

## HOUSING (SCOTLAND) BILL: COST IMPLICATIONS AND RESOURCE ALLOCATION

### Introduction

This paper considers the potential resource implications for landlords of the Housing (Scotland) Act 2001 and suggests how available resources might be allocated. It is structured as follows:

- A Background and resources available
- B Implications of the Act for landlords
- C Options for distribution of resources
- D Summary of key decisions required

### A Background and resources available

On 15 June 2001, the Minister for Social Justice announced that £10 million would be made available over the next 3 years to assist local authorities and Registered Social Landlords (RSL's) to implement measures in the Housing (Scotland) Act 2001. This is in addition to the £4.5 million announced in December last year to implement the tenant participation measures in the new legislation.

The resources are available broken down as follows and is in addition to resources that the Scottish Executive will have available centrally for the provision of guidance, information leaflets etc. We have allocated the resources into years 2002/03 and 2003/04 which is when we expect the major impact of the changes to fall, but it would be possible to bring forward some of the expenditure (say up to 0.5 million) into 2001/02 if this was thought desirable.

2001-2002	2002-2003	2003-2004
Nil	£6 million	£4 million

It is envisaged that resources would be distributed by way of grant from the Scottish Executive or Scottish Homes to Councils and RSL's, with resources being offered over the 2-year period. The exact mechanism to be used to make payments can be further considered in the light of the Group's recommendations.

### B The Housing (Scotland Act) 2001 and resource implications for landlords

The Act will have resource implications for landlords, both in the initial phases and subsequently; the extent will depend upon the current operating context of each landlord. An analysis of the resource implications is at Annex 1.

### C Options for distribution of resources

Given that finite and time-limited resources are being made available to support implementation, it will be important to establish an appropriate methodology to underpin the distribution of resources. This will need to reflect:

- the availability of resources
- the cost of work which is genuinely an additional burden
- the size of a landlord in respect of number of tenancies
- the economies of scale that can be achieved by larger organisations
- that some costs will be incurred irrespective of size of landlord

A number of options are explored below. A worked example of each option is provided at Annex 1 as an illustrative example only.

#### **(1) Per capita figure**

This options would be distribute resources on a per tenancy basis. Landlords would receive a specified figure for each of their tenants. This approach is easily understood by landlords and tenants and recognises the individual work with tenants, which will be required to achieve a successful transition to the new tenancy. It does not recognise, however, that some work will be necessary irrespective of the number of tenants. For example, landlords will require a policy on the right to repair whether they have 50 or 5000 houses. Neither does this option consider the economies of scale that can be achieved by larger landlords who will be able to benefit from a per capita approach.

#### **(2) Per capita figure with urban/rural dimension**

This option would be similar to (1) but would apply a different per tenancy rate for urban and rural Scotland. This recognises that operating costs in rural areas can be more expensive. Achievement of this option would be dependant on clarity on definition of urban and rural and whether it is the rurality of the tenancy or the landlord that is the factor. For example, a national RSL would receive an urban and rural share depending on the number of properties it held in each location. There is ongoing debate about rural definition, but the Executive historically has adopted the Randall definition for each local authority area as an arguably crude but consistent measure of this.

#### **(3) Per landlord figure**

This option would involve all landlords being given the same amount of money irrespective of size or locality. This would be a standard figure to fit all circumstances. It is clearly a simple option to administer. However it does not take account of the scale of the task for landlords of varying sizes. For example a large urban authority like Glasgow with 96,000 tenants as compared to a small co-operative with 150 properties.

#### **(4) Per capita figure with sliding scale**

This option would simply apply a per capita figure as at Option (1) but would apply different amounts dependant on size of landlord. For example larger landlords would receive a lower per capita sum to recognise the economies of scale to be gained. Possible categories might include; less than 500 units, 500-1500 units, 1500-5000.

over 5000 etc. This has all of the advantages and disadvantages of option (1), but also takes account of the economy of scales achievable by larger organisations. It is, however, administratively more cumbersome.

**(5) Flat rate for smaller landlords and per capita for others**

This option involves a flat rate being paid for smaller landlords to recognise that the task is limited in scale by the number of tenants affected. Smaller landlords would receive a flat fee to assist in administering the new tenancy whilst those over a certain size would revert to a per capita rate along the lines of option (1). The per capita level could begin at 100,500, or 1000 units. This approach takes account of the needs of smaller landlords in particular and provides them with a one –off fee rather than an amount restricted by the number of tenants. It does, however, distinguish between different types of landlord, which may be perceived as discriminatory.

**(6) Flat fee plus per capita top up**

This option has two components. A flat fee for all landlords based on option (3) but with a per capita rate also being applied. This combination recognises that some of the work associated with implementation will not have a tenancy route. It arguably reflects the need to support some initial costs which are common to all landlords, whilst recognising the need to also reflect the number of tenancies.

**(7) Challenge fund**

This option would be a traditional challenge fund where landlords would bid for a share of the resources available over the 3-year period. This would enable landlords and tenants to take account of their own unique circumstances and properly assess the need for resources. It would be administratively burdensome and would not give certainty over funding until bids had been evaluated. Historically, challenge funds have been over – subscribed and some landlords have not been as effective as others at developing successful bids. In this case – we would want to support all landlords in some way and therefore having “winners” and “losers” is not appropriate.

**D Summary of key decisions required**

The Group is asked to

- Note the level of resources available
- Consider the resource implications for landlords
- Agree a preferred approach to underpin the distribution of resources

**Scottish Executive Development Department**

July 2001

## ANNEX 1

**THE HOUSING (SCOTLAND ACT) 2001: RESOURCE IMPLICATIONS FOR LANDLORDS****Part 1 - Allocation of Housing**

Sections 7-8 of the Bill make provision for admittance to housing lists and for the allocation of housing. As social landlords generally already hold waiting lists, it is reasonable to assume that any additional costs are likely to be relatively marginal, although the volume of applications might increase, particularly for RSL's.

**Part 2 – Tenants of Social Landlords**

Part 2 of the Bill introduces new tenancy arrangements for tenants of social landlords. Sections 9-35 are primarily concerned with the introduction of the new Scottish secure tenancy (SST) and with the statutory elements to be included in it. The main cost elements to these provisions are likely to be in respect of the costs (a) of changing the tenancy agreement and (b) of additional elements within the tenancy agreements.

***Cost of changing a tenancy***

There are currently around 610,000 tenants of local authorities and Scottish Homes and 120,000 tenants of housing associations. Each of these tenants will become subject to the new minimum statutory provisions of the SST set out in the Bill when those provisions are commenced. The act of bringing the new statutory provisions into force will not of itself require additional expenditure, although in practice there will need to be an extensive programme of information and explanation. The Executive intends to provide support to landlords in this through the provision of publicity information.

In addition, each tenant will be entitled to an individual signed tenancy agreement, incorporating the statutory tenancy provisions and any additional contractual terms. Landlords will therefore need to embark on a programme of “signing-up” individual tenants. How landlords choose to do this will be largely for them - if they decide that all existing tenants should be signed up to the new agreements over a short period of time, the costs in staff time could be significant. However, if the conversion process is spread over a longer period, the additional workload could be managed alongside other activities as part of the landlord's mainstream business and the costs for most landlords would be more easily absorbed.

Estimates of the overall costs therefore vary considerably. At the lower end of the spectrum, the cost could be around £5 per tenancy, giving a total one-off cost to the social rented sector of around £3.5m. At the upper end of the spectrum, COSLA have suggested that the cost could be as high as around £16 per tenancy, giving a total one-off figure of around £11.5m. These overall figures are however subject to considerable variation for individual landlords, depending on the size, nature and location of their stock and on the demographic and other composition of their tenants.

The Executive has commissioned a model SST and model short SST agreement, which will be made available also in disk format and these will considerably reduce the burden on landlords. The Executive has also given a commitment that it will introduce the statutory new tenancy terms in a way and to a timescale which seeks to minimise the burden on landlords.

### ***Cost of specific items in a tenancy agreement***

The additional costs arising from the specific elements of the tenancy, such as the right to repair and compensation for improvements are difficult to quantify. Much will depend on what already exists and, because the new tenancy takes the existing secure tenancy (held by the vast majority of the 720,000 tenants in the social rented sector) as its starting point, for local authorities in particular the new provisions should give rise to only limited additional costs. Many RSLs already offer the majority of the new provisions as a matter of good practice, and for them too the additional costs should be less significant.

### ***Right To Buy***

Sections 36-44 of the Bill modernise tenants' Right to Buy as part of the SST. There has been significant discussion about the impact of the Right to Buy, but the overall net cost impact should be limited.

Initially there will be no change. Current tenants will continue to enjoy the RTB under the existing terms, with the delayed extension of up to 10 years for newly eligible HA tenants and the change in the qualifying period from 2 to 5 years ensuring that any measurable impact will be some way off. Over time, from then on, the introduction of the modernised terms will reduce demand for the right to buy. *Evolving the Right to Buy*, published by the Scottish Executive last year, estimated that over 21 years sales would be some 30,000 (11-13%) less than they would otherwise have been. That estimate does not take account of the proposals in the Bill for pressured area designations or for the ten-year exemption for RSLs.

Lower discounts leading to fewer sales will affect the income which local authorities receive from RTB sales. However, any reduction will be compensated by the increase in the level of receipts per property as a consequence of these lower discounts. Additionally, while the unit cost of processing RTB sales will remain broadly constant, the decline in the level of sales could lead to some administrative savings for local authorities. Against this, administration of additional RTB sales will, in due course, be an additional charge for RSLs.

### ***Pressured areas***

The Bill includes provision for areas to be designated as areas of social housing pressure, where tenants, enjoying the RTB for the first time, will be unable to exercise the Right to Buy for a period. The administration costs at the local authority level will entirely depend upon the level of interest generated. However, work on pressured areas will, in time, be part of councils' strategic housing plans, which should keep costs to a minimum.

***Financial viability impacts on RSLs***

The Bill includes provision to exempt RSLs from the Right to Buy for 10 years to take account of any viability issues, and if there are still financial viability issues at that point the Bill enables the exemption to be extended for up to a further 10 years. This might suggest that RSLs will undertake a financial viability assessment as part of any proposed opt in. This is likely to be based on established financial models available for the regulator and commonly in use. Resource implications will be minimal and only incurred on a decision to consider opting in to the provisions or at the 10-year stage or later.

***Tenant participation***

Separate resources of £4.5 million are to be made available for the implementation of the tenant participation provisions in the Act and these are the subject of a separate paper.

## ANNEX 2

**OPTIONS FOR DISTRIBUTION OF RESOURCES: WORKED EXAMPLES**

- **Option (1) Per capita figure**

Total funding = 10,000,000

Total no of tenants = 688,652

**£14.52** per tenant (total funding divided by total number of tenants)

This formula can be applied to the following scenarios:

Landlord type	Local Authority (LA)	No of Tenants	Total funds allocated (£)
City	LA	20,287	294,567
Large Urban	LA	48,027	697,352
Medium Urban	LA	21,309	309,406
Medium Rural	LA	9,782	142,034
Small Rural	LA	916	13,300

Landlord type	Housing Association (HA)	No of Tenants	Total funds allocated (£)
National	HA	3661	53,157
Regional	HA	1939	28,154
Rural	HA	973	14,127
Urban Community Based	HA	1412	20,502

- **Option (2) Per capita figure with urban/rural dimension (based on Randall definition)**

Total number of rural tenants = 159,317 x 17.50 = 2,788,047

Total number of urban tenants = 529,335 x 13.50 = 7,146,022

TOTAL = 9,934,069

**£17.50 per rural tenant** and **£13.50 per urban tenant**

Note: approximately 25% difference between urban and rural tenants.

This formula can be applied to the following scenarios:

Landlord type	Local Authority (LA)	No of tenants	Rural (R) or Urban (U)	Total funds allocated (£)
City	LA	20,287	U	273,874
Large Urban	LA	48,027	U	648,364
Medium Urban	LA	21,309	U	287,671
Medium Rural	LA	9,782	R	171,185
Small Rural	LA	916	R	16,030

Landlord type	Housing Association (HA)	No of tenants	Rural (R) or Urban (U)	Total funds allocated (£)
National	HA	2197	U	55,279 *
National	HA	1464	R	
Regional	HA	1357	U	28,504*
Regional	HA	582	R	
Rural	HA	973	R	17,027
Urban community based	HA	1412	U	19,062

\* total for both urban and rural.

- **Option (3) Per landlord figure**

Total funding = 10,000,000  
Total no of landlords = 226

**£44,247.28** per landlord (total funding divided by total number of landlords)

- **Option (4) Per capita figure with sliding scale**

LL- landlords

Range(no of tenants)	Total number of LL	Total no. of tenants	% of £10m (rounded up)	Total funding (£)	Per capita (£)
<100	25	944	11	1,100,000	1,165
101-250	38	7060	17	1,700,000	240
251-500	48	16,102	21	2,100,000	130
501-1000	33	24,922	15	1,500,000	60
1001-2500	46	69,168	20	2,000,000	29
2051-5000	8	4167	3.5	350,000	84
5001-10000	9	69,145	4	400,000	5.80
10001-20000	10	144,556	4.5	450,000	3
20001-40000	7	192,438	3	300,000	1.50
>40000	2	136,941	1	100,000	0.70

This formula can be applied to the following scenarios:

Landlord type	Local Authority (LA)	No of tenants	Per capita rate (£)	Total funds allocated (£)
City	LA	20,287	1.50	30,430
Large Urban	LA	48,027	0.70	33,618
Medium Urban	LA	21,309	1.50	31,963
Medium Rural	LA	9,782	5.80	56,735
Small Rural	LA	916	60	54,960

Landlord type	Housing Association (HA)	No of tenants	Per capita rate (£)	Total funds allocated (£)
National	HA	3661	84	307,524
Regional	HA	1939	29	56,231
Rural	HA	973	60	58,380
Urban community based	HA	1412	29	40,948

- **Option (5) Flat rate for smaller landlords and per capita for others**

Maximum range for flat rate	No of LL	Flat rate per landlord (£)	Balance remaining after flat rate deducted	Per capita rate for those above the maximum range
<100	25	44,000 *	8,900,000	12.94
101-250	38	44,736	7,200,000	10.58
251-500	48	43,750	5,100,000	7.67
501-1000	33	45,454	3,600,000	5.63

\* Based on the total funding available to landlords with less than 100 tenants as detailed in (4), eg  $1,100,000/25$  (total number of landlords in <100 range)= 44,000

This formula can be applied to the following scenarios:

Landlord type	Local Authority (LA)	No of tenants	Per capita rate/Flat rate (£)	Total funds allocated (£)
City	LA	20,287	5.63	114,215
Large Urban	LA	48,027	5.63	270,392
Medium Urban	LA	21,309	5.63	119,969
Medium Rural	LA	9,782	5.63	55,072
Small Rural	LA	916	45,454	45,454

Landlord type	Housing Association (HA)	No of tenants	Per capita rate/flat rate (£)	Total funds allocated (£)
National	HA	3661	5.63	20,611
Regional	HA	1939	5.63	10,916
Rural	HA	973	45,454	45,454
Urban community based	HA	1412	5.63	7,949

• **Option (6) Flat fee plus per capita top up**

Total number of landlords	=	226
Total number of tenants	=	688,652
Total amount of funding	=	10,000,000

Based on £10 per capita

£10 x 688,652	=	6,886,520
10,000,000 - 6,886,520	=	3,113,480( balance available for flat fee)
3,113,480 / 226	=	13,776

**Flat Fee £13,776 and £10 per capita**

This formula can be applied to the following scenarios:

Landlord type	Local Authority (LA)	No of tenants	Flat rate (£)	Per capita rate (£)	Total funding available (£)
City	LA	20,287	13,776	10	216,646
Large Urban	LA	48,027	13,776	10	494,046
Medium Urban	LA	21,309	13,776	10	226,866
Medium Rural	La	9,782	13,776	10	111,596
Small Rural	LA	916	13,776	10	22,936

Landlord type	Housing Association (HA)	No of tenants	Flat rate (£)	Per capita rate (£)	Total Funding Available (£)
National	HA	3661	13,776	10	50,386
Regional	HA	1939	13,776	10	33,166
Rural	HA	973	13,776	10	23,506
Urban Community Based	HA	1412	13,776	10	27,896

Based on £ 8 per capita

$$\begin{aligned}
 £8 \times 688,652 &= 5,509,216 \\
 10,000,000 - 5,509,216 &= 4,490,784 \text{(balance available for flat fee)} \\
 4,490,784 / 226 &= 19,870
 \end{aligned}$$

**Flat fee £19,870 and £8 per capita**

This formula can be applied to the following scenarios:

Landlord type	Local Authority (LA)	No of tenants	Flat rate(£)	Per capita rate(£)	Total funding available (£)
City	LA	20,287	19,870	8	182,166
Large Urban	LA	48,027	19,870	8	404,086
Medium Urban	LA	21,309	19,870	8	190,342
Medium Rural	LA	9,782	19,870	8	98,126
Small Rural	LA	916	19,870	8	27,198

Landlord type	Housing Association (HA)	No of tenants	Flat rate(£)	Per capita rate(£)	Total funding available (£)
National	HA	3661	19,870	8	49,068
Regional	HA	1939	19,870	8	35,292
Rural	HA	973	19,870	8	27,564
Urban Community Based	HA	1412	19,870	8	31,076

Based on £6 per capita

$$\begin{aligned}
 £6 \times 688,652 &= 4,131,912 \\
 10,000,000 - 4,131,912 &= 5,868,088 \text{(balance available for flat rate)} \\
 5,868,088 / 226 &= 25,964
 \end{aligned}$$

**Flat fee £25,964 and £6 per capita**

The formula can be applied to the following scenarios:

Type	Housing Association (HA) or Local Authority (LA)	No of tenants	Flat rate	Per capita rate	Total funding available (£)
City	LA	20,287	25,964	6	147,686
Large Urban	LA	48,027	25,964	6	314,126
Medium Urban	LA	21,309	25,964	6	153,818
Medium Rural	LA	9,782	25,964	6	84,656
Small Rural	LA	916	25,964	6	31,460

Landlord type	Housing Association (HA)	No of tenants	Flat rate (£)	Per capita rate (£)	Total funding available (£)
National	HA	3661	25,964	6	47,930
Regional	HA	1939	25,964	6	37,598
Rural	HA	973	19,780	6	31,802
Urban Community Based	HA	1412	19,780	6	34,436

Summary of Option (6):

<i>Flat rate (£)</i>	<i>Per capita rate (£)</i>
13,776	10
19,870	8
25,964	6

Figures as at 30 September 2000

Sources: Scottish Homes and Scottish Executive