



# Modernising Scotland's Social Housing :

A consultation paper





## **Ministerial Foreword**

In my statement to Parliament on 7 November 2002 I set out a number of housing policy initiatives and undertook to consult local authorities, registered social landlords and others about how we should take those proposals forward. This paper fulfils that commitment.

I described my statement at the time as representing a major evolution of housing policy. The cross-party support and the endorsement given to it by those involved in social housing is, I believe, evidence that my proposals will make a significant contribution to improving the standard of social housing across Scotland. This won't be achieved overnight though. There's no way that we can put right, as quickly as we would all like, the problems that have beset social housing for generations. But since 1999 we have been working hard to deal with those problems. The most tangible evidence of that is the work that we've done to support the local authorities in Glasgow, Scottish Borders and Dumfries and Galloway in the transfer of their entire stock to new, not-for-profit landlords, which will see £2 billion of new investment in 100,000 houses over the next 10 years.

Not so many years ago investment on that scale in social housing was a pipe-dream, as was the thought of seeing so many houses brought up to a modern, decent standard. The fact is that we are turning the dream into a reality for 100,000 families. But we don't want it to stop there. My objective is to see all social housing providing a minimum quality standard to those who live in it. This consultation paper starts the process of working with local authorities, Registered Social Landlords and others to set the precise details of the standard.


Modernising our social housing in this way will of course need to be paid for. I believe that community ownership remains the best way of unlocking the necessary sums and we will continue to work with local authorities to progress transfer proposals – which now include the option of looking at partial stock transfer as part of a whole-stock strategy. We will give local authorities new freedoms to increase investment through a prudential framework. This should offer those local authorities with low to moderate rent and debt levels some opportunity to raise new borrowing but I expect that for others whole-stock transfer will remain the best way of raising the necessary investment to deliver the new standard for their tenants. But whatever option local authorities decide upon it will need to deliver the new quality standard. We will work with and provide support to those local authorities that embrace the standard, but those that don't should not expect any extra support from the Executive.

But, important though investment in the housing fabric is, we shouldn't see it as an end in itself. We have to stand back and make sure that it contributes to the building of safe, strong communities: communities that are sustainable in the long term. In some areas, that will

require looking at the investment in the context of a wider regeneration effort to tackle deprivation and under-investment. Elsewhere the pressures to be addressed will come from economic growth while in others it might be dealing with the consequences of a failure in the housing market. One simple prescription can't cure this range of problems, which is why we have been working hard to develop an integrated approach that can respond flexibly to the needs and circumstances of individual areas and communities.

These are important issues and I think that we have a great opportunity to work together to bring real improvements to the lives of all those who live in social housing. The developments outlined in this paper will also make an important contribution to our goal of delivering social justice for all and closing the opportunity gap.

I look forward to receiving your views.

A handwritten signature in cursive script that reads "Margaret Curran". The ink is dark and the handwriting is fluid and personal.

Margaret Curran MSP  
Minister for Social Justice  
March 2003

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## SECTION 1

### SUMMARY OF THE MAIN AREAS COVERED IN THIS CONSULTATION PAPER

In her statement to the Scottish Parliament on 7 November, Margaret Curran, the Minister for Social Justice, announced a package of measures intended to improve fundamentally the quality of the nation's stock of social housing. The Minister re-affirmed the Executive's commitment to community ownership through the whole-stock transfer process but also announced that local authorities will have access to a wider range of options for funding the investment that will be necessary to see the improvements in the stock that the Minister has called for. The text of the full statement can be found on the Scottish Parliament's website at:-

[http://www.scottish.parliament.uk/official\\_report/session-02/sor1107-02.htm/Col15023](http://www.scottish.parliament.uk/official_report/session-02/sor1107-02.htm/Col15023)

In summary, the Minister announced proposals in the following areas:-

#### **A new Scottish Social Housing Standard;**

Many Scottish local authorities have or are in the process of developing local quality standards for their own stock. It is clear that there would be merit in establishing a national standard that would deliver a minimum set of quality standards for tenants of all social landlords. This would not necessarily cut across any local authority's own plans but would act as a benchmark against which investment decisions could be made and against which future progress can be assessed. Ministers though are firmly of the view that in order to command widespread support the new standard must be a collaborative effort, arrived at after close consultation with local authorities, Registered Social Landlords (RSLs) and others. Not least, we need to look at the cost of meeting the standard and what a realistic timetable for achieving it will be, along with appropriate interim milestones. In order to focus discussion this paper sets out some options for what the standard might look like although at this stage no individual elements are ruled in or out. **Views are being sought in Section 2 on how to develop the standard, what elements it should contain, what target date should be set for meeting it, what interim milestones would be appropriate and how local authorities and RSLs should report their strategies for delivering the standard.**

#### **Re-affirmation of the benefits of community ownership through the whole-stock transfer process;**

Considerable progress has been made with delivering community ownership through the whole-stock transfer programme. Glasgow and Borders have both successfully transferred and Dumfries and Galloway is in the final stages of transfer. Together these will cover about 100,000 houses and will unlock investment of about £2 billion over the next 10 years. The lessons learnt so far from these transfers are now being reviewed with the aim of streamlining the process to speed up future transfers. The Minister announced on 18 March that a short-life working group would be set up to broaden the scope of the current review and that outside stakeholders will be invited to participate in the group to take forward these issues.

## **Extending the Prudential Regime to local authority housing capital finance;**

Ministers have now decided that housing finance should be brought within the scope of the new prudential borrowing regime already announced for the rest of local authority capital expenditure. This will take effect from April 2004. Considerable work is already in hand to look at how the Prudential Regime will apply generally. We are now working with CoSLA and local authorities to ensure that the housing dimension is fed into this process. **A significant issue covered in Section 3 of this paper is what business planning information local authorities and the Scottish Executive will need to have in order to reach informed decisions about the use of the new prudential borrowing powers. Views are being sought on this.**

## **Inviting ideas of innovative funding and management approaches.**

This part of the consultation is an opportunity for respondents to offer thoughts on innovative or radical approaches to (1) the funding of social housing and/or (2) the management of the social housing stock. While not being prescriptive about the alternatives, the Minister made it clear that to be worthwhile they would have to show how they can promote improved tenant involvement, deliver the necessary investment and support effective and transparent management. **This part of the consultation is dealt with in Section 4 and is intended to provoke new ideas that may be picked up for further development and discussion. No specific questions are being posed.**

## **Improving the links between housing and regeneration; the Community Ownership Programme and partial transfers.**

Section 5 of the paper deals with a series of further announcements that Ms Curran made on 18 March 2003 about measures to improve the links between housing and regeneration investment.

The following sections expand further on each of these areas (apart from the review of the transfer process which is being dealt with separately) and sets out questions or areas where we would like to receive comments. It would be very helpful if respondents structured their responses in line with these questions although we would of course welcome general views in addition.

We have set out at Annex A a timeline showing what we believe to be the key actions that the Scottish Executive, local authorities and RSLs need to consider in terms of responding to the policy developments outlined in this paper.

## **Responses**

Responses are asked for by Monday 30 June 2003 after which responses will be analysed and a summary report produced. All responses will be acknowledged and late responses will be accepted so far as they reasonably can. All responses will be placed in the Scottish Executive library unless respondents clearly indicate that they wish their response to be treated as confidential.

Part or all of this document can be made available in a variety of languages and other formats on request.

The text of this consultation paper can be found at:-

<http://www.scotland.gov.uk/consultations/housing3/consultation.asp>

Responses should be sent to: James Hynd  
Scottish Executive  
Housing Division 1  
Area 1-H  
Victoria Quay  
Edinburgh  
EH6 6QQ  
Fax 0131 244 5596

Online responses can be made to:-

<http://www.scotland.gov.uk/consultations/responses/housing3/responses.asp>

Recipients of this consultation include all Scottish local authorities (chief executives, and directors responsible for housing and for finance), CoSLA, SOLACE, all Registered Social Landlords in Scotland, the Scottish Federation of Housing Associations, the Chartered Institute of Housing in Scotland, Shelter, tenant groups, Council of Mortgage Lenders, the Committee of Scottish Clearing Bankers, CIPFA, Audit Scotland, and Homes for Scotland.

## SECTION 2

### SCOTTISH SOCIAL HOUSING STANDARD

In Scotland each year local authorities, on the basis of their own local spending priorities, undertake capital investment in their housing stock of about £350 million a year. In arriving at these local priorities, our research suggests that an increasing number of local authorities have either developed or are in the process of developing a local housing quality standard. However, overall it is not always clear that even where a standard exists there is always a direct correlation between spending plans and delivery of the local standard.

The fact that so many authorities have made an effort to establish a standard would appear to be a clear sign of a desire by local authorities to consider the long term management and investment needs of their houses and to have some objective measure against which spending plans can be assessed and through which improvements delivered to tenants can be measured. In both England and Wales, national quality standards have been put in place and a number of Scottish housing organisations have called for one to be established in Scotland.

Against that background it would appear that Scottish local authorities and registered social landlords would welcome guidance on:-

- a national standard for assessing the physical condition of their stock;
- how this standard should inform the setting of capital plans;
- how to benchmark and measure progress in delivering the new standard.

Before looking at these 3 areas in turn, it is important to set out how the link will be made between the social housing standard and the work that has been taken forward by the Housing Improvement Task Force.

The Task Force considered the need for a cross tenure Scottish housing quality standard and how this might be used. It also considered the main elements of such a standard and asked the Scottish Executive to commission research, which has recently been completed, to help refine this further. The aim is to define a standard which would clearly be more comprehensive than the “condemnatory” tolerable standard and be used to inform the setting of policy objectives and targets. We have taken account of the views of the Task Force and the associated research in drawing up proposals which are set out below. We will also want to take account of the Task Force’s recommendations on the tolerable standard itself. The relevant sub-group of the Task Force has already reported to the main Task Force and its report is available on the Executive website along with the final report of the Task Force at <http://www.scotland.gov.uk/library5/housing/pfph-00.asp> . The research report “Proposed Housing Quality Standard – Development of Options for Assessing Housing Against Defined Quality Criteria” by David Adamson and Partners is available on the Communities Scotland website at <http://www.communitiesscotland.gov.uk/communities/upload/rr12.pdf>

#### **What elements might the new Scottish Social Housing Standard contain?**

The new national standard will be designed to be a fit for purpose standard but the achievement of it should mark real improvement in the quality of service to tenants. It will set a series of minimum quality benchmarks that social landlords will be expected to provide.

Local authorities will be free to set higher standards than the new social standard, in consultation with their tenants, if they wish to do so.

At this stage, no firm decisions have been made about what the new social standard should cover. In making her announcement, the Minister was quite clear that the development of the standard would be a collaborative exercise with local authorities, RSLs and other key stakeholders, especially tenants. The suggestions made in this section about what elements the standard might contain are just that but they take account of the work undertaken by the Task Force (as mentioned above) and research undertaken on existing standards. They are intended to focus discussion on the sorts of areas that existing standards already cover and might therefore reasonably be expected to appear in the new national standard. The final standard itself could well include other elements.

The standard could, for example be made up of a number of housing quality criteria like those listed in column one of the table below. Column two sets out how each of these criteria could be defined whilst column three lists a number of elements that could be included within that definition.

Assessing whether a house passes or fails the test will need to be based on clear and unambiguous benchmarks. Where a criterion contains a number of elements, failure of the standard could arise where one element is below standard or, for more complex criteria, where more than one element fails. In the table, a house would for example fail on grounds of serious disrepair where either one of the primary elements is in need of more than 20% repair or replacement or where two of the key elements are in such a condition.

| <b>AN OUTLINE HOUSING QUALITY STANDARD FOR SCOTLAND</b> |                            |   |  |
|---|----------------------------|---|--|
| <b>1</b>  | <b>2</b>                   | <b>3</b>  | <b>4</b>   |
| <b>Housing Quality Criteria</b>                         | <b>Criteria definition</b> | <b>Criteria elements</b>  | <b>Failure assessed by:</b>  |
| COMPLIANT WITH THE TOLERABLE STANDARD                   | The Tolerable Standard     | Below Tolerable Standard  | Single Failure   |
| FREE FROM SERIOUS DISREPAIR                             | Primary Building Elements  | Wall Structures<br>Internal Floor Structures<br>Foundations<br>Roof Structure   | Single Element Failure.<br>An item fails where it requires repair or replacement of more than 20%                  |
|   | Key Building Elements      | Roof Covering<br>Chimney Stacks<br>Flashings<br>Rainwater Goods<br>External Wall<br>Finishes<br>Access Decks/ Balustrades<br>Damp Proof Course<br>Windows/ doors<br>Common windows/ roof lights | Failure by <u>two</u> or more elements.<br>An item fails where it requires repair or replacement of more than 20%. |
| ENERGY EFFICIENT  | Effective insulation       | Cavity Insulation where appropriate<br>200mm Loft Insulation where appropriate  | Single Item Failure  |
|   | NHER rating                | NHER Rating of 5 or above   | Single Item Failure  |

| <b>AN OUTLINE HOUSING QUALITY STANDARD FOR SCOTLAND</b> |                            |  |   |
|---|----------------------------|--|---|
| <b>1</b>  | <b>2</b>                   | <b>3</b>   | <b>4</b>  |
| <b>Housing Quality Criteria</b>                         | <b>Criteria definition</b> | <b>Criteria elements</b>   | <b>Failure assessed by:</b>   |
| MODERN FACILITIES AND SERVICES                          | Kitchen Condition          | Kitchen Fittings in good and usable condition  | Single Item Failure<br>An item fails where it requires repair or replacement of more than 25% |
|   | Bathroom Condition         | Bathroom Amenities in good and usable condition  | Single Item Failure<br>An item fails where it requires repair or replacement of more than 25% |
|   | Facilities                 | Kitchen size 2m or above between opposing walls<br>Adequate storage – 1.7m <sup>3</sup> in 1 or 2 person dwelling.<br>2.3m <sup>3</sup> in 3 or more person dwelling<br>Safe working sequence<br>Sufficient power outlets – 3 double sockets or above<br>2 <sup>nd</sup> WC in 3 bedrooms + properties | Failure by 2 or more items  |
| HEALTHY, SAFE AND SECURE                                | Healthy                    | Full house central heating available<br>Internal pipe work lead-free   | Single Item Failure   |
|   | Safe                       | Mains-wired smoke detectors present on each floor  | Single Item Failure   |
|   | Secure                     | Secure window locks<br>Secure front and rear access doors<br>Emergency lighting to common areas<br>Door entry systems to enclosed common areas<br>Secure rear access doors to enclosed common areas  | Failure on 2 or more items  |

The consultants to the HITF recommended against the inclusion of an accessibility measure, as particular needs which relate to the changing usage of the housing stock over time are impossible to predict. In addition, significant sections of the housing stock will prove incapable of providing barrier free or wheelchair access and will never be required to do so. The consultants argued that such dwellings are not of inferior quality for this reason. The Task Force's view was that the extent to which houses meet barrier free standards, or have features that make it relatively easy to adapt them, was important strategic information that should be available to assess the potential of the stock to meet the requirements of persons with particular needs.

It is clearly in all our interests to ensure that the investment that is going into social housing to deliver the new standard, whether by community ownership through stock transfer or retention, produces housing that contributes to the development of cohesive and sustainable communities.

We recognise that the quality of housing areas (the maintenance and condition of open spaces, hard and soft landscaping and paths, the absence of litter and graffiti for example) is a significant factor in tenants' and residents' view of their homes. Maintaining and improving

housing environments is an important part of any landlord's investment programme. However there are technical problems in defining quality or setting standards on these topics. In addition, in mixed tenure areas, where the great bulk of our rented housing is now found, the condition of public areas is not solely the responsibility of housing managers. Given these factors, it is probably not appropriate that the standard should include matters external to the houses themselves.

However, when making investment decisions, local authorities and RSLs should take a wider view of the opportunities that present themselves to make improvements to the immediate environment of the individual dwelling and to the general environment. In considering this, local authorities and RSLs should consult tenants as part of the consultation process that should precede significant investment proposals.

Ministers are also keen that the standard should address security matters, including designing crime reduction measures into new build and refurbishment projects. At the moment all housing projects funded by Communities Scotland are expected to adhere to the principles of the Secured by Design initiative, unless there are some characteristics of the development which prevent those principles being applied. Ministers want to see this approach applied to all housing projects funded by the Executive. The draft standard already contains elements to do with security but Ministers would welcome views on whether there would be scope to incorporate more of the features of Secured by Design within the standard. More details on Secured by Design can be found at:- <http://www.securedbydesign.com/>

### **Assessing Compliance**

For the social housing sector, our intention is that the standard would be applied on a "pass/fail" basis. The foregoing table offers one scheme for determining whether or not a dwelling complies with the suggested standard. Alternatives may be possible and suggestions will be welcomed.<sup>1</sup> If "accessibility for persons with particular needs" is included in the standard, then it may be sensible to exclude this measure from the pass/fail assessment since many houses will never be capable of meeting barrier free standards but may, of course, provide perfectly acceptable accommodation for most households.

### **Definition of the Standard**

Once we have analysed the responses received, we shall determine the key elements of the standard and the detailed areas they should cover and issue the final definition of the standard during the course of Summer 2003.

### **Setting a date for achieving the new standard**

We are also seeking views on appropriate timescales for reaching the standard. Output from the Scottish House Condition Survey this Autumn will provide the basis for producing broad estimates at the national level of the cost of meeting the new standard; Ministers will then set a proposed target date for meeting the standard. This target date will be confirmed or revised once we have in place the detailed responses from local authorities and RSLs setting out their strategies (described in more detail below) for meeting the standard by the target date and the

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<sup>1</sup> For the private sector, the same standard could be applied to determine the average quality profile of private sector housing without the application of a pass/ fail assessment. Instead, the stock could be measured against a suitable scoring system. The report by David Adamson and Partners includes full details of such a system.

cost implications. In addition to the final target date, Ministers will also want to set interim milestone targets which could, for example, relate to numerical progress towards the final target or could require priority to be given to particular types of dwellings or to dwellings located in particular areas. We expect to issue further details when Ministers announce the proposed date for meeting the standard.

### **Points for discussion**

- 1 - Are the key elements of the standard covered in the table broadly the right ones?*
- 2 - Should accessibility be included as a key element?*
- 3 - Are there any other key elements which should be included?*
- 4 - Are the detailed areas suggested for each key element broadly the right ones?*
- 5 - Are there any other detailed areas which should be included?*
- 6 - What are your thoughts on what the appropriate minimum quality levels might be for the detailed areas?*
- 7- Should more of the features of Secured by Design feature in the Standard?*
- 8- What are your views on an appropriate target date for meeting the new standard?*
- 9- What would be appropriate interim milestones?*

### **Developing and reporting on strategies for meeting the Scottish Social Housing Standard**

Once the structure and detailed content of the standard have been established through consultation, the next stage will be for social landlords to assess how their houses measure up to it, and what will need to be done to bring all parts of their housing stock to the agreed standard, taking account of the proposed target date. The introduction of the standard will therefore have a major impact on the strategic decisions that local authorities reach about the management and ownership of their housing stock. It may also have significant implications for some RSLs.

### **Local Authority Houses**

Councils will already be considering the condition and future of their own stock in the context of preparing their Local Housing Strategies, which they have to submit by April 2004 at the latest. As part of this process, councils will have undertaken a rigorous analysis of the condition of their houses and of the extent and cost of the investment required. For most councils this work will have been supported through the New Housing Partnership funding. As a result of this work councils will have developed proposals for undertaking the necessary investment including looking at the ownership options of retention or transfer – whole or partial. That work will clearly assist councils in determining the impact that the new standard will have on their investment requirements and therefore on their ownership options.

Clearly therefore the setting of the new standard and a target date, expected in the autumn of 2003, will have a significant impact on the LHS process. We believe that the LHS, or an update to the LHS, is the appropriate vehicle for councils to provide:

- an analysis of the profile of their stock against the standard,
- proposals to deliver it by the proposed target date and
- estimates of the costs involved.

However this raises issues of timing; we recognise that producing LHS which reflect the new standard by April 2004 may be possible for, and welcomed by, some authorities, but not others. As a result we propose to offer some flexibility to councils. Those councils that are in a position to do so, should take full account of the standard when producing their April 2004 LHS. This also needs to make clear which of the range of options now available to them they intend to pursue, demonstrating the financial viability of that choice.

Other councils should submit their April 2004 LHS as they would otherwise have intended, detailing their strategy for their own housing on the basis of their existing information, and should take account of the standard in an April 2005 update to the LHS. Councils that adopt this second approach should indicate in their April 2004 LHS the milestones that they will be working towards to achieve an acceptable April 2005 update.

Some authorities will be intending to submit their Local Housing Strategies by September 2003 with a view to taking over the management of the Communities Scotland Development Programme for their area from April 2004. They should continue to submit their LHS by September, but should also ensure that, by April 2004, they either provide an LHS update to take account of the standard, or submit the milestones that they will be working towards to achieve an acceptable April 2005 update.

The information provided by councils in relation to the standard will be assessed using the same assessment criteria irrespective of whether councils submit it in April 2004 or 2005. Existing Local Housing Strategy guidance will be updated to reflect these new arrangements

### **RSL Houses**

RSLs should provide Communities Scotland with their assessments of the profile of their houses against the standard, where possible by April 2004, with strategies for achieving it submitted by April 2005.

### **Achieving the Social Housing Standard**

We expect that over time local authorities, and RSLs, will refine their delivery strategies, consistent with meeting the target date, in the light of better information about the condition of their houses, especially through the local house condition survey process. Local authorities and RSLs will be expected to develop strategies using the full range of funding options at their disposal to meet the costs of delivering the new standard.

### **Points for Consideration**

***10. We propose that local authorities should provide the following in relation to the standard:-***

- ***The number of houses that fall beneath the standard;***
- ***An analysis of the nature of the failure;***
- ***The landlord's strategy to bring the failing stock up to standard;***
- ***How much the work is likely to cost;***
- ***How the work will be funded;***
- ***The timetable envisaged to bring all stock up to the minimum standard by the target date.***

This information should be submitted in the context of an LHS/ LHS update in either April 2004 or April 2005; the date will depend on the circumstances of individual councils as outlined above. However, by April 2004, **all** councils will be required to either provide the information, or to set out the milestones that they are working towards to achieve its provision by April 2005.

Much of this information will be needed anyway as part of the move to the Prudential Regime (described in the next section): the framework that will be put in place to govern the operation of the new financial regime will require all local authorities to adopt local strategic planning, local asset management planning and proper option appraisal.

RSLs should provide Communities Scotland with their assessments of the profile of their houses against the standard by April 2004 with strategies for achieving it submitted by April 2005.

Communities Scotland will discuss with local authorities and RSLs how delivery of the standard should be reflected in the regulatory framework.

## **SECTION 3**

### **THE PRUDENTIAL REGIME AND HOUSING CAPITAL FINANCE**

Ministers remain of the view that the investment potential released from community ownership through stock transfer is the best way of getting significant new resources into social housing and doing so more quickly than other options. Community ownership also delivers a raft of other benefits, most significantly putting tenants at the centre of the decision making process. Ministers however recognise that for some local authorities transfer is not necessarily the only option in their circumstances. For authorities that have low to moderate debt and rent levels, and investment needs on a manageable scale it could well be sustainable for them to retain their stock and undertake the necessary investment.

Ministers therefore decided that it would be appropriate to offer to authorities something other than a choice between transfer and the status quo and as a result announced their intention to give local authorities additional freedom to borrow within the new prudential regime that has been announced for the rest of local authority capital investment. The change will take effect from April 2004. The statutory basis for the new regime will be the new Local Government in Scotland Act. CIPFA is preparing detailed technical guidance on the operation of the regime. The latest version of this guidance can be found at:-  
[www.cipfa.org.uk/pt/prudential\\_framework.html](http://www.cipfa.org.uk/pt/prudential_framework.html)

#### **Broad principles**

At its heart, what the Prudential Regime means is that in future local authorities will decide for themselves what is an affordable and prudent level of borrowing in their financial circumstances. They will need to assess the sustainability of their income streams and reach a view on what level of debt (both old and new) they can afford to service.

With this greater freedom will come greater responsibility. The Prudential Regime will not offer easy choices for local authorities. Extra borrowing will need to be paid for. In housing, the repayments will be out of rents. Authorities will take full responsibility for their housing debt and must ensure that this remains at manageable and affordable levels and does not place an unsustainable burden on current or future tenants. Ministers will take powers to step in should it appear that local authorities, either in total or individually, are raising borrowing to levels that might be unsustainable. These powers are expected only to be used in last resort circumstances; the primary responsibility to manage their finances will fall to local authorities.

Authorities will be expected to set for themselves their own prudent borrowing limits and to report publicly if they have adhered to these limits, and if not, why not. Authorities' external auditors will report on authorities' compliance with the regime. The precise operation of the Prudential Regime continues to be developed with local authorities and CIPFA.

It is important to realise however that the move to a Prudential Regime for housing will not of itself change the fundamental choices that face authorities with significant debt levels, high investment needs and high rents. For them, stock transfer will remain the best option. In other words, those local authorities are very unlikely to find that the Prudential Regime will

offer them any additional scope to increase borrowing and therefore investment levels much, if at all, beyond what they can currently afford.

### **Capital Receipt Set Aside Rules**

One specific issue that needs to be addressed as part of the move to the Prudential Regime is the future treatment of capital receipts and the set-aside rules. The current rules require local authorities to set aside 75% of receipts received from the sale of houses under the Right to Buy legislation and 50% of the receipts received from the sale of land and other assets. These rules were introduced in 1997 in order to speed up the reduction of the historically high levels of Scottish housing debt. This has contributed towards a reduction in housing debt of around £800 million between March 1997 and March 2002 and has resulted in a saving of about £80 million a year in interest charges.

However, there might be arguments in favour of dispensing with these rules from April 2004 when the new borrowing regime is introduced. Part of the argument is that under the Prudential Regime, local authorities will be expected to manage all of their debt (general fund and housing) as a single entity and to apply best treasury management procedures to ensure that the best value for money is obtained. It might therefore make sense to bring housing into line with the general fund (where set aside rules no longer apply).

We also expect that the Prudential Regime should have a self-limiting effect by which we mean that if an authority decided not to use receipts to repay debt it would probably reduce its headroom to take on new borrowing. In other words most authorities will be faced with a choice between either using capital receipts to invest or raising new borrowing through the Prudential Regime. This might suggest that for many authorities the abolition of the set aside rules in the context of a Prudential Regime would be fairly neutral in terms of the total quantum of investment capacity.

### **Points for Discussion**

*Local authorities will now be considering what the consequences of moving to the Prudential Regime will mean for the financing of their Housing Revenue Account. As part of that work authorities may wish to consider the impact of changes to the set aside rules. Any calls for change from local authorities should be supported by an analysis of the financial effects of changes to the rules on the authority's levels of future investment, debt and servicing costs.*

*We would welcome views on:-*

*11. Whether the current set aside rules should be retained in order to make further inroads into debt levels?*

*12. If the view is that the rules should change should this mean outright abolition or a change in the percentage levels?*

## Reporting Arrangements

The section dealing with the development of the new Scottish Standard for Social Housing set out how we will expect local authorities and RSLs to prepare delivery strategies which will also cover how they intend to fund the cost of meeting the standard.

In the context of the operation of the Prudential Regime we will set out in Regulations under the new Local Government Act what information we will require from local authorities regarding their use of the new funding flexibility. We stress, however, that we are not attempting to replicate the approval arrangements that currently exists under the present section 94 controls. Nevertheless, as described above, Ministers do have a legitimate role to play in assuring themselves that total and individual borrowing proposals are sustainable. The detailed technical guidance that CIPFA is preparing is likely to recommend that authorities put in place asset management and business planning arrangements. The information returns that we are suggesting below should fall out of that process.

We will want to keep the reporting to the minimum necessary. At this stage, our view is that we will need local authorities to provide high level figures showing what their future housing capital investment plans are and how these will be funded. The Prudential Regime requirements will establish the minimum reporting requirements. However, given that many local authorities will have taken a longer term view of the financing requirement as part of their stock option appraisals, and given the medium term nature of meeting the new Scottish Social Housing Standard, our preference would be to see these high level returns covering a 30 year projection. The returns should show investment plans each individual year for the first 5 years and then for each subsequent 5 year period the total investment plans in aggregate. For each of the first 5 years individually and then for each of the following 5 year aggregate periods we will ask to see how the total capital investment figure will be funded. The funding should show the amounts coming from:-

- New debt
- Rents
- Receipts
- Other sources

For each period the opening and closing outstanding debt levels should be provided along with the associated servicing costs. An analysis should also be provided of the effects on rents of the proposed investment programme and the proposed borrowing levels.

Local authorities will probably need to have reached a view during the course of late 2003 of how they intend to fund their housing investment proposals using the new flexibility of the Prudential Regime from April 2004. We are therefore proposing to ask local authorities to submit their returns to us in September 2003. We realise that for the first year of the operation of the new regime (2004/05) local authorities will be in transitional mode and may not be in a position to supply the level of information described above. Authorities should provide future projections so far as they can but certainly for the first year of the regime and the 2 subsequent years. The timetable and the extent of the information sought in succeeding years will be reviewed and revised as appropriate following the experience gained in the first year of operation.

## Points for Discussion

*We would welcome views on the above reporting requirements that local authorities will be required to provide to the Scottish Executive to support the operation of the Prudential Regime in terms of:-*

- *13. The range for the information being sought, and*
- *14. The timetable for providing it.*

## SECTION 4

### INNOVATIVE APPROACHES TO HOUSING FINANCE AND MANAGEMENT

Scottish Ministers' policy intention has been to encourage local authorities to separate their strategic housing role from their housing management function. The importance that Ministers attach to the strategic role of local authorities has clearly been underlined by giving authorities new strategic housing planning powers and also by giving them the potential to take over management of the Development Programme in their areas. Community Ownership is clearly one way for the separation to take place. But there are probably other options that could be developed, perhaps with some modest levels of Scottish Executive support being made available. In this context it is worth emphasising that debt write-off is only available for options which take ownership of the stock off the public sector balance sheet.

It was against this policy background and the new financial context for local authority housing that the Minister in her statement announced that she would be interested in seeking views on whether there are radical and innovative approaches that could be developed for application in the Scottish context. The Minister said that she did not want to put limits on the types of ideas that might be generated but to be worthwhile, it must be shown how they can:-

- promote improved tenant involvement;
- deliver the necessary investment; and
- support effective and transparent management.

This is very much an open ended part of the consultation and is likely to be the start of a process. The ideas that are generated here are likely to need careful consideration and possibly will need further development before we are ready to turn them into policies or programmes. This therefore should be seen as the start of a process that will not necessarily see any immediate outcomes although we are not ruling out the possibility of early progress.

#### Area for Discussion

***15. We would welcome views on new approaches which are consistent with the terms of the Minister's policy announcement and the new financial framework for social housing.***

## **SECTION 5**

### **IMPROVING THE LINKS BETWEEN HOUSING AND REGENERATION; THE COMMUNITY OWNERSHIP PROGRAMME AND PARTIAL TRANSFERS**

In November 2002 the Minister announced that she wanted to consider ways in which housing investment and regeneration funding could be better co-ordinated to mutually support each other. She undertook to report further on what steps the Executive would take to improve these linkages. She also undertook to review the stock transfer process with a view to streamlining it. On 18 March 2003 at a speech in Stirling, Ms Curran made a number of related announcements on these themes.

The Minister said that the goal she believed should be shared by the Scottish Executive, local authorities, RSLs and other stakeholders was to work together to:-

- develop strong, safe communities;
- provide and maintain social housing to a minimum standard;
- support wider regeneration of stock transfer areas, including environmental and neighbourhood renewal projects; and
- make a coherent link between housing investment and the Community Planning process and other regeneration activities.

In aiming to deliver this shared goal the Minister said that she wanted to concentrate on three key elements:

- First, how to link up physical, social and economic regeneration more effectively than in the past. Good quality, affordable housing is a key element in regeneration, but there is little point in investing in housing if the surrounding neighbourhood is scarred with graffiti and litter, there are few places for young people to get together and there are few job opportunities.
- Second, how to give greater impetus to putting communities at the heart of the regeneration process.
- Third, how to make community planning the driver for making the first two happen.

The following paragraphs describe these in some more detail.

#### **Stock transfer and regeneration**

The most pressing cases for transfer to community ownership are often in those areas most needing regeneration. We must be more systematic in improving the links between housing and wider regeneration, so that the massive investment made through stock transfer is not frustrated by failure to tackle wider regeneration issues.

Therefore we will be making available up to £175m by 2005-06 for regeneration linked to Community Ownership. In order to be able to make a case for access to this funding local authorities will first have to be accepted onto the Community Ownership Programme. There will be a number of things that a local authority will need to have in place before they can get onto the programme, the main one being a fully-costed business case for transfer.

They will also need to show how their stock transfer proposal relates to their regeneration strategy, which will require close links to Community Planning partnerships.

The Minister plans to define regeneration widely for these purposes. For example, it could include early action (pre-ballot) to tackle demolitions or new build. It might also include dealing with environmental aspects such as land reclamation. More also needs to be done to support neighbourhood renewal projects as part of the physical redevelopment of the housing stock.

### **Partial Transfers**

Ms Curran also said that when she announced the plan to bring housing capital finance into the Prudential Regime, her objective was to increase the funding options open to local authorities. Following the further work that had been undertaken to consider the stock transfer process the Minister, working in partnership with the Treasury, has decided that the same financial arrangements for debt write-off that apply to whole-stock transfers should now also apply to partial stock transfers in Scotland. Partial transfers are therefore now on the table as another option for local authorities to use to meet the new quality Standard.

What this means in practice, therefore, is that Scottish local authorities will have open to them the options of pursuing whole-stock transfer, partial stock transfer or retention using the Prudential Regime to fund the investment from their own resources.

However, Ministers want to avoid the previous experience of partial transfers being disproportionately expensive and tending to be developed without any wider strategic context for the remaining stock. Therefore a series of rules will be developed which will govern how partial transfers to community ownership will be considered.

The principal rules will be that:-

- any partial transfer proposal will need to be set in the context of how a local authority intends to ensure that the remaining housing stock can be brought up to the new Scottish Social Housing Standard;
- the transaction costs in arranging partials should not be disproportionate to the number of houses involved which may suggest setting some kind of minimum threshold; and,
- the financial support that is offered for partial transfers - and particularly for negative value stock - does not exceed the financial support that would be given if the authority had undertaken a whole-stock transfer.

The Minister noted that while local authorities are likely to welcome this additional flexibility the partial transfer option will not be an easy option for them. Authorities will need to convince the Executive that they have a clear vision for their entire stock. For some authorities a whole-stock transfer will remain their best and perhaps only option to ensure that they can deliver the new Standard.

## **Next Steps**

**As part of the discussion with local authorities, RSLs and others that this consultation paper will generate the Executive will continue to define how the above developments will operate in practice and further details will issue in due course.**

TIMELINE OF KEY ACTIVITIES BY THE SCOTTISH EXECUTIVE, LOCAL AUTHORITIES AND RSLs BY APRIL 2005

|   | Activity  | Timing                  | Action by                                      |
|---|---|-------------------------|--|
| 1 | Scottish Executive to issue consultation paper  | end March 2003          | Scottish Executive                             |
| 2 | Scottish Executive to conduct bilateral discussions with local authorities, SFHA and others as requested.   | April, May, June        | Scottish Executive, local authorities and RSLs |
| 3 | Local authorities and RSLs to respond to consultation paper.  | By end June 2003        | Local authorities and RSLs                     |
| 4 | Local authorities and RSLs to begin process of considering impact of outline standard on their housing stock.   | Summer/Autumn 2003      | Local authorities and RSLs                     |
| 5 | Scottish Executive to analyse consultation paper responses and issue definition of the new standard.  | Summer 2003             | Scottish Executive                             |
| 6 | Local authorities and RSLs to analyse the implications of meeting the standard on the basis of the final definition (reviewing or carrying out option appraisals covering retention under the Prudential Regime, partial-transfers or whole-stock transfers). | Summer 2003 onwards     | Local authorities and RSLs                     |
| 7 | Scottish Executive to review the Scottish House Condition Survey results and determine the target date for meeting the new standard and interim milestones.   | October 2003            | Scottish Executive                             |
| 8 | Local authorities and RSLs to firm up impact of meeting the standard in light of proposed target date.  | October 2003-April 2004 | Local authorities and RSLs                     |

|    |   |                              |  |
|----|---|------------------------------|--|
| 9  | Local authorities to submit local housing strategies by April 2004 at the latest, or by September 2003 for those authorities seeking to take on the management of Communities Scotland Development Programme.<br><br>So far as authorities are able to, these LHSs should set out the strategy for meeting the standard and provide details of the stock option appraisal outcomes. | From September 2003 onwards. | Local authorities                                    |
| 10 | Local authorities to submit Prudential Regime financial returns to the Scottish Executive.  | September 2003               | Local authorities                                    |
| 11 | Local authorities seeking to get on the first round of the Community Ownership Programme (and bidding to access regeneration funding) should aim to submit their proposals (including business case for transfer) to the SE by April 2004.  | Pre-April 2004               | Local authorities                                    |
| 12 | Returns from RSLs to Communities Scotland on implications of delivering the standard.   | April 2004                   | RSLs   |
| 13 | Prudential Regime launched. Section 94 of the Local Government (Scotland) Act 1973 repealed   | April 2004                   | Scottish Executive and local authorities             |
| 14 | Final delivery strategies submitted by local authorities to Scottish Executive  | April 2005                   | Local authorities                                    |
| 15 | Final delivery strategies submitted by RSLs to Communities Scotland.  | April 2005                   | RSLs   |
| 16 | Scottish Executive confirms target date   | Summer 2005                  | Scottish Executive                                   |
| 17 | Ongoing monitoring of local authorities' and RSLs' progress to meeting target by Communities Scotland.  | Ongoing                      | Communities Scotland with local authorities and RSLs |

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