

Supplement 3

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# Housing Revenue Account 2016/17



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ACCOUNTS COMMISSION

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November 2017

1. This supplement accompanies the Audit Scotland [Financial Overview of Local Government in Scotland 2016/17](#). Audit Scotland commissioned Scott Moncrieff to undertake this work. The analysis is based primarily on the council's audited accounts and Scottish Government Housing Revenue Account Statistics.
2. As at March 2016,<sup>1</sup> there were an estimated 2.567 million homes across all tenures in Scotland. Socially rented properties provided by councils accounted for just over 12 per cent of that figure. Key council housing facts are set out in [Exhibit 1](#).

## Exhibit 1

### Council housing at 31 March 2017- key numbers



26 of 32 councils with stock  
162,152 people on waiting lists  
28,247 homeless applicants  
177,521 tenants receiving housing benefit



314,816 council properties  
26,245 properties let  
3,508 Right To Buy sales  
1,143 new council houses built



£11,282 million value of stock  
£1.15 billion income  
£927 million expenditure  
£66.7 million gross rent arrears

## Housing stock and demand

3. [Exhibit 2 \(page 3\)](#) shows the breakdown of homes by tenure as at March 2016. The tenure landscape in Scotland has changed over the last 5 years with the number of owner occupiers decreasing by 2.3 per cent while the number renting in the private sector has increased by 3.1 per cent. The socially rented sector has also seen a shift with the number of council homes reducing by 2,831, while those provided by housing associations has increased by 3,083.
4. As at 31 March 2017, there were 314,816 social housing properties owned and managed by 26<sup>2</sup> of the 32 local authorities in Scotland, with a value of £11,282 million. Stock held by councils varies considerably across Scotland, with North Lanarkshire Council the biggest landlord with 36,512 properties while Orkney Council is the smallest landlord with 965 properties ([Exhibit 3, page 4](#)).
5. The Housing (Scotland) 2014 Act ended the Right to Buy for all social housing tenants in Scotland on 1 August 2016. The number of council houses sold increased year on year over the last five years, with a total of 10,153 properties sold to sitting tenants. Following the announcement of the abolition in 2014, the number of applications and sales increased significantly with 8,147 applications alone in the first two quarters of 2016/17, almost double

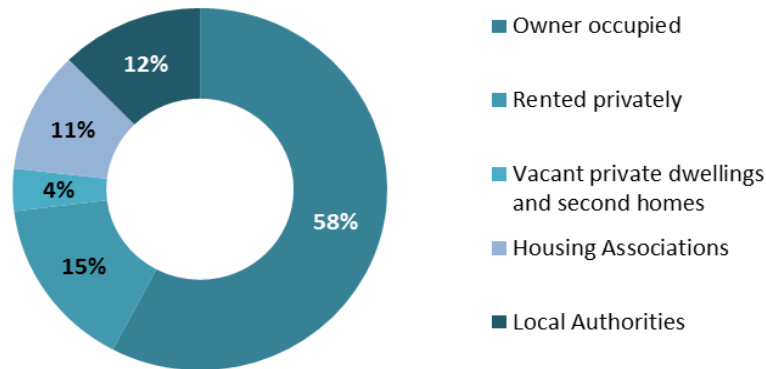
<sup>1</sup> Stock by tenure 2016 - updated after Scottish Household Survey 2016 publication October 2017

<sup>2</sup> 6 councils no longer manage housing stock due to previous stock transfers to housing associations - Dumfries & Galloway Council, Glasgow City Council and Scottish Borders Council in 2003, Eilean Siar and Argyll & Bute Council in 2006 and Inverclyde Council in 2008.

the total applications for 2015/16 (4,180). A total of 3,508 properties were sold in 2016/17, 169 per cent more than 2015/16 (1,735). Over the period 2014-2016 capital receipts increased by just over 191 per cent.

## Exhibit 2

### Total homes by tenure



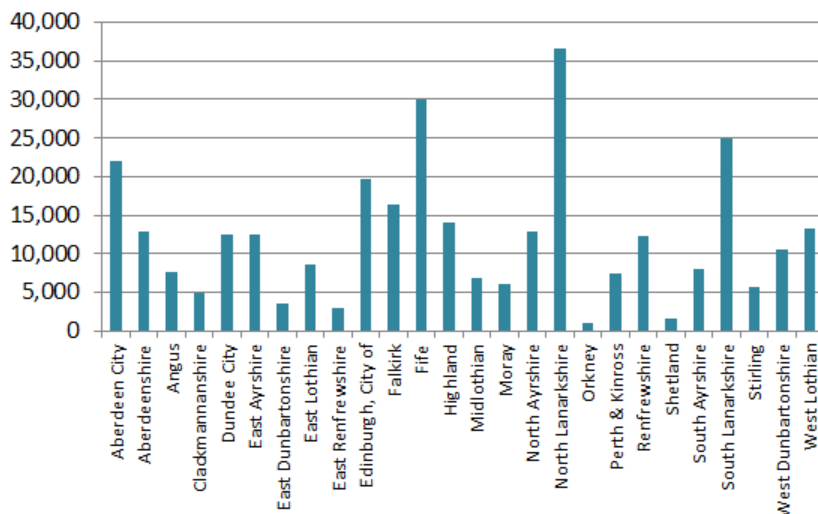
Source: Scottish Government, *Stock Estimates by Tenure March 2016*

6. As at 31 March 2017, there were approximately 162,152<sup>3</sup> applicants on waiting lists for council properties. A total of 26,245 council properties were available to let in 2016/17 with 25,788 permanent lets made.
7. In 2016/17, 28,247 applicants for housing were assessed as homeless or threatened with homelessness. 40% of all local authority lettings made in 2016-17 were to homeless households, compared to 38% in 2015/16. Homeless lets across councils vary, in 2016/17; East Ayrshire let 13 per cent of new lets to homeless applicants, whereas in City of Edinburgh Council 73 per cent of new lets were to homeless applicants. As at 31 March 2017, 10,873 applicants were living in temporary accommodation across Scotland, with the average stay being 117 days. The average figure was significantly higher in Midlothian Council (291 days) and Shetland Islands Council (371 days).
8. Changes in population and demographics have implications for housing demand. The population of Scotland is projected to rise from 5.40 million in 2016 to 5.70 million by 2039, with the number of people over 65 increasing by 53 per cent. The number of households is also increasing with a significant growth in one person households.

<sup>3</sup> Applicants may be on one or more council waiting lists; therefore the actual number of applicants is unquantifiable.

**Exhibit 3**

Local authority housing stock March 2017



Source: Scottish Government, Annual Return of Local Authority Housing Stock March 2017

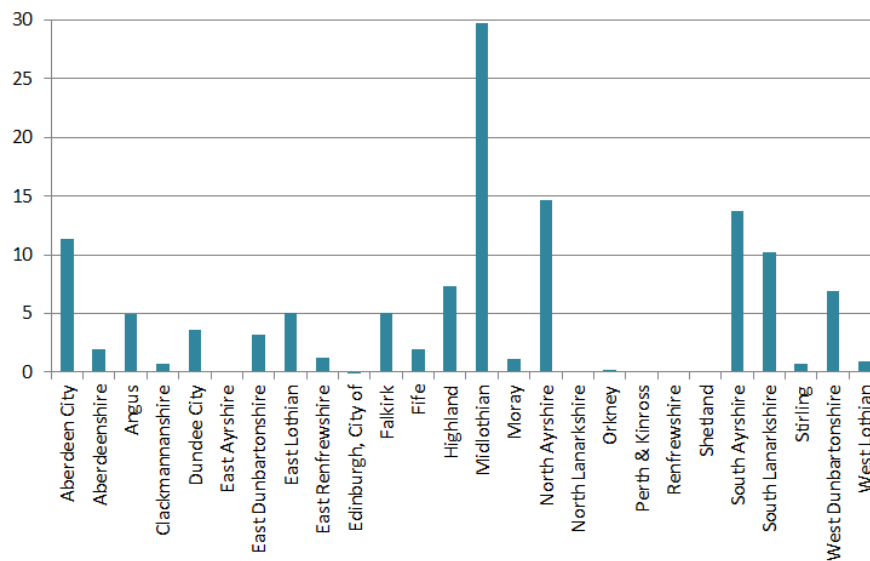
- An ageing population means there are increasing number of pensioners living alone. This places requirements for adaptations to allow people to stay independently at home. A large numbers of dwellings have already been adapted; however, there is a constant need with differing requirements. Councils completed a total of 15,316 medical adaptations in 2016/17.

**Housing Revenue Accounts (HRA)**

- Over the last 5 years there has been a general upward trend in the HRA reserves held across councils. The total level of HRA reserves in 2016/17 was £125 million. [Exhibit 4 \(page 5\)](#) shows the level of HRA reserves varies across councils, with six councils holding no reserves while Midlothian Council held reserves in excess of £29 million in 2016/17. A number of councils have used reserves to fund their capital programmes in previous years, leaving no reserves available to carry forward to 2017/18. An appropriate level of reserves is important as they allow councils to respond quickly and effectively to unforeseen events and meet future agreed commitments.
- Total HRA debt rose by £140 million (4 per cent) in 2016/17 to £3.6 billion. Councils expected total HRA debt to increase by 17 percent in 2017/18. Councils borrow money to improve existing stock and fund new build programmes.

## Exhibit 4

### HRA Reserve balances 2017/16 (£ millions)



Source: SG, HRA 2016/17 Statistics, November 2017

12. Total income across HRAs in Scotland has increased by 11 per cent across the last 5 years to just over £1.15 billion, while total expenditure has increased by 10 per cent to just over £927 million. As shown in [Exhibit 5 \(page 6\)](#), 31 per cent of expenditure in 2016/17, related to loan charges and bad debt provision, an average of £868 per house, £8 more than in 2015/16.
13. Of the remaining 69 per cent, 40 per cent of expenditure related to repairs and maintenance. Over the last five years repairs and maintenance expenditure has increased by 7.5 per cent which reflects the increasing challenges faced by social landlords in maintaining existing stock and safety and quality standards. A further 27 per cent of expenditure related to management and supervision costs. Councils spent an average of £783 per house in 2016/17, £5 more per house than in 2015/16. Councils anticipate<sup>4</sup> this to rise by a further £34 per house in 2017/18.

## Repairs and maintenance

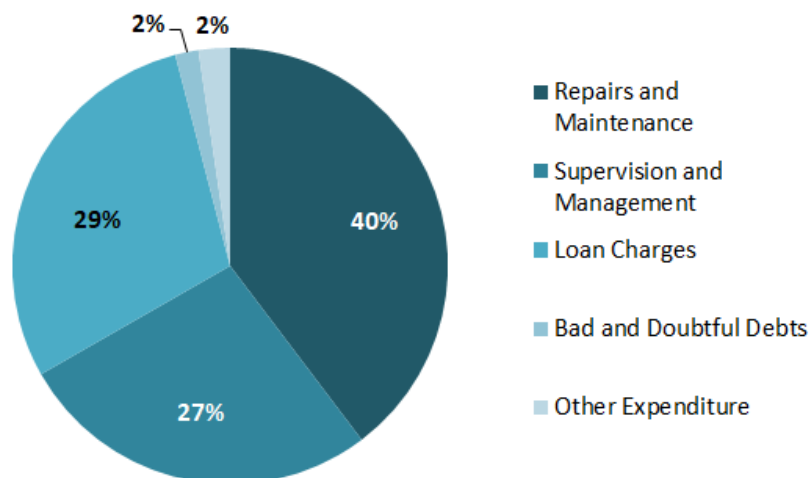
14. The 2016/17 financial statements show the total repairs and maintenance expenditure across councils was £377.50 million, averaging £1,199 per council house. Councils spent £162.24 million on enhancements to existing stock which includes major repair programmes such as roofs, kitchens and window replacements.
15. All social landlords continue to work towards meeting the Scottish Housing Quality Standards (SHQS). As at 31 March 2017, 92.5 per cent of council properties met the SHQS. Councils invested £213.7 million<sup>4</sup> in 2016/17 to bring their stock up to the SHQS and plan to invest a further £77 million<sup>5</sup> during 2017/18 bringing an estimated 5,536 properties up to the standards.

<sup>4</sup> SG, HRA 2016/17 Statistics, November 2017

<sup>5</sup> 2016/17 Annual Return of the Charter (ARC) data returns to the Scottish Housing Regulator

## Exhibit 5

### HRA Expenditure by type 2016/17



Source: SG, HRA 2016/17 Statistics, November 2017

16. Element 44 of the SHQS states that in existing properties there must be at least one smoke alarm present in the property, and this can be either battery-powered or mains-powered. However, if replacement smoke alarms are being fitted then these should be mains wired.
17. In light of the Grenfell tragedy, a Ministerial Working Group is overseeing a review of building and fire safety regulatory frameworks, and any other relevant matters. This includes a review of evidence on fire suppression systems, such as sprinklers and other preventative measures. Councils will need to consider how they will ensure they meet the cost of any recommendations for improvement as required.
18. All social rented properties are also required to meet the EESSH<sup>6</sup> by March 2020. In order to achieve compliance, properties are required to have a minimum EPC standard. As at 31 March 2017, 69.8 per cent of council properties were assessed as meeting the standard. Performance in meeting EESSH varies across local authority areas with East Ayrshire Council having the highest compliance at 94.4 per cent, while 36.9 per cent of East Lothian Council properties meet EESSH.
19. The total investment across all council properties to meet EESSH to date is £119.9 million. Councils have financed the majority (86.45 per cent) of investment themselves, with the remaining funding from subsidy and other sources. On the basis of the average investment to date, it is estimated a further investment of at least £460.5 million will be required to bring the remaining 84,254 properties up to the EESSH<sup>7</sup>. This does not take into account additional expenditure required to bring 'hard to treat' properties up to the standard. Funding these improvements presents a significant challenge for councils.

<sup>6</sup> The Energy Efficiency Standard for Social Housing (EESSH) was introduced by the Scottish Government in 2014 with the aim of increasing energy efficiency in social housing, and reducing carbon emissions as required by the Climate Change (Scotland) Act 2009.

<sup>7</sup> Figures from EESSH 2016/17 Dataset returns, Scottish Housing Regulator

## Rents

20. In 2016/17, the average rent paid across councils in Scotland was £67.83 per week. However, the average rent across councils varied with City of Edinburgh Council the highest at £94.27 per week, while Moray Council was the lowest at £55.10 per week. Again the actual rent increase applied varies across councils, with 13 councils higher than the average, 6 of which applied more than a 3.5 per cent increase. The largest increases (5 per cent) were East Lothian Council and Midlothian Council. The majority of councils set rent increases with reference to the Retail Price Index (RPI) plus 1 per cent. In the year to 31 March 2017 the average rent rose by 2.72 per cent over a period where the RPI rose by 2.1 per cent.
21. Social landlords are required<sup>8</sup> to consult tenants and take account of their views when making decisions about proposed rent increases. A review of rent consultations for 2016/17 found the majority of those councils applying above average increases did not include information on options for rent increases based on differing levels of investment or evidence they had considered affordability of rent for tenants.

## Rent arrears and voids

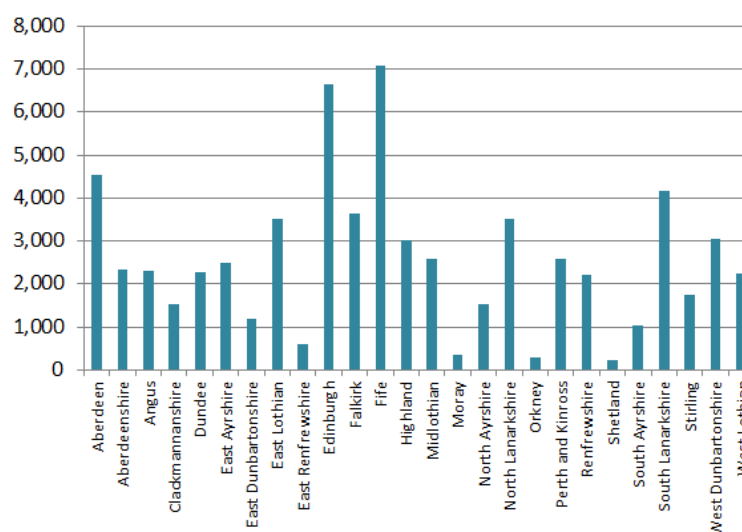
22. In 2016/17 councils, annual accounts showed gross rent arrears in monetary terms reduced slightly from £66.9 million to £66.7 million. Arrears as a proportion of total rent remained broadly constant at just under 6 per cent of total rents reported in the HRA accounts. [Exhibit 6 \(page 8\)](#) shows the level of gross arrears across councils varies significantly.
23. The level of net arrears across Scotland was just over £11 million in 2017/16, down from £12.2 million in 2015/16 partly as a result of an increase in the level of arrears which have been written off or impaired across the financial years. Over the past five years the level of impairments applied to rent arrears on the HRA have increased by 45 per cent to £55.7 million. The collection of debt is a significant operation for councils.
24. In 2016/17, the average time to re-let council houses was 39 days, resulting in an average of 1.2 per cent rent lost (£13.2 million) due to properties being empty. Again the average days to re-let vary across councils with East Ayrshire Council the highest at 75.6 days, and North Ayrshire an average of 15.4 days. The reasons for such variations could be as a result of low demand, higher letting standards and councils with Direct Labour Organisations (DLOs) having greater control over void repairs and turnaround times.

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<sup>8</sup> Under the Housing (Scotland) Act 2001

**Exhibit 6**

## Value of gross rent arrears across all councils (£000s)



Source: Local Government Annual Accounts, 2016/17

**Welfare Reform**

25. In 2016/17, 57 per cent (177,521) of council tenants in Scotland were in receipt of Housing Benefit (HB). The percentage of tenants in receipt of HB varies across councils, with 38 per cent of Shetland Council tenants in receipt of HB, while this figure was almost double in Dundee City Council at 78 per cent.
26. The Department of Work and Pensions (DWP) began a roll out of Universal Credit (UC) in Scotland in March 2016 in East Lothian. As at 31 March 2017, UC had rolled out across five council areas<sup>9</sup> in Scotland. Rent arrears across these councils increased in 2016/17 by an average of 14.1 per cent, compared with an average of 4.1 per cent across the remaining councils.
27. Our [Housing Benefit Performance Audit: Annual update 2016/17](#) reported that Councils have been reporting that the roll out of UC has had a detrimental effect on the collection of housing rental income, although it was recognised part of the increase could be an indirect impact of staff dealing with UC claimants and increased Discretionary Housing Payment (DHP) applications.
28. The full impact of Welfare Reform has not yet been seen for many councils. UC will be rolled out across a further 14 council areas, as well as the remaining job centres within the Highland Council area in 2017/18. Roll-out across the remaining 13 council areas is expected to be completed by September 2018. Councils will need to be confident that the level of HRA working balances is adequate to meet any unforeseen contingencies during the financial year particularly with regard to Welfare Reform.

<sup>9</sup> East Lothian Council, Highland Council (Inverness Job Centre only), East Dunbartonshire, Midlothian Council and Inverclyde Council (no council stock -therefore no arrears)



## New build and development

29. In 2016, the Scottish Government launched the Affordable Housing Supply Programme for 2016-21 which set out a key commitment to deliver 50,000 affordable homes, with 35,000 of these available for social rent. The programme is supported by £3 billion investment, £1.75 billion of which is available to councils to support the building of new council homes. Scottish Government statistics show that 10,276 affordable homes were approved in 2016/17 – a 29 per cent increase on the year before, 7,000 of these were for social rent. The annual number of council new build completions increased from 963 in 2012/13 to 1,143 in 2016/17<sup>10</sup>.
30. There has been some criticism that the target is not ambitious enough and does not adequately address the level of housing need in Scotland. However, stakeholders also recognise that there may be capacity issues in meeting this target. There are also issues with available land and planning issues which are being taken forward in the current review of the planning system by the Scottish Government.
31. All 26 stock holding councils are actively involved in development, and plan to deliver just over 13,000 homes over the 5 year programme<sup>11</sup>. If these projections are realised the councils will deliver just over 37 per cent of the Scottish Government's socially rented target. Resource planning assumptions for 2017/18 show councils plan to invest £422.6 million in affordable housing.

## Outlook

32. 2017/18 has seen RPI increase to 4 per cent in October (2 per cent higher than October 2016). Councils will need to ensure they carry out scenario planning on business plan assumptions to strike a balance between ensuring long term objectives such as investing in existing stock and building new houses can be met, whilst keeping rents affordable for tenants.
33. Meeting housing quality and safety standards will present a significant cost challenge for councils. In line with their HRA business plan, councils will need to consider the level of reserves that they hold, and whether they allow them to meet future demands and commitments.
34. The introduction of the Local Housing Allowance (LHA) cap may result in shortfalls between rents and housing benefit entitlement. In turn, resulting in increased rent arrears and impacting revenue streams, in addition to increasing the risk of homelessness for affected tenants.
35. The new build programme will see councils returning to build houses at a similar level to housing associations. Councils will need to balance the opportunities with associated risks which may include a shortage of skills, labour and materials which potentially will be further impacted by Brexit.

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<sup>10</sup> SG, Housing Statistics for Scotland - Local authority new build, August 2017

<sup>11</sup> New Build Survey Return, Association of Local Authority Chief Housing Officers (ALACHO) July 2017

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