduction over six years. Within this:

- the revenue budget for housing fell by 24 per cent, in real terms, from £199 million in 2008/09 to £152 million in 2011/12. Future revenue budgets for housing are set to fall further, to £125 million in 2014/15. In real terms, this represents a 37 per cent reduction over six years
- 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.³⁴

31. Revenue and capital funding to councils and RSLs for new homes fell by 35 per cent, in real terms, from £555 million in 2008/09 to £361 million in 2011/12.³⁵ Further reductions to £239 million in 2014/15 are planned. In real terms, this represents a 57 per cent reduction over six years. These reductions are partly a result of reduced capital budgets from the UK Government. But evidence to the Scottish Parliament's Infrastructure and Capital Investment Committee highlighted that capital funding for new housing had fallen more than capital funding to other policy areas, which had generally fallen by a third.³⁶

32. However, the Scottish Government has allocated extra capital funding for housing:

- in 2013/14, in-year revisions increased the 2012/13 budget by £230 million, and the 2013/14 budget by £149 million ([Exhibit 7, page 21](#))
- in May 2013, the Scottish Government announced an additional £202 million for housing in 2014/15: £20 million of this in the form of additional capital funding for new homes; and £182 million in the form of a shared equity resource for various housing initiatives.

33. Changes to budgets, particularly in-year revisions, make it harder for local organisations to plan ahead, and suggest a lack of long-term financial planning at a national level. However, they demonstrate the Scottish Government's commitment to increasing the amount of money available for housing. In addition, the Scottish Government introduced three-year allocations for funding for new homes in 2012/13 and has subsequently provided indicative allocations for a further three years to 2017/18 to support longer-term planning locally.

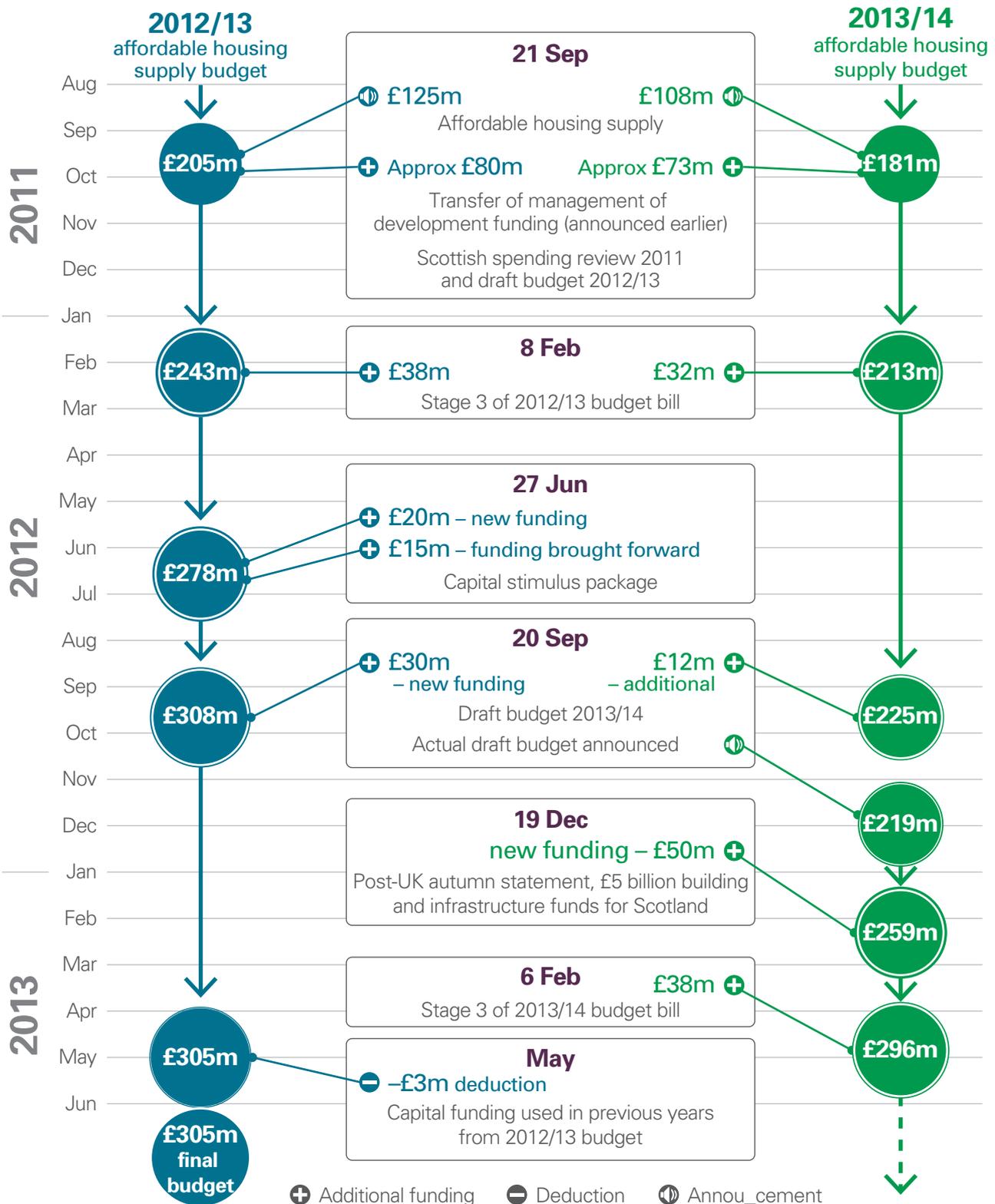
Funding for housing is complicated and hard to track

34. Funding for housing is a complicated mixture of public and private finance. The movement of money between organisations, the use of private finance and different reporting arrangements make it difficult to calculate how much public money is spent on housing in any one year. One-off capital payments and ongoing revenue funding come from public agencies across the UK. Capital funding for new and existing homes comes from a number of different sources:

- The Scottish Government provides significant capital funding to build new homes and improve existing homes. In 2011/12, it provided approximately £68 million to councils and £285 million to RSLs to build new homes.³⁷ In addition, it provided around £20 million to home owners, RSLs and energy companies to improve the energy efficiency of existing homes.

Exhibit 7

Revisions to 2012/13 budget for new homes and their impact on the 2013/14 budget
 Budgets for new homes have changed frequently.



Source: Audit Scotland, 2013

- RSLs are currently using around £3 billion in private borrowing to fund new developments and improvements to existing stock. Councils are increasingly borrowing to finance capital investment, including housing. In 2011/12, councils borrowed £1.3 billion, however it is not known how much of this was for new or existing homes.³⁸
- Councils and RSLs generate some capital income through selling land or buildings.

35. The Scottish Government also provides revenue funding to support new build programmes (£54 million in 2011/12), to support some RSLs (£39 million) and for energy efficiency measures (£20 million).

36. Councils and RSLs also generate a large percentage of their revenue through rents. Most of this income is spent managing and maintaining existing homes. The Department for Work and Pensions is the single biggest contributor to housing revenue, paying £1.7 billion in housing benefit for individual tenants in Scotland in 2011/12. Of this, £674 million was for council tenants, £608 million for RSL tenants and £446 million for private tenants ([Exhibit 8, page 23](#)).³⁹

Funding streams change frequently

37. In the last few years, Scottish Government funding streams have changed significantly. The complex nature of funding for housing is further complicated by the multiple and changing funding streams ([Exhibit 9, page 24](#)). In recent years, the Scottish Government has introduced and provided funding for a wide range of schemes. It has allocated additional money to schemes to help vulnerable people stay in their own homes and to energy efficiency initiatives. It has also introduced initiatives which aim to attract private money for some energy efficiency programmes. For example, the Scottish Government has recently provided £79 million for the national retrofit programme and expects to attract a further £120 million from energy companies.⁴⁰

38. It is not always clear why funding streams change, or how successful previous initiatives were. The Scottish Government has not always evaluated the effectiveness of these schemes or the impact changes have on the sector. It can take time and money to work up proposals for different funds and initiatives. Changes can create difficulties for organisations interested in building new homes. For example, in 2011/12, the Scottish Government launched the Innovation and Investment Fund, which included a separate £10 million innovation fund. Although the Scottish Government had not committed to a second year of innovation funding, some RSLs and private developers were working up bids for a second round when the fund changed and was replaced by one targeted at environmental innovation. This meant that some of the momentum built up for innovative funding methods and interest in a bidding process were lost. Preparing bids can be time-consuming and costly, particularly for smaller organisations.

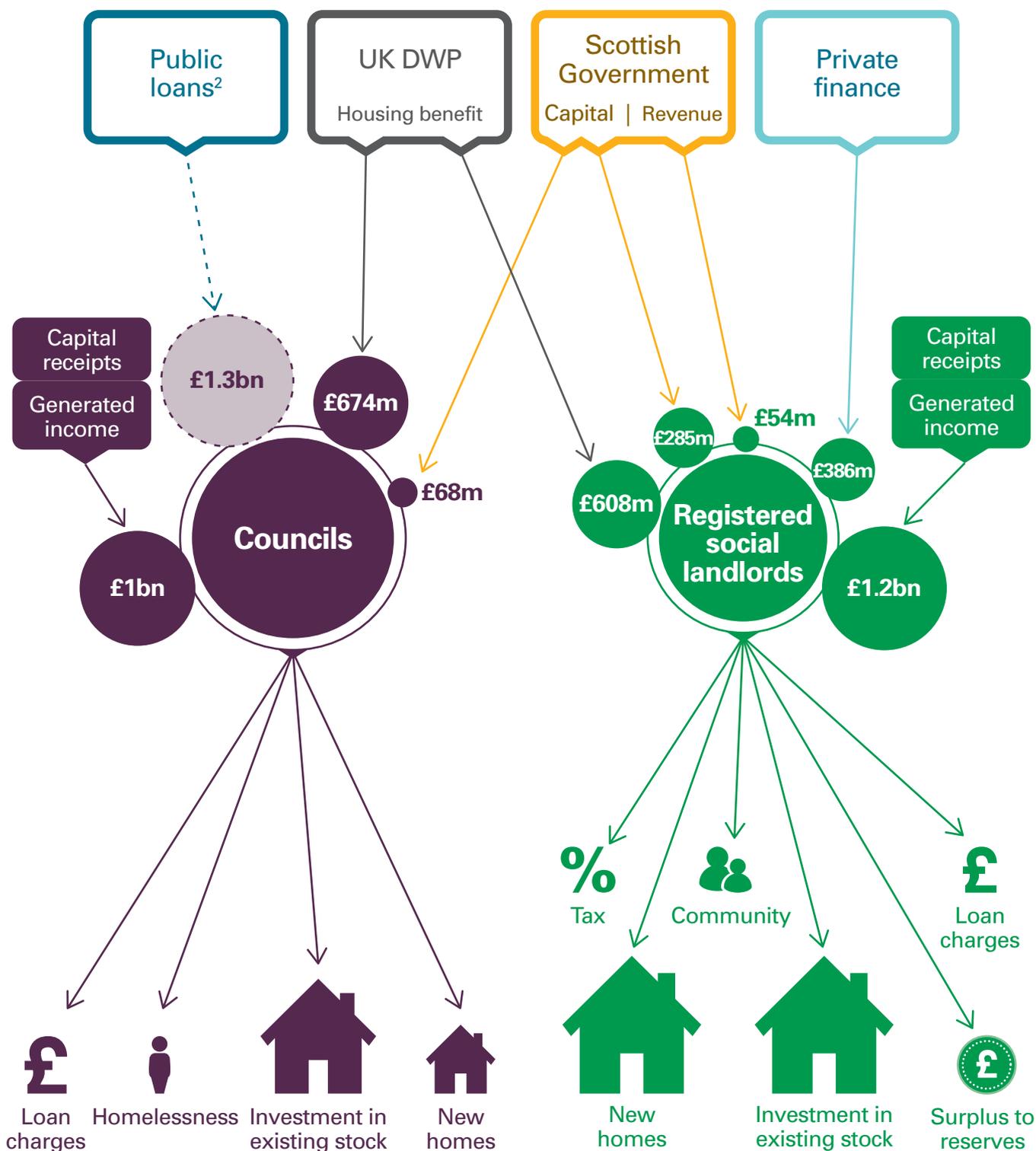
There are multiple Scottish Government funding streams for new housing

39. There are often numerous funding streams for the same or similar objectives. This is particularly true of funding for new homes. There are a number of different funding streams and arrangements to enable councils and RSLs to build homes for rent and to allow councils, RSLs, private developers and individuals to build homes for people to own ([Exhibit 10, page 26](#)). Having access to funds from several sources gives housing providers greater flexibility in their funding choices, but it does mean that it is hard to track what public money has delivered and can make effective scrutiny difficult.

Exhibit 8

Funding for council and RSL housing, 2011/12¹

Funding arrangements are complex and involve significant amounts of public money.



Notes:

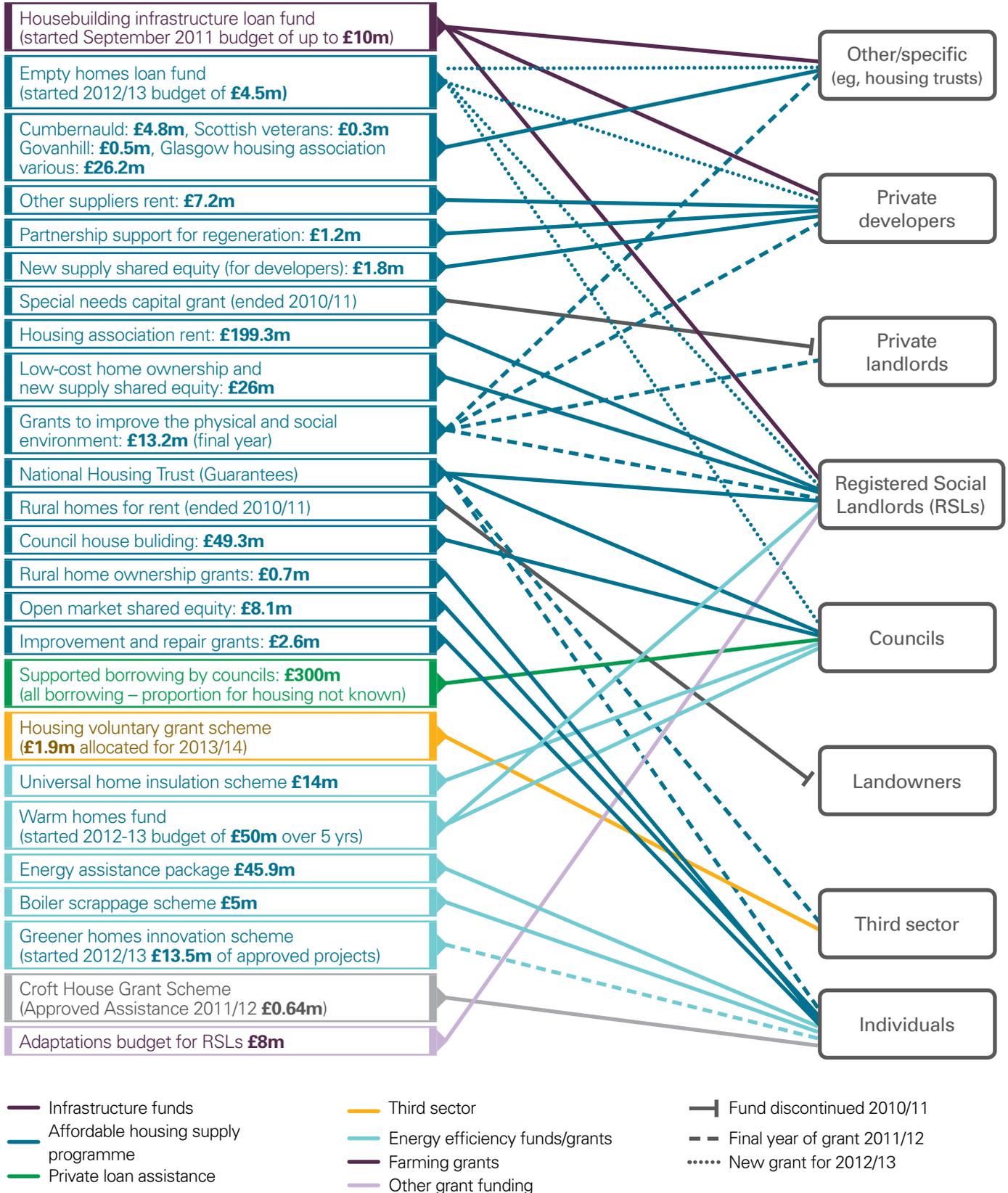
1. These figures are approximations based on published information.
2. It is not clear how much of this is spent on housing.

Source: Audit Scotland, 2013

Exhibit 9

Scottish Government housing funding streams, 2010/11–2012/13

Scottish Government funding streams are complex and have changed considerably in the last few years.



Source: Audit Scotland, 2013

40. Cash flows for new housing are complex. The Scottish Government can renegotiate with developers about when it makes payments to ensure the total budget is spent each year. It also allocates future funds, which means that a proportion of any future budget, usually around half, is already committed. While flexibility of these arrangements is necessary, the Scottish Government needs to be clear at a national level about how much money is available, how it is to be used and what it will deliver.

There is scope to make local financial reporting clearer

41. Twenty-six of Scotland's 32 councils manage their own housing stock. The other six councils have transferred all their stock to RSLs.⁴¹ Councils must report all their income and spend on their housing stock through the Housing Revenue Account (HRA). However, tenants are concerned that it is not always clear what the HRA is used to fund. In 2010, the Regional Networks of Registered Tenant Organisations in Scotland presented a report to the Scottish Government asking for, a more transparent system so that tenants know what their rents pay for.⁴²

42. The reporting of spend on homeless services is complicated. Some spend on homelessness is recorded through the HRA and some through the general fund.⁴³ For example, the costs of providing temporary accommodation in council housing is recorded in the HRA and the money spent on preventing homelessness and providing other temporary accommodation, such as bed and breakfast, is recorded in the general fund. However, this is done differently across council areas making it difficult to compare spend on homelessness and assess value for money. This split also means that it can be difficult to see total spending on homelessness and the true position of the HRA.⁴⁴

Capital funding is under significant pressure

Scottish Government subsidies for RSLs have reduced

43. The money the Scottish Government provides to RSLs for building homes has decreased over the last few years. Before 2011, RSLs submitted proposals to the Scottish Government to build new homes. If projects were approved, the Scottish Government decided the level of capital subsidy on a project-by-project basis, typically around £70,000 per home.

44. In 2011, in response to the reduced overall capital budget, the Scottish Government significantly reduced subsidies for RSLs and set a national subsidy guide of £40,000 for each new home. At the same time, the Scottish Government set a national subsidy guide of £30,000 for each new council home, which was broadly in line with previous council subsidies. One of the main reasons for this reduction in subsidy to RSLs was research that suggested that RSLs could build with reduced subsidies.⁴⁵ Given the length of time it takes to build a house, reduced subsidies have not yet affected the number of new council and RSL homes built, which increased from around 5,500 in 2007/08 to around 6,500 in 2011/12. However, many of the homes built in the last few years would have received the previously higher subsidies.⁴⁶

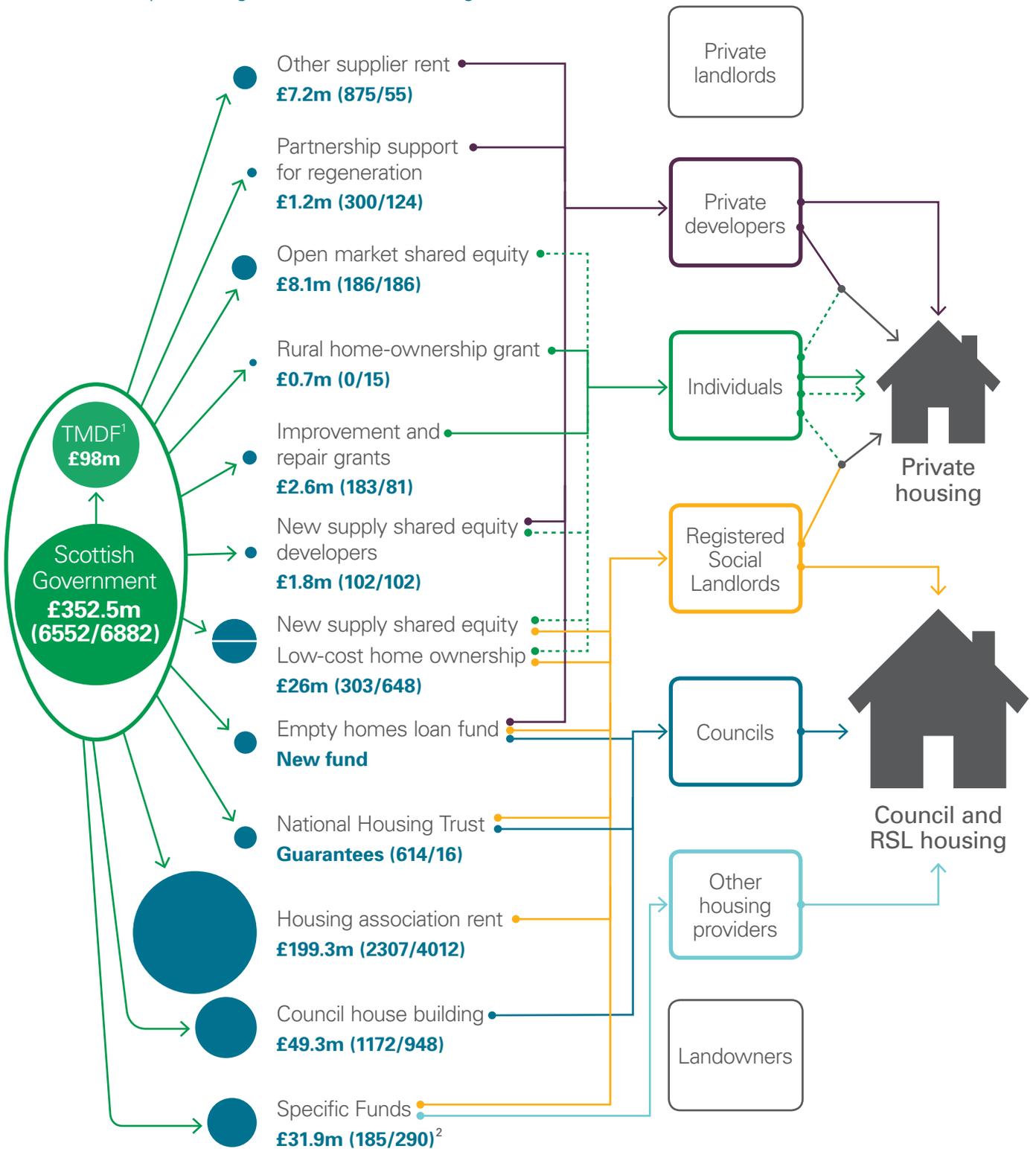
National targets are increasing demands on capital budgets

45. Scotland's national targets for housing include targets on new builds, quality, energy efficiency and fuel poverty ([Exhibit 6, page 17](#)). These targets were generally set in times of higher levels of public spending and are now adding to pressures on council and RSL capital budgets. The Scottish Housing Regulator has reported that it would cost at least £1.3 billion for councils and RSLs to meet the Scottish Housing Quality Standard (SHQS) target.⁴⁷

Exhibit 10

Scottish Government funding for new homes, 2011/12

There are multiple funding streams for new housing.



£ – Actual Spending

(XX/XX) – Approvals/Completions

---- Shared equity/ownership arrangement

Notes:

- 1. TMDF – Transfer of management of development funding.
- 2. Glasgow Housing Association. Reprovisioning activity only (£11.5m).

Source: Audit Scotland, 2013

46. In the context of limited resources, the challenge is to balance the need for new homes with the need to invest in existing housing stock to ensure good-quality, sustainable homes. The SHR expects councils and RSLs to meet the SHQS by 2015 and they have a role to play to reduce fuel poverty. Some councils and RSLs are investing in existing homes rather than in building new homes. For example, of the £47 million housing capital in Aberdeen City's budget for 2012/13, only £500,000 was for new building completing the previously agreed programme.⁴⁸ The Scottish Government is considering relaxing some of the criteria on accessibility for new homes but is planning to increase energy efficiency standards. Initial Scottish Government estimates are that this could cost an additional £1.8 billion although the exact costs and benefits are still being calculated.⁴⁹

The recession has had an impact on lending

47. Currently RSLs in Scotland have loans of around £3 billion. Since 2007, the amount of new lending has fallen. Generally RSLs negotiate a loan facility, that is an arrangement to borrow money up to a certain amount, with lenders. This provides access to loans for future years. The SHR reports that RSLs are increasingly using up their existing loan facility and that the rate at which they are agreeing and drawing down against their loan facility has slowed down.⁵⁰ This indicates that there is less available money for RSLs to borrow.

48. It is also harder for some RSLs to access loans as the conditions of borrowing have changed. Previously, banks would grant loans over a 30-year period at low rates of interest. Following the recession, lenders have generally offered only five- to 15-year loans. Lenders are also looking to renegotiate the terms of existing loans so they can impose a change to an existing loan as a condition of any new borrowing. These changes can be costly, so only some RSLs, such as those with significant reserves or enough available revenue, can access new loans.

49. Councils operate in a different financial environment and have been less affected by changes to private borrowing since the recession. Councils have increased their use of borrowing since the Prudential Code was introduced in 2004. This allows councils greater flexibility to borrow for capital investment without specific consent from the Scottish Government.⁵¹ Councils can access less expensive loans through, for example, the Public Works Loan Board.⁵² Economies of scale can also make it easier for councils to raise capital through increases to rents.⁵³ Council chief housing officers are confident that they have enough money to build within current levels of subsidy for the next five years. However, they stress that this is dependent on the impact of welfare reform and other policy changes such as increased energy efficiency standards.⁵⁴

Private sector housing requires investment

50. The vast majority of housing stock in Scotland is privately owned and the number of people in private rented accommodation is increasing. All private landlords are required to carry out repairs to ensure homes are structurally sound and 'reasonably fit for human habitation'.⁵⁵ However, this is not inspected and there is no comprehensive regulation of the sector. The national quality standards do not apply to privately owned home and national statistics show that the quality of private rented accommodation is generally poorer than owner-occupied, council or RSL homes.

51. People living in poorly maintained homes are more likely to suffer physical and mental ill health. Poor-quality private housing not only affects those who live in it but can also have a negative impact on neighbours and their homes. For example,

some tenement buildings have a mixture of council or RSL and private flats. Poor conditions in one flat, such as damp, can cause problems in neighbouring properties.

52. There is information on the quality of private housing stock across Scotland but detailed, up-to-date information on the level of investment required is not available across the country. However, some information is available, for example, Glasgow City Council undertook a detailed review of older private homes in the city in 2006. This found that it would cost an estimated £91 million (at 2006 prices) to repair and upgrade the homes. The report found that:

- around nine per cent did not meet tolerable standards (the minimum state in which a property should be occupied)
- many roofs were in a state of disrepair
- only 16 per cent of homes met the SHQS.⁵⁶

53. The Scottish Government is proposing minimum energy efficiency standards for the private sector; this is likely to further increase investment requirements. Councils have a duty to ensure that all private and public properties are safe and well maintained. However, there are few incentives to encourage private owners who do not want to, or are unable to, maintain their own properties. In 2011/12, councils provided around £11 million in grants and loans to home owners, but councils report that a lack of funding limits the impact they can make on the condition of private housing. The shortfall between the amount of investment required and the money available is likely to become a bigger problem in the future.

Welfare reform is expected to bring further financial pressures

54. Welfare reform is expected to have a significant financial implication for councils, RSLs and private landlords. Currently, many people who receive housing benefit have this paid directly to their landlord. However, in the future, benefit payments will be paid directly to tenants, potentially providing less security to landlords and lenders.⁵⁷ The lack of certainty over rental income could lead to increased management costs and rent arrears for all landlords and affect housing services. This could also affect RSLs' ability to access private finance.

55. Welfare reform will result in a number of changes to housing benefit and it is too early to tell the full financial impact on the housing sector. Research commissioned by the Scottish Parliament's Welfare Reform Committee found that in Scotland, tenants' income will fall by an estimated £50 million by 2014/15 as a result of reduced payments for spare bedrooms.⁵⁸ The research also found that changes to payments for tenants in private rented accommodation could see their income fall by an estimated £80 million by 2014/15. These changes are likely to have implications for council and RSL management costs, rent arrears and evictions. The changes could also result in less rental income for private landlords, which could mean private landlords will not want to rent to people who are receiving benefits.

The Scottish Government is promoting alternative models of finance, but these carry risks and the extent to which they can compensate for reduced levels of subsidy is not clear

56. Reduced government subsidies, constraints on borrowing and the pressures on capital budgets mean it is increasingly difficult for RSLs to invest and build. The Scottish Government is encouraging increased borrowing and use of alternative models of finance for councils and RSLs to maximise private investment in housing. These alternative models involve councils and RSLs accessing private sector funds through arrangements such as bond financing or agreements with pension funds. While these arrangements are well established among private and commercial businesses, they bring new risks and complexities to councils and RSLs that must be properly understood and managed.

57. The SHR is warning of the higher risks that increased borrowing and alternative models of finance could have on the financial sustainability of RSLs.⁵⁹ As a result, the regulator is increasing its scrutiny of RSLs that adopt new funding models. In general terms, alternative models of finance hold risks for tenants of RSLs and for public finances. If things went wrong for any RSL and there was financial failure (as has happened in the care home sector), the Scottish Government may feel it has no choice but to step in and provide financial support to RSLs. Councils would also have a role given their duty to help house people in need.

58. To date, alternative models of finance in housing have been on a small scale but they do show the potential for some RSLs to access capital markets directly. For example, a group of RSLs has accessed around £70 million in bond finance and another model in Grampian is hoping to generate money from renewable energy. The number of other smaller schemes is not known and it is not known how many new homes these will result in as in some cases part of the money is being used to pay off existing bank debts. It is not clear to what extent these alternative models of finance can compensate for reduced levels of subsidy. Work commissioned by the Scottish Federation of Housing Associations found that alternative models of finance were not possible in all council areas.⁶⁰

59. Many councils and RSLs lack experience and expertise in alternative financing models. The SHR has highlighted the importance of good governance arrangements. There is also a need for a national role. If these models of finance are to become a sustainable source of funding for housing and compensate for reduced levels of subsidy, then national leadership and support will be necessary to make these a viable option for change.

Recommendations

The Scottish Government should:

- improve its reporting of housing budgets, spend and what the money has delivered to ensure that it is easy to track, takes account of in-year revisions, and provides details on amended spend as and when it occurs
- review the financial pressure on the sector, including its ability to meet the national targets and quality standards, and councils' and RSLs' capacity to develop alternative models of finance, and assess the implications for funding for new homes
- clarify what it considers the spending priorities should be (eg, SHQS, energy efficiency or new builds) for social landlords who are unable to meet all existing demands on resources
- evaluate the effectiveness of funding streams to ensure changes will lead to clear benefits and reduce the burden on organisations working to deliver on the ground
- clarify its expectations of the role alternative models of finance will play in the future financing of council and RSL housing. Provide leadership and support to councils and RSLs in understanding how best these sources of finance can be used and how the risks involved can most effectively be managed.

The Scottish Government and councils should:

- clarify guidance on recording of spend through the HRA and the general account for housing to improve transparency to tenants and provide a clearer picture of council spending on homelessness services
 - work together to develop a clear understanding of the condition of private sector housing and what investment is required in the future.
-

Part 3

Planning and management



Key messages

- 1** National and local government recognise that good housing can make a positive contribution to many government priorities, including economic growth, community empowerment and improved health. However, housing does not always play the role that it could. Effective leadership is required at a national and local level to ensure housing is well planned and linked to other policy areas.
- 2** National targets and funding arrangements for new builds could have long-term implications for council and RSL housing in terms of who builds houses, of what type and where. Tenants' rents may also be affected and there is scope for greater clarity on what is an affordable rent.
- 3** Planning at a local level is challenging. Councils have a key role but few powers to influence a range of public and private partners. It is important that local plans are robust. The Scottish Government and councils are working to improve the planning process.
- 4** Between 2010/11 and 2011/12, the number of households assessed by councils as homeless fell by 17 per cent to just over 34,000. This is likely to be due to councils doing more to prevent homelessness. Legislation has given homeless people the right to a settled home but more people are spending longer in temporary accommodation. This can create insecurity and disruption to people's lives and is more expensive than a permanent council or RSL home.
- 5** Scotland's council and RSL housing stock is a significant national asset. Its value must be protected by managing, maintaining and investing in it properly. Current practices have long-term financial consequences and there are indications that, over the long term, rental income will not be enough to manage and maintain council housing stock in its current condition.

**effective
leadership is
required**

Clearer links to national and local priorities are needed

60. National and local government recognise that well-planned, quality housing can help build strong, resilient communities, promote economic growth and contribute to people's health. Poor housing can contribute to crime, unemployment, low educational attainment and poor physical and mental health.

It can affect the quality of children's experiences and the wellbeing of older people.⁶¹ Housing, therefore, affects spending across the public sector and, if well planned, can result in savings to other budgets. For example, research suggests that it costs the NHS across the UK £859 million a year to treat illnesses caused by cold private housing.⁶²

61. Housing's contribution to achieving wider government aims could be improved. The government has recently set out how housing fits with its strategic purpose and framework, but this does not always influence national or local plans. For example:

- Housing has links to the economy, employment and economic growth. The Scottish Government has stated that building new homes has a 'stimulus effect' on the economy. However, beyond this, the relationship between housing and the economy has not been clearly formulated at a national level. For example, it is important that people can move easily for work but legislation and guidelines about allocations to council and RSL homes do not make it easy for people to move to another area for a job. Current financial support for new homes does not always support economic growth. Aberdeen City is one of the few council areas in Scotland with a surplus of jobs, but the area received the lowest allocation per head of population for new homes in 2012–15 plans. Housing may therefore not be contributing to or stimulating the economy as much as it could.
- Housing can also contribute to sustainable, strong local communities. Many RSLs work to give individuals and communities the confidence and ability to adopt community-based solutions to problems. For example, in Govanhill, the community-based RSL carries out other roles in the community and encourages tenants to get involved in designing and developing services. The housing association is currently supporting a community service of housing, police, social work and health. However, in future it is possible that only larger RSLs will be able to build new homes at reduced subsidies or take advantage of new models of finance. Many smaller, community-based RSLs may be unable to expand and build new stock.
- To save money and improve standards of care for older people, the Scottish Government is looking to shift care from institutions to local communities. Housing has an important role to play. For example, in Castlemilk and Govan, two housing associations are working to reduce the loneliness and isolation of older people through a community arts project. This has improved the mental and physical health of participants and allowed them to live independently for longer. An evaluation of the project found that for every £1 spent there was an £8 return on investment.⁶³ The government's Change Fund for older people is a three-year programme designed to support this shift to care in local communities. However, housing organisations have not been as fully involved in the process as they could have been; a survey of 104 RSLs found that only 12 received Change Funding.⁶⁴ The Scottish Government has recently included a 'Housing Contribution Statement' in the guidance for Scotland's new health and social care partnerships to try and improve how housing supports better care for older people.

National targets and funding arrangements for new builds could have long-term implications

62. Housing is a long-term asset, so it is important that new homes are built where they are most needed. However, Scottish Government subsidies for council and RSL homes have been based on historical allocations. There is no correlation between current funding levels and current or future household projections or estimates of need. In 2012, the Scottish Government and councils agreed a formula that takes into account factors including levels of deprivation, housing market pressures, remoteness and levels of homelessness. This formula is now being used to distribute any additional resources and will be fully implemented across Scotland over the next few years.

63. The Scottish Government has set a national target for new homes but it has not provided details of where it expects new homes to be built or how many should be for people with specific housing needs. It is for councils to determine through their Local Housing Strategy where to build houses. However, there is some concern that reduced subsidies and government targets could result in homes being built where it is possible to do so at the reduced subsidy and not necessarily where they are most needed. For example, some inner city sites require additional work on the land to prepare them for house building, making the overall development more expensive. A recent report concluded that this typically costs an additional £30,000 per home.⁶⁵ Similarly, building new homes in rural areas is often more expensive as the price of land is generally higher and developments tend to be smaller, lacking economies of scale for developers. In response, the Scottish Government has allowed some flexibility in funding arrangements for rural developments and for those with special needs.

64. Alternative models of finance could result in homes being built by only some RSLs. Work commissioned by the Scottish Federation of Housing Associations reviewed a series of alternative funding models against a range of criteria.⁶⁶ It concluded that alternative models of finance would only work for certain RSLs and that in some areas RSLs could not access the finance.⁶⁷ However, it is not clear what vision the Scottish Government has for the size, structure or make-up of the RSL sector in the future.

Rents may have to increase

65. New council and RSL homes are funded through a combination of public subsidies, private loans, reserves and rent. Reduced public subsidies, reduced constraints on lending and pressures on reserves may therefore drive up rent levels as rent is used to make up the shortfall. There is evidence that homes built with reduced subsidies are part-funded through higher rents as well as reserves.⁶⁸ The Scottish Federation of Housing Association's review of alternative models of finance found that these will also rely on higher rent levels.⁶⁹

66. Using rental income as a way of funding new homes could become increasingly difficult with planned changes to housing benefit. In the future, councils and RSLs will no longer receive tenants' rents directly and there is concern that this could lead to increased rent arrears and make RSLs a less attractive option for lenders.

67. There is scope for greater clarity and understanding on the future role rental income will play in funding new council and RSL homes. There may also be scope for more consistency of approach and clarity on rent levels. Rent policy is

the responsibility of individual councils and RSLs and best value in the delivery of their services suggests that rent levels should be based on sound business management and protecting the value of housing stock. Poor decision-making on rent simply stores up problems for the future. Councils are expected to reflect local circumstances, but Scottish Government research in 2007 found that there was wide variation in rent levels and no links between rent levels and local earnings or house prices.⁷⁰ There is still variation in rents around the country and no definition of what is an affordable rent for people. This raises questions about how fair and affordable rents are for tenants.

Councils have an important role but planning is challenging

68. Councils have a long-standing responsibility for assessing and responding to housing need in their area. They should have clear plans in place which set out how housing will be provided. Since 2012/13, councils are also responsible for determining where Scottish Government subsidies for new homes within their area should be allocated, and for monitoring and ensuring local developments are built. This includes deciding how much should go to an RSL and how much to their own council house-building programme. Councils welcome the new arrangements which give them a more strategic role and recognise that it is important that RSLs, tenants and other partners are involved in the process.

69. Local planning arrangements are complicated and there have been changes to these in recent years. The Scottish Government has set up a series of linked plans and strategies that councils are required to produce. Every council in Scotland produces a Local Housing Strategy designed to address all housing need in the area. This strategy should reflect the findings of a Housing Needs and Demand Assessment (HNDA) and be linked to the area's Local Development Plan.⁷¹ Councils should then use the Local Housing Strategy in developing their Strategic Housing Investment Plan (SHIP) and, since May 2012, the Strategic Local Programme (SLP), both of which list future new building developments ([Exhibit 11, page 35](#)). From 2013, the Scottish Government is planning to combine the SHIP and the SLP.

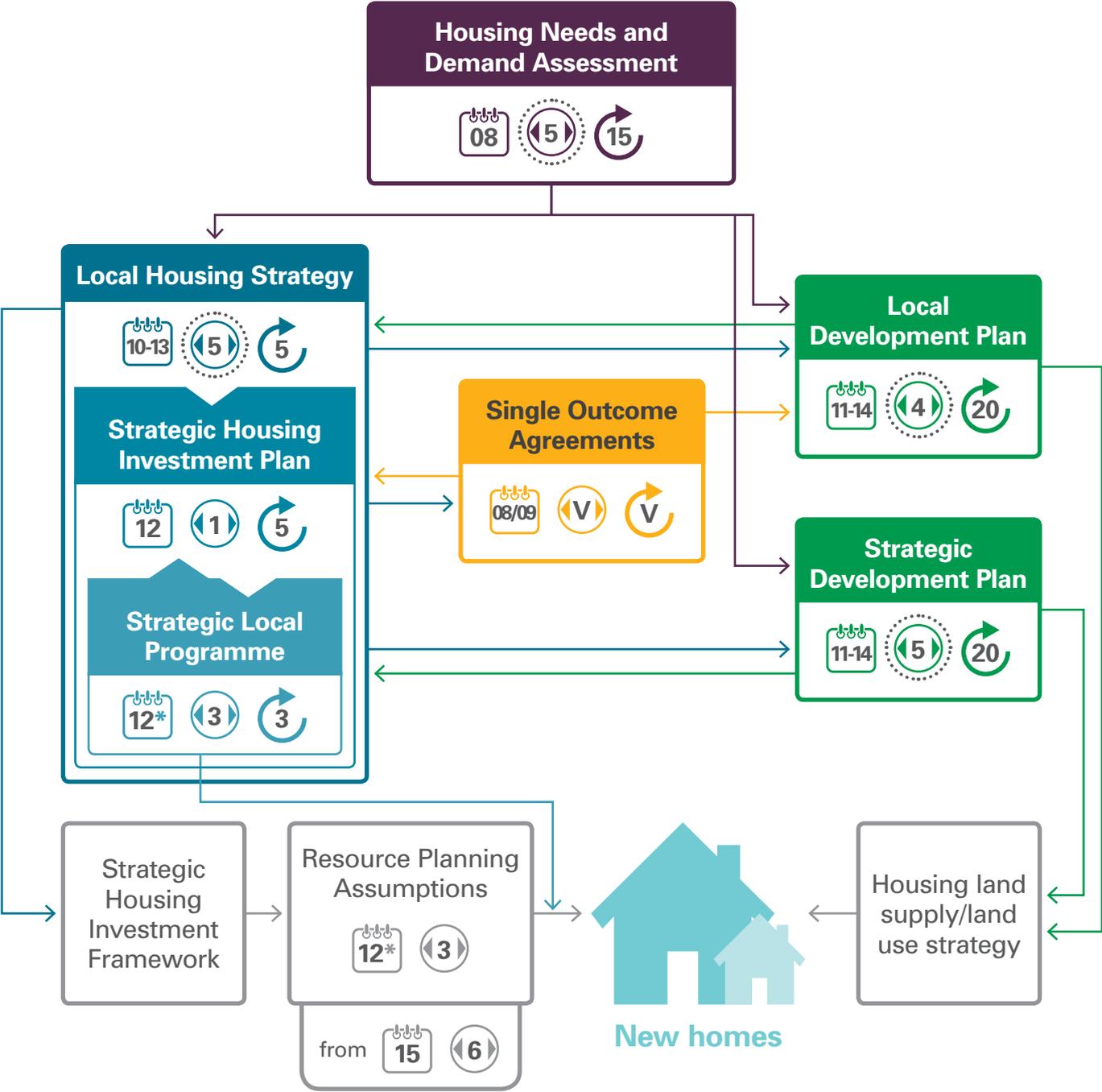
70. HNDAs should cover all private, council, RSL and specialist housing need and should influence all plans in an area. Councils must update these assessments regularly – Scottish Government guidance suggests around every five years. The way councils do HNDAs differs across the country, and they cover different time periods. So they do not provide a national picture. The Scottish Government reviews each HNDA and, by December 2012, had assessed all 32 as 'robust and credible'. The government is now working to produce revised guidance to councils to help improve their HNDAs and is developing a tool which will make the process easier for councils.

Councils have few direct powers

71. Once housing need has been assessed, councils then face the challenge of identifying the funding and developers to build the new homes needed. In the current financial climate this can be difficult. For example, South Lanarkshire Council estimated it needed 800 new council and RSL homes a year to meet housing need. However, given the economic climate and reduced subsidies it reduced its plan to between 150–200 homes a year. In 2011, 98 new council and RSL homes were built; however, the council sold 92 properties through right-to-buy so it only gained six new council and RSL homes.⁷²

Exhibit 11

Planning for housing at a local level is complicated
There are numerous strategies, plans and frameworks.



-  Year of last update or start of document use (* indicates first year of document use)
-  Years between document updates
-  Years covered by document
-  Timing of review linked
-  Variable

Source: Audit Scotland, 2013

72. Councils must demonstrate leadership and work to influence partners. To be effective councils must work with planners, house builders, RSLs, the private rented sector and local residents. However, this is not always straightforward for councils. In 2012, the Scottish Government gave councils three months to develop their Strategic Housing Investment Plans which were to detail all new developments for the next year. Given the timescales, there was limited opportunity to meaningfully consult or ensure their information on housing need and demand was accurate and up to date. As housing investment decisions have long-term implications, it is important that they are based on full, reliable information about the housing market, housing need and demand.

73. Councils are responsible for ensuring good community planning arrangements and Community Planning Partnerships (CPPs) have a role to play in bringing partners together to consider issues relating to housing. Audit Scotland's recent audits of three CPPs found that housing was not an explicit feature of their future priorities.⁷³ The role of CPPs in housing should be considered in light of councils' new responsibilities for deciding on the distribution of funding for new homes. CPPs should also work to ensure housing is linked to other policy areas.

The number of households assessed as homeless has fallen but challenges remain

74. In 2002, the Scottish Parliament introduced new legislation to help homeless people.⁷⁴ This included a national target that by December 2012 all 'unintentionally homeless households' would be entitled to a home. There is now a duty on councils to provide settled accommodation for all unintentionally homeless households.⁷⁵

75. For ten years, the number of households assessed as homeless remained at around 40,000 a year. However, in 2011/12, the number of households assessed as homeless fell by 17 per cent to 34,300. This reduction is likely to be due to councils' new 'housing options approach'. This focuses on preventing homelessness by combining the assessment of a person's legal rights to a home with a range of other support to help them stay in their current home or find an alternative. While this progress is encouraging, it is not yet clear if the reduction is due to people's housing needs being successfully met in the longer term. There is also a risk that the continued economic downturn, combined with changes to the welfare system, could increase the risk of homelessness and the number of people sleeping rough.

76. The homelessness act gave everyone who was assessed as unintentionally homeless the right to temporary accommodation until a permanent home becomes available. Between 2010/11 and 2011/12, the numbers of households living in temporary accommodation fell by five per cent. But over the longer term the numbers have more than doubled, from around 4,000 in 2002/03 to over 10,000 in 2011/12.⁷⁶ Available data suggest that the average number of days people are spending in temporary accommodation has also grown, from 77 days in 2009/10 to 120 days in 2011/12.⁷⁷ As permanent council and RSL homes are not always available, councils have increased their use of private temporary accommodation. They have also increased the number of council houses dedicated for use as temporary accommodation, from 2,082 in 2002 to 4,816 in 2012.⁷⁸ This means there are fewer council homes available for permanent rent.

77. While temporary accommodation ensures that people have a place to stay, it is a short-term solution and can create insecurity and disruption, particularly if people are moved outside their local area. Families can be particularly affected, and children living in temporary accommodation are among the most deprived in the country.⁷⁹ Councils have worked to reduce the numbers of children in temporary accommodation.

78. Temporary accommodation accounts for the largest percentage of council spending on homeless services. Although routine information is not available, research suggests that council spending on temporary accommodation has increased by an average of about 14 per cent over the last three to five years.⁸⁰ We estimate that councils spent around £36 million on temporary accommodation in 2011/12, including £2.9 million on housing people in private temporary accommodation.⁸¹ It costs more to house people in any form of temporary accommodation than in a secure home due to higher rents and maintenance costs. We estimate that housing people in temporary accommodation cost councils about £27 million more than it would have cost to house them in a permanent home.⁸² Welfare reform is likely to impact on temporary accommodation in the future.

The management of Scotland's housing stock could be improved

79. Scotland's council and RSL housing stock is a significant national asset. Its value must be protected by managing, maintaining and investing in it properly. Current performance levels have long-term financial consequences which can either enhance or reduce the value of the asset.

80. It is important to understand the long-term financial performance of these assets. We analysed published information to find out if, all things being equal, council and RSL income for housing is enough to cover costs and protect the value of the asset in the longer term.⁸³ We did not review local services but used available information to provide an indication of the quality of longer-term plans for maintaining existing housing stock. This was challenging given the information that councils and RSLs hold. Most data are historical and information on investment was only available up to 2011/12 for councils and up to 2015 for RSLs. We therefore had to apply a set of assumptions about investment levels.

81. We considered council and RSL rental income against their spend on management, repairs and investment and their lost income through empty properties. We projected this over 30 years. The data shows that, all things being equal, over 30 years, RSLs' income will exceed their expected spend by £3.9 billion while council income will be £1.9 billion less than is needed to cover the costs of existing stock. We have not included the additional costs of possible future energy efficiency standards which are being considered, RSLs future pension liabilities or the possible impact of welfare reform. There are also important differences to bear in mind between councils and RSLs, most importantly higher subsidies for many RSLs. However, the financial relationship between the income and expenditure, which is the substance of the financial plan for every council and RSL, is directly comparable. This analysis highlights the significance of effectively managing income and expenditure and of long-term financial planning for both existing and new housing stock. In some cases, income and expenditure will need to be addressed if the condition and value of stock is to be maintained and services to tenants continued.

82. In 2012, the Scottish Government introduced the Scottish Social Housing Charter, which includes challenges to councils and RSLs to improve how they manage their stock. The SHR will report on progress against this charter in autumn 2014.

Recommendations

The Scottish Government should:

- demonstrate how its long-term vision for housing underpins relevant national policies and informs local planning and practice
- clearly state its expectations for new builds, including location, type and numbers for people with specific housing needs and monitor the impact of reduced subsidies on the type and location of new builds and assess this against indications of need
- work with councils to review the impact that reduced subsidies and alternative models of finance will have on rent levels and the need for greater clarity and consistency of rents for council and RSL tenants, including defining an affordable rent
- review the impact reduced subsidies and alternative models of finance will have on the provision of new homes and work with RSLs to clearly state what it expects the medium- to long-term future and structure of the RSL sector to look like.

Councils should:

- ensure housing strategies and the associated plans and investment decisions are clearly based on evidence of local housing needs and are developed in conjunction with all relevant partners including RSLs and tenants
 - review the way housing services are designed and delivered in light of the recent reductions in the number of people assessed as homeless and councils' duties to homeless people
 - review the role their CPP plays in housing to ensure arrangements are clear and that the CPP is effective in bringing partners together
 - review the performance and long-term financial position of their housing stock and develop strategies, including rent strategies, to address any future liabilities and maintain the value of their assets.
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Endnotes



- ◀ 1 [Evidence and analysis of Scottish Government research](#)
- ◀ 2 [UK Government – Dwelling stock tables](#)
- ◀ 3 *The Future for Social Renting in Scotland*, Newhaven Research, 2006.
- ◀ 4 [Housing statistics for Scotland – key information and summary tables](#)
- ◀ 5 Ibid.
- ◀ 6 *Housing statistics for Scotland 2012: Key trends summary*, Scottish Government, 2012.
- ◀ 7 *Scottish Housing Market Review*, Scottish Government Centre for Housing Market Analysis, 2012.
- ◀ 8 [Council of Mortgage Lenders – Press release](#)
- ◀ 9 *Young Adults Living With Parents in the UK, 2011*, Office for National Statistics, May 2012.
- ◀ 10 UK Department for Communities and Local Government.
- ◀ 11 In 2011, average house prices as reported by Register for Scotland were six times average salaries as reported by the Office of National Statistics.
- ◀ 12 We have included all council and RSL new building from the Scottish Government's New Housing Supply statistics. We have also included conversions but not rehabilitations as these do not constitute new housing stock. This is a different dataset to the one the Scottish Government uses to measure progress against its target which is all homes funded through its Affordable Housing Supply Programme.
- ◀ 13 We have used the term 'built' to mean the number of new houses delivered. The Scottish Government uses the term 'completed' in its national statistics.
- ◀ 14 *The Registrar General's Annual Review of Demographic Trends*, National Records of Scotland, 2012.
- ◀ 15 Ibid.
- ◀ 16 This figure represents our middle scenario. We have projected the rate of new homes by assuming that 6,000 new council and RSL homes will be built each year and then adding the average for the number of council and RSL refurbishments and conversions from 2000 to 2012. We then took the average level of private builds for 2000 to 2012. Full details are available here in [Appendix 2](#).
- ◀ 17 [Scottish Government social sector housing tables](#)
- ◀ 18 Shelter is a charity that works to alleviate the distress caused by homelessness and bad housing.
- ◀ 19 There will be elements of double counting in this data; however, they are the only national data available. Data are published by the Scottish Government: [Housing statistics for Scotland – management of local authority housing](#)
- ◀ 20 Of these, around 20,000 households were looking for a transfer to a different council home.
- ◀ 21 *Local housing need and affordability model for Scotland update (2005 base)*, Communities Scotland, 2006.
- ◀ 22 The research projected housing need based on economic growth and, according to some, did not take full enough account of regeneration and poverty needs.
- ◀ 23 The right to buy is a government policy introduced in the 1980s, which allowed tenants of councils to buy their rented home at a discounted rate. Other policies were also introduced to allow tenants to buy RSL homes.
- ◀ 24 *Homes fit for the 21st Century*, Scottish Government, 2011.
- ◀ 25 [Crisis – Sleeping rough](#)
- ◀ 26 *The Registrar General's Annual Review of Demographic Trends*, National Records of Scotland, 2012.
- ◀ 27 *The impact of population ageing on housing in Scotland*, Scottish Government, 2010.
- ◀ 28 *The Registrar General's Annual Review of Demographic Trends*, National Records of Scotland, 2012.
- ◀ 29 The Department of Work and Pensions will determine whether a bedroom is 'spare' according to a set of criteria.
- ◀ 30 *Impact of Planned Housing Benefit Changes in Scotland: Reducing the Housing Benefit of Households of Working Age in Social Housing Under-Occupying a Property*, Scottish Government, 2012.
- ◀ 31 Audit Scotland produced a report for the Accounts Commission in May 2013 on councils' preparations for welfare reform.
- ◀ 32 *Scotland's spending plans and draft budget, 2011-12*, Scottish Government, 2010.
- ◀ 33 All figures are in 2011/12 prices.

- ◀ 34 Housing budget figures include the Scottish Government's housing budget as well as the Transfer of Management of Development Funding (which sits in Local Government budget), funding for the Scottish Housing Regulator (which sits under 'other') and the warm homes fund (which sits in the Transport budget). We have removed all regeneration budgets and have not deducted income. All budgets are in 2011/12 prices.
- ◀ 35 This is the affordable housing investment budget.
- ◀ 36 *The Scottish Government's Draft Budget 2013-14*, Infrastructure and Capital Investment Committee of the Scottish Parliament, 2012. This compares capital funding across two spending review periods (2009/10 to 2011/12 and 2012/13 to 2014/15).
- ◀ 37 *Affordable housing supply programme: Out-turn Report, 2011-12*, Scottish Government, 2013.
- ◀ 38 [Major capital investment in councils](#) , Audit Scotland, March 2013.
- ◀ 39 [The Department for Work and Pensions – Benefit expenditure tables](#) 
- ◀ 40 Retrofit means refurbishing or re-fitting existing homes to make them more energy efficient, for example by insulating walls, doors or windows to keep heat in. It can also involve installing new technology such as 'smart meters' that monitor energy use, a new boiler or renewable heat or hot water systems.
- ◀ 41 Glasgow City, Inverclyde, Argyll & Bute, Dumfries & Galloway, Scottish Borders, and Comhairle nan Eilean Siar have transferred all of their housing stock to RSLs.
- ◀ 42 *Local Authority Housing Revenue Account (HRA): report to Alex Neil, Minister for Housing and Communities*, Scottish Government, 2010. In response, in May 2013, the Scottish Government consulted with councils and tenants' groups on guidance for the HRA.
- ◀ 43 The general fund is a council's main account, into which the council receives money and from which it makes payments.
- ◀ 44 *Funding the homeless service*, Shelter, 2012.
- ◀ 45 *The capacity of Registered Social Landlords and Local Authorities to build housing across Scotland*, Scottish Government, 2010.
- ◀ 46 *The Scottish Government's Draft Budget 2013-14*, Infrastructure and Capital Investment Committee of the Scottish Parliament, 2012.
- ◀ 47 This is based on self-reporting from councils and RSLs. *Scottish Housing Quality Standard progress report*, Scottish Housing Regulator, 2012.
- ◀ 48 *Housing Capital Budget 2012/13 to 2013/14*, Aberdeen City Council, 2011.
- ◀ 49 [Scottish Government estimate based on consultation responses](#) 
- ◀ 50 *Weathering the Storm*, Scottish Housing Regulator, 2011. While the total loan facility available to RSLs increased from £2.9 billion in 2007 to £3.9 billion in 2011, the proportion of unused facility, that is the amount of available loan RSLs have not used, has fallen. In 2007, RSLs had £1.3 billion in unused loan facilities. By 2011 this had fallen to just over £1 billion, and the regulator expects this to be less than £1 billion in 2012.
- ◀ 51 [Major capital investment in councils](#) , Audit Scotland, March 2013.
- ◀ 52 The Public Works Loan Board provides loans to public bodies from the National Loans Fund; it provides loans to councils, primarily for capital projects.
- ◀ 53 *The Scottish Government's Draft Budget 2013-14*, Infrastructure and Capital Investment Committee of the Scottish Parliament, 2012.
- ◀ 54 *Ibid.*
- ◀ 55 There is also a Private Rented Housing Panel to help tenants who think their home is not structurally sound or 'reasonably fit for human habitation'.
- ◀ 56 *Condition survey of older private houses*, Glasgow City Council, 2006. This looks at the condition of houses built before 1945, it estimates it would cost £15.7 million to get all homes to the tolerable standard, £30.8 million to fix the roofs and £44.5 million for all homes to meet SHQS.
- ◀ 57 The timescales for direct payments and arrangements for any exceptions have still to be confirmed.
- ◀ 58 *The impact of welfare reform on Scotland*, Sheffield Hallam University for the Scottish Parliament, 2013.
- ◀ 59 Scottish Housing Regulator Chair speech at Harper Macleod national housing conference, November 2012.
- ◀ 60 *Report on the Long-Term Funding Options*, Murja Ltd, 2012.
- ◀ 61 [Evidence and analysis of Scottish Government research](#) 
- ◀ 62 *2009 Annual Report of Chief Medical Officers Report*, Department of Health, 2009.
- ◀ 63 *Social Return On Investment (SROI) evaluation of the Craft Café Programme*, Social Value Lab, 2011.
- ◀ 64 *Supporting older people to live at home: the contribution of housing associations and cooperatives in Scotland*, Scottish Federation of Housing Associations, 2012.
- ◀ 65 *New build construction, comparative costs in urban social housing projects*, Glasgow and West of Scotland Forum of housing associations, 2012.
- ◀ 66 Criteria included viability, the level of government support required, accessibility and scale.
- ◀ 67 *Report on the Long-Term Funding Options*, Murja Ltd, 2012.
- ◀ 68 *Glasgow and West of Scotland Forum of Housing Associations report to Cabinet Secretary for Infrastructure, Investment and Cities and the Minister for Housing Welfare*, Glasgow and West of Scotland Forum of Housing Associations, 2013.

- ◀ 69 *Report on the Long-Term Funding Options*, Murja Ltd, 2012.
- ◀ 70 *Social sector rents in Scotland*, Scottish Government, 2007.
- ◀ 71 Local Development Plans concentrate on the long-term development plans of local areas. They should set out where most new developments will happen and policies that will guide decision-making and planning applications.
- ◀ 72 The estimated need takes account of houses sold through right to buy.
- ◀ 73 Audit Scotland audited the [Community Planning Partnerships in North Ayrshire, Scottish Borders and Aberdeen in 2013](#) 
- ◀ 74 Homelessness legislation received royal assent in 2003 – Homelessness etc (Scotland) Act 2003.
- ◀ 75 A person becomes homeless intentionally if they deliberately do, or fail to do, anything which causes them to cease to occupy accommodation which was available and reasonable for them to occupy.
- ◀ 76 Figures as at 31 March 2013: [Scottish Government homelessness statistics](#) 
- ◀ 77 Data from Scottish Housing Best Value Network (SHBVN). SHBVN is a consortium of council and RSLs working together to benchmark performance and share good practice.
- ◀ 78 [Housing statistics for Scotland - Public authority housing stock](#) 
- ◀ 79 *Living in limbo*, Shelter, 2004.
- ◀ 80 *Funding the homeless service*, Shelter, 2012. Information on temporary accommodation spend is based on survey data collected from councils. It is not audited and does not include every council area.
- ◀ 81 Based on analysis of Scottish Housing Best Value Network data.
- ◀ 82 Ibid.
- ◀ 83 Further details and a summary of the methodology are available in [Social Housing in Scotland](#) 

Appendix 1

Membership of the advisory group



Audit Scotland would like to thank the members of the advisory group for their input and advice throughout the audit.

Member	Organisation
Lesley Baird	Tenant Participation Advisory Service Scotland
Kay Barton	Scottish Government
David Bookbinder	Chartered Institute of Housing
Ian Brennan	Scottish Housing Regulator
Rosemary Brothie	Shelter Scotland
Karen Campbell	Homes for Scotland
Angela Currie	Scottish Housing Best Value Network
Ken Gibb	University of Glasgow
Jim Harvey	Glasgow and West of Scotland Forum of Housing Associations
Jim Hayton	Association of Local Authority Chief Housing Officers
Silke Isbrand/ Caroline Johnston	Convention of Scottish Local Authorities
Maureen Watson	Scottish Federation of Housing Associations

Note: Members of the advisory group sit in an advisory capacity only. The content and conclusions of this report are the sole responsibility of Audit Scotland.

Appendix 2

Audit methodology



We reviewed a range of published information to inform our audit, including:

- Scottish Government strategies, budgets, consultations, policy documents and guidance
- Scottish Parliament Committee reports and supporting evidence, including reports from the Finance Committee and the Infrastructure and Capital Investment Committee
- Reports and research from the Scottish Government, the Scottish Housing Regulator and housing providers on the performance, financial sustainability and future risks to the sector, including the impact of welfare reform
- Academic and research papers, including assessments of housing needs and housing markets and the added value of housing.

We reviewed published and unpublished data including:

- Scottish Government housing statistics, including data on new builds, waiting times, homeless services and unpublished data on spending
- Scottish Government Centre for Market Analysis data on housing market indicators such as mortgage approvals and new builds
- Scottish Housing Regulator data on Registered Social Landlords (RSLs) performance and finances
- National Records of Scotland data on past and projected changes to Scotland's population and number of households
- Scottish Housing Best Value Network data on the use and cost of temporary accommodation.

We carried out focus groups and interviews with:

- Scottish Government staff
- COSLA staff and council representatives through the Association of Local Authority Chief Housing Officers (ALACHO)

- representatives from RSLs through the Scottish Federation of Housing Associations and the Glasgow and West of Scotland Forum of Housing Associations
- tenants through the Scottish Government's Regional Network for tenant participation and the Tenant Participation Advisory Service Scotland
- private sector representatives, including Homes for Scotland and the Council of Mortgage Lenders
- third sector organisations, including Shelter and the Housing Support Enabling Unit
- a range of other housing experts including the Chartered Institute of Housing, Scottish Housing Best Value Network and academics.

We would like to thank ALACHO, the Scottish Federation of Housing Associations and Glasgow and West of Scotland Forum of Housing Associations for organising focus groups and meetings with representatives.

We commissioned i.s.4 housing and regeneration ltd to analyse published information to assess if, all things being equal, council and RSL income for housing is enough to cover costs and protect value in the longer term. We considered council and RSL rental income against their expenditure on management, repairs and investment and their lost income through empty properties and projected this over thirty years. Further details on the methodology and findings are available in [Social Housing in Scotland](#).

We carried out our own analysis of:

- **New homes and household projections** – we calculated three scenarios for the number of additional homes in each year until 2035. We did so by assuming the Scottish Government target of 6,000 new council and RSL homes will be delivered in each year and then adding worst, average and best case private building figures to this number. In the worst case scenario, we assume private builds remains at 2011/12 levels (the lowest in the last 12 years). In the best case scenario, we assumed private builds remains at 2004/05 levels (the highest in the last 12 years). In the average case scenario, we assume private builds remains at the annual average for 1999/00– 2011/12. [\(Exhibit 3, page 14\)](#) shows the ratio in each year between these new build scenarios and National Records of Scotland household projections. It shows the relationship between the three new building scenarios and household projections. An indicator line of one new home for each new household shows when the number of new homes equals the number of new households in any one year.
- **Council spend on temporary accommodation** – we calculated council spend on temporary accommodation using data from the Scottish Housing Best Value Network on average number of days in temporary accommodation, average weekly costs for different types of temporary accommodation and average uses of different types of temporary accommodation. We then compared the total cost of temporary accommodation with how much it would cost to house these people in council housing.

Housing in Scotland

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