SUPPLEMENTARY SUBMISSION FROM THE SCOTTISH GOVERNMENT

Thank you for your letter of 29 April in which you have asked some further questions on the Housing (Scotland) Bill. I am pleased to set out my responses to these, and to the Committee’s additional questions, below.

1. **When will the Scottish Government introduce the Private Sector Bill to Parliament? There has been considerable discussion about HMO licensing and enforcement in evidence – could you provide more information on how this will be addressed in the Private Sector Bill?**

The Scottish Government intends to introduce a bill on the private housing sector during this Parliamentary Session, although this depends on the overall legislative programme for 2010-2011.

The consultation paper for the proposed bill sought views on further amendments to the licensing and enforcement of the Houses in Multiple Occupation (HMO) scheme. We have asked for views on:

- Allowing tenants and local authorities to claim back from landlords rent paid in an unlicensed HMO; and
- Failure by the landlord of a property to provide information when required leading to the presumption that the property is an HMO.

I would also like to highlight that the HMO provisions in Part 5 of the Housing (Scotland) Act 2006 will come into effect on 31 August 2011. These will bring in significant additional enforcement powers for local authorities. They will increase the maximum fine for a landlord found guilty of operating an unlicensed HMO from £5,000 to £20,000 and allow local authorities to use rent penalty notices to prevent unlicensed HMO landlords from collecting rent from their tenants.

2. **Will the SHR have a role within the local authority social rented sector?**

Yes, the Bill provides for the new SHR to regulate councils’ performance of their landlord and homelessness services.

2.1 **What is your view on the oral evidence from COSLA which stated that “the burden of regulation on local authorities is huge and, although we recognise the specific expertise of the SHR, we believe that regulation should be more streamlined and the SHR should work in conjunction with Audit Scotland on regulating local authorities” (Official Report 24 March, col 2931)?**

The Bill’s provisions on regulating social landlords, which are are consistent with the Scottish Government’s wider policy on scrutiny reform, provide for the new SHR to minimise the burden of regulation and to work with Audit Scotland and the Accounts Commission. They reflect the shift from inspection-based regulation of local authority landlords and homelessness services to one based on self-assessment.
Two points in particular are worth noting in connection with COSLA’s comments:

- Section 2 requires the SHR to act proportionately, accountably and transparently and to target action only where it is needed. This will ensure that the SHR focuses its regulatory interventions on poorer quality landlords and those at risk of failing their tenants and that the burden of regulation on those that are doing well is reduced. (Paragraph 23 of the Policy Memorandum)

- Section 5 requires the SHR to consult the Commission about how it discharges its functions in respect of local authority landlords. This reflects the need for the SHR to have a particular relationship with the Commission through which it can develop an effective means of safeguarding and promoting the interests of council tenants as part of wider developments to establish a streamlined system for scrutinising local authority functions. (Paragraph 25 of the Policy Memorandum)

2.2 Was any consideration given to allowing Audit Scotland to scrutinise the homelessness services and housing provision of local authorities with input from SHR?

Yes, the consultation on the draft Bill discussed the possibility of Audit Scotland and the Accounts Commission scrutinising local authority services. However the majority of tenants and representative bodies (including the Tenants Information Service, Tenant Participation Advisory Service, the Scottish Federation of Housing Associations, Consumer Focus and the Chartered Institute of Housing) were strongly in favour of the SHR continuing to have the lead role in regulating local authority services. A number of individual councils also supported a continuing role for the SHR in this respect.

My officials had informal discussions with Audit Scotland about the proposal put forward by COSLA. Audit Scotland is keen to work in partnership with the SHR in support of proportionate and risk-based scrutiny of local government. The SHR’s participation in the shared risk assessment process, and its commitment to working with Audit Scotland, should provide an effective balance between the latter’s interest in councils’ corporate management and leadership and the service performance issues related to the housing function in which the SHR has specific expertise.

3. Is it envisaged that the board of SHR will include tenants?

Yes. I want to see tenants on the Board and as full members, not token representatives. It is important that all members – not just tenants – contribute to achieving the SHR’s objective to safeguard and promote the interests of tenants and other service users. The appointment of Board members will be made under the auspices of the Commissioner for Public Appointments. A range of different skills will be sought to create a balanced Board – including experience of being a tenant.

4. In terms of the inspection regime, some concerns have been raised about self-assessment and it has been suggested that SHR should be able to carry out spot
checks on landlords. The SCSH also suggested that there should be a further round of inspections under the current regime. What is your view on these two points?

I am aware that tenants and some other stakeholders are concerned about the shift away from inspection to self-assessment. It is likely, as described in paragraph 61 of the Policy Memorandum, that many of the outcomes in the Charter will relate to tenants’ experience of, or satisfaction with, landlords’ services. So I expect that an important aspect of information collection will be through each landlord capturing a clear and consistent understanding of their tenants’ experience and reporting that to the SHR. In addition, the inquiry powers in the Bill would allow the SHR to validate self-assessment information submitted to it by landlords or to carry out a “spot check” where it had concerns about a landlord’s performance.

The question of whether there should be a further round of homelessness service inspections, as suggested by SCSH, is an operational matter for the current SHR, which will complete its baseline programme of inspections of council housing and homelessness services this year. In line with the Government’s response to the Crerar recommendations, all scrutiny bodies are implementing a more proportionate and risk-based approach to their work. The SHR is working with Audit Scotland and other scrutiny bodies to identify, through the shared risk assessment process, where scrutiny activity should be targeted. This allows it to target its resources at those local authorities that are delivering poorer homelessness services. This approach will continue when the SHR becomes an independent body.

The Bill’s provisions for a more flexible set of inquiry powers, to replace the inspection powers in the Housing (Scotland) Act 2001, will enable the new body to carry out a range of different types of inquiry as opposed to a ‘one-size fits all’ inspection. Such inquiries could include planned, unannounced or short-notice inquiries, thematic studies based on a particular subject, such as homelessness, or inquiries into services across a specific geographic area (Policy Memorandum, paragraphs 82-84).

5. How will the enforcement and intervention powers introduced by the Bill be more effective than the current regime?

Many of the powers that the Bill confers on the new SHR are powers that exist under the Housing (Scotland) Act 2001, which the current agency exercises on behalf of Ministers, such as the power to appoint and remove RSL board members. The Bill has the effect of transferring these powers from Ministers to the new body. It supplements them with new powers to enable the SHR to take enforcement action requiring a landlord to comply with the Charter, meet a performance improvement target or implement a performance improvement plan.

Annual reporting by the SHR against Charter outcomes, and the linked enforcement and intervention powers, would mark a radical shift from the 2001 Act regime which is largely based on periodic inspections of individual landlords. In the case of local authorities, the 2001 Act intervention powers are entirely linked to inspection.

As outlined in paragraph 83 of the Policy Memorandum (and the response to question 4 above), the SHR will be able to use its new powers to carry out a range of inquiries of different scale, depending on its assessment of risk or its need to capture
information about practice across the sector. These will allow the SHR to target action where it is needed and reduce the burden of regulation on landlords that demonstrate good performance.

The new powers to publish an enforcement notice and require a landlord to submit a performance improvement plan provide the SHR with a range of proportionate actions that it can take to respond more flexibly to different situations.

6. **How will the Scottish Government ensure that these powers are used appropriately?**

Section 3(2) of the Bill sets limits on the SHR’s powers by requiring it to target its actions only where they are needed. In order to ensure that the SHR’s exercise of its powers is transparent and proportionate, section 48 of the Bill requires the SHR to consult on, and then publish guidance about, how it would use its powers of inquiry. Section 51 requires the SHR to consult on and publish a code of practice of regulatory intervention. There is a right of appeal to the Court of Session on any decision to appoint and remove RSL board members. In practice, I expect the Board to be accountable to the Local Government and Communities Committee for the use of all of the SHR’s powers.

**Further comment on Right to Buy exchange**

Having now had the opportunity to read through the transcript of the exchanges on 28 April I would like to clarify the figures that Mr McLetchie and I referred to in relation to Right to Buy applications as a proportion of overall stock. From the published statistics held by the Scottish government the peak year for sales of public rented properties under the Right to Buy was 1989-90 when there were 38,837 sales or 4.3% of the total stock. Available statistics for sales of RSL housing under Right to Buy show the peak year was 2003-04 when 3,198 sales were made; 1.3% of the total stock. This figure has now fallen back to 1,075 sales, or 0.4% of the total stock for 2008-09.

In its evidence, the SFHA implied that 5% per annum of the total stock that is currently subject to the suspension of the Right To Buy would be sold. This figure is much higher than the highest proportion of applications we have seen for RSL properties.

The translation of applications under the Right to Buy to a final sale will depend on the individual circumstances of the applicants; applications are consistently higher than final sales. Figures for 2008-09 show there were 1317 applications for Right to Buy by RSL tenants and 1075 sales. Figures for the overall Social sector were 6,765 applications resulting in 4,043 Right to Buy sales to tenants.

Other points of clarification from the exchanges on the Right to Buy are addressed in annex C which contains responses to the further questions that the Clerk to the Committee put to my officials.

I am keen to provide to the Committee any information that they consider relevant to their consideration of the Housing Bill. I would point out however that the suspension of Modernised Right to Buy entitlements for RSL tenants is not part of the Bill. It will be for individual RSLs to decide for themselves whether they wish to apply to Ministers to extend beyond 2012 any current suspensions and the Scottish Government proposes to develop
new guidance for RSLs on this issue for publication next year. We will engage closely with stakeholders on the development of the guidance which should reflect criteria such as meeting housing need, safeguarding stock where required and taking account of the landlord's ability to pay for policy priorities such as the SHQS.

Alex Neil
Minister for Housing and Communities

10 May 2010
ANNEX A

RESPONSE TO QUESTIONS ON HOUSING (SCOTLAND) BILL FROM EVIDENCE SESSION OF 28 APRIL 2010

PRIVATE SECTOR AND HOMELESSNESS

1. Could you provide an update on the work of the sub-group drafting enforcement guidelines (including timescales and an indication of which Bill the recommendations will be incorporated into)?

The private sector Landlord Registration Network, which consists of officials from all Scottish local authorities, was established by the local authorities themselves in order to discuss matters relating to the registration system. It is entirely independent of the Scottish Government, although Government officials attend meetings by invitation. The Network set up an Enforcement Sub-Group, consisting of representatives of eight local authorities. This sub-group has drafted enforcement guidance principles to be shared among all local authorities, in order to establish common good practice. We understand that these guidelines have been distributed among the members of the Network, but that the Network does not intend to publish them. This is entirely a matter for the Network.

The enforcement guidance principles are designed to assist local authorities to enforce the existing legislation effectively. They are not recommendations for further legislation and no further legislation is required to put them into effect.

The Scottish Government welcomes the production of the guidance, which is an example of the more pro-active approach towards the enforcement of landlord registration being taken by local authorities.

2. Could you provide any figures that you have on the percentage of houses allocated to people on waiting lists and those who are homeless respectively - in particular, do you have a breakdown across local authorities?

In Scotland in 2008-09 there were an estimated 24,743 local authority lets (including transfers), of which 11,685 (47.2 %) went to homeless households. The individual percentages vary from 30.1% (East Ayrshire Council) to 79.9% (West Lothian Council). In the same period there were 29,272 RSL lets (including transfers), of which 7,112 (24.3%) went to homeless households. The individual percentages for local authority areas vary from 6.9% to 44.0%

A full breakdown is given in the table at annex B.
## Annex B

### Council and housing association lets to homeless as a percentage of all lets in 2008-09

<table>
<thead>
<tr>
<th>Council</th>
<th>Local authority</th>
<th>Housing association</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lets including transfers</td>
<td>Letts to homeless From return</td>
</tr>
<tr>
<td></td>
<td>No.</td>
<td>% of lets</td>
</tr>
<tr>
<td>Aberdeen City</td>
<td>1,705</td>
<td>509</td>
</tr>
<tr>
<td>Aberdeenshire</td>
<td>927</td>
<td>427</td>
</tr>
<tr>
<td>Angus</td>
<td>726</td>
<td>511</td>
</tr>
<tr>
<td>Argyll &amp; Bute</td>
<td>362</td>
<td>172</td>
</tr>
<tr>
<td>Clackmannanshire</td>
<td>1,258</td>
<td>538</td>
</tr>
<tr>
<td>Dumfries &amp; Galloway</td>
<td>1,278</td>
<td>597</td>
</tr>
<tr>
<td>Dundee City</td>
<td>927</td>
<td>427</td>
</tr>
<tr>
<td>East Ayrshire</td>
<td>726</td>
<td>511</td>
</tr>
<tr>
<td>East Dunbartonshire</td>
<td>362</td>
<td>172</td>
</tr>
<tr>
<td>East Lothian</td>
<td>1,258</td>
<td>538</td>
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<tr>
<td>East Renfrewshire</td>
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<td>597</td>
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<tr>
<td>Edinburgh</td>
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<tr>
<td>Eilean Siar</td>
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<tr>
<td>Falkirk</td>
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<tr>
<td>Fife</td>
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<tr>
<td>Highland</td>
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<tr>
<td>Inverclyde</td>
<td>999</td>
<td>477</td>
</tr>
<tr>
<td>Midlothian (1)</td>
<td>272</td>
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<tr>
<td>Moray</td>
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<td>155</td>
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<tr>
<td>North Ayrshire</td>
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<td>Orkney</td>
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<tr>
<td>Perth &amp; Kinross</td>
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<td>South Ayrshire</td>
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<tr>
<td>South Lanarkshire</td>
<td>2,116</td>
<td>1,046</td>
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</tbody>
</table>
### Notes to Annex B

For this analysis the information on lets to homeless households was from the HL1 homeless statistics returns. Information on the total number of lets (including transfers) for local authorities was taken from annual statistical returns by local authorities to the Scottish Government and information on the total number of lets (including transfers) by housing associations was derived from the Annual Performance and Statistical Returns that RSLs provide to the Scottish Housing Regulator.

The HL1 was used as the source of information on lets to homeless households, in preference to information on lets to homeless households provided in the summary statistical returns, because the HL1 is judged to be the most reliable source of information on lets to homeless. The HL1 returns provide information on each homeless application drawn from councils' administrative records. Information provided through the HL1 system is the basis of all key statistics on trends in applications, assessments and outcomes; and of the analyses of the characteristics of homeless applicants, reasons for homelessness and outcomes for different groups. The HL1 system is the source of information used to track and report on the Scotland Performs Indicator on the proportion of homeless applications accorded priority status.

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<table>
<thead>
<tr>
<th>Council</th>
<th>Local authority Lets including transfers</th>
<th>Housing association Lets including transfers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No.</td>
<td>% of lets</td>
</tr>
<tr>
<td>Stirling</td>
<td>319</td>
<td>55.5%</td>
</tr>
<tr>
<td>West Dunbartonshire</td>
<td>987</td>
<td>46.4%</td>
</tr>
<tr>
<td>West Lothian (1)</td>
<td>721</td>
<td></td>
</tr>
<tr>
<td>Scotland</td>
<td>24,743</td>
<td>10,41</td>
</tr>
</tbody>
</table>

Notes (1): West Lothian and Midlothian data are for 07-08.

(2): The APSR figures for housing association lets to homeless by local authority area are estimates based on APSR data.
RIGHT TO BUY

Q1. Could you provide more detail on the remodelling of the estimated number of RSL properties that will be sold under the RTB in the ten years between 2012-22 and the presumptions underpinning that work? In particular, could you explain the difference in the 2006 estimate of 3,500-4,500 per annum and the current figure of 2,800 over ten years?

1.1 Scottish Government’s 2009 forecast suggests that if the 10 year suspension came to an end in 2012, around 2,800 RSL properties would probably be sold under the modernised RTB over the ten years from 2012 to 2022. The assumptions underpinning this figure are explained in the paragraphs below.

1.2 The projections for the number of properties “saved” by extending the suspension assumed that all RSLs affected by the 10 year suspension would successfully apply to Ministers to extend the suspension for the maximum ten year period for all of their affected tenancies. In fact, individual RSLs will decide for themselves whether they wish to apply to Ministers to extend beyond 2012 the current suspension of modernised RTB entitlements. The Scottish Government proposes to develop new guidance for RSLs to use if they wish to make such applications. This guidance would be underpinned by criteria that reflect the importance of meeting housing need and safeguarding stock and take account of the effect of RTB on a landlord’s ability to pay for policy priorities such as the Scottish Housing Quality Standard (SHQS).

1.3 The sales rate for the 2009 forecast was assumed to be 1.5%, which was the mid-point of the range of sales rates used to forecast the wider impact of the RTB reforms [see paragraph 233 of the Bill’s Financial Memorandum].

1.4 These recent forecasts took account of the reforms to end RTB for new social housing and new tenants and therefore assumed that the number of tenancies affected by the 10 year suspension was a fixed number at 30 September 2012 that would decrease by 1.5% each year as stock was sold under the RTB at this rate.

1.5 The Government estimated that approximately 27,000 tenancies are affected by the 10 year suspension and would therefore be free to exercise their modernised RTB in September 2012 if the suspension was not extended.

1.6 This estimate was based on the fact that the type of tenancies that are affected by the 10 year suspension are Scottish secure tenancies conveying modernised RTB entitlements. That is:

- Tenancies over a property that was built or acquired by the RSL before 30 September 2002 and;
- Tenancies with RSLs which are either not registered charities or which became registered charities after 18 July 2001.

1.7 Therefore tenancies within the RSL sector that are not affected by the 10 year suspension are:

- Tenancies with RSLs which became registered charities before 18 July 2001; and
- Tenancies with the 6 local authority stock transfer RSLs

1.8 The 27,000 figure was therefore derived by:
• Calculating the overall stock (excluding LSVT properties) level in 2012 as 180,000 properties
• Estimating that 15% of this stock was non charitable and was subject to modernised RTB based on the data available at the time
• Applying this 15% to the 180,000 to arrive at 27,000 eligible properties if the suspension was lifted.

1.9 The 2006 and 2009 forecasts were both underpinned by two key pieces of information:
• the number of tenancies affected by the 10 year suspension; and
• the underlying sales rate.

1.10 The sub-paragraphs below outline the assumptions for each forecast and highlights the differences between them.

Baseline Stock level – In 2006 and 2009 the latest available data was used to calculate the potential stock levels at 2012 (excluding the LSVT stock). The 2006 estimate was 190,000 and the 2009 estimate was 180,000

Proportion of Stock Eligible for RTB – The estimate of proportion of stock eligible for RTB in the 2006 forecast was calculated as the proportion of non charitable properties with any RTB which was calculated at 50% using the best available data at the time. The estimate in the 2009 forecast was calculated as the proportion of non charitable properties with modernised RTB rights (the suspension until 2012 only applied to modernised RTB) which was calculated as 15% using the best available data at the time. The difference in these estimates is caused by the fact that the 2009 estimate is only looking at modernised RTB rights and also used a more accurate estimate of non charitable RSL’s.

Level of eligible stock in first year of projections – For both the 2006 and 2009 estimates the level of eligible stock is calculated as the baseline stock level multiplied by the proportion eligible for RTB, which are given above. Using this calculation the level of eligible stock in the 2006 forecasts was calculated as 95,000 and the level of eligible stock in the 2009 forecasts was 27,000. This difference in eligible stock (caused by the proportion of eligible stock outlined above) is the major reason for the difference between the 2006 and 2009 forecasts.

Sales Rate of Stock – Both the 2006 and 2009 forecasts use the latest available data to estimate the potential sales rate in future years, in the 2006 RTB sales and general housing market sales were at a high point and this lead to projected sales rate in the 10 years from 2012 of between 2.5% and 4.4%. In 2009 RTB sales had dropped considerably and generally the housing market as a whole was lower than previous years. This resulted in a range of estimates of sales rates of between 1% and 2% with the 1.5% being the main estimate for the 2,800 forecast.

Replenishment of Stock – In the 2006 forecasts new build stock was added into the baseline stock level at a rate of 7,000 new properties a year. This meant that the baseline stock level, and therefore the subsequent calculations, were based on increasing stock each year. In the 2009 forecasts it was assumed that no new stock would be added to the baseline level as the housing Bill proposes that new build would be exempt from RTB.
Q1(b) If the SG forecasts vary this wildly then why should we have any confidence in the predictions for the number of houses which would allegedly be "saved" if the RTB proposals are enacted?

1.11 With respect to the overall projections for number of houses saved if the RTB proposals are enacted, these are based on simple applications of sales rates to the eligible stock and applying turnover rates to the eligible stock. The amount of stock “saved” will be very much dependant on the underlying sales rate which is in turn based on the housing market and the circumstances of the tenants. We have therefore used a range of sales rates in our projections in order to represent a realistic range of the stock “saved” based on current data and expectations. The basis for the 2009 forecasts are set out in paras 224-229 of the Financial Memorandum to the Bill.

1.12 The 2006 and 2009 projections were calculated using different data, outlined above, (based on what was available at the time) and for different purposes which affected some of the data and calculations. The 2009 projection was explicitly looking at the impact of removing the suspension to RTB from modernised tenancies in RSL’s whereas the 2006 projection was looking at potential future sales for both modernised and preserved RTB in the RSL sector. The 2006 estimate also seems to underestimate the percentage of stock which is charitable and therefore overestimate the amount of stock eligible for RTB. Finally the 2006 estimates used a higher sales rate based on the conditions which prevailed at the time whereas the sales rate for the 2009 projection was lower (the sales rate for RTB reduced considerably between 2007/08 and 2008/09) and was expected to stay lower.

Q1(c) There is then the issue of the social/economic profile of tenants where the minister claimed there was so many on housing benefit that they would be unable to buy. Let us be clear that in this respect we are talking about the tenants of the 70000-80000 houses which are currently exempt from RTB until 2012 and the issue is their profile and ability to buy not the general tenant body.

1.13 Scottish Government forecasts are based on a range of past sales rates – not current / future socio-economic profiling.

1.14 The underlying sales rate does not explicitly take into account the tenants’ socio-economic status, but should do so implicitly and one reason for the reduction in the RTB sales rate may be the underlying socio-economic status of tenants.

Q1(d) Where is the evidence that significant numbers of that group are on HB?

RSL Tenants in receipt of Housing Benefit – 2008-09

1.15 RSLs supply the percentage figure for the number of tenants in receipt of either full or partial housing benefit in their Annual performance and statistical returns (APSR) to the Scottish Housing Regulator (SHR). RSLs are asked for their overall percentage of tenants on housing benefit. The SHR does not collect information on how many of those tenants live in houses currently exempt from RTB until 2012.

1.16 The SHR has used these figures against the total number of tenancies advised for 2008-09 (259,751) to calculate a projected number in each category, and to arrive at a sector figure.

1.17 The SHR appreciates that RSLs are not always fully aware of the total number of tenants in receipt of housing benefit, as benefit may be paid to the tenant rather than direct to the RSL. RSLs therefore provide their best estimate for this data.

1.18 Based on a total number of 259,751 RSL tenancies:
61.11% of all tenants are in receipt of partial or full Housing Benefit – a projected 158,729 tenants.

This figure breaks down further as:
46.62% of all tenants are in receipt of full Housing Benefit – a projected 121,096 tenants
14.49% of all tenants are in receipt of partial Housing Benefit – a projected 37,633 tenants

1.19 In addition the Department for Work and Pensions (DWP) publish figures for benefit claimants at: http://research.dwp.gov.uk/asd/hbctb.asp
This states that there were 379,480 social renting households in receipt of Housing Benefit at January 2010. The latest figures available for the number of households social renting are at 31st March 2009 when there were 576,140 households in this tenure. This suggests that around 66% of all social renters receive Housing Benefit. This proportion varies across the country, with around 76% receiving Housing Benefit in Edinburgh, while only 42% do in Shetland. This may reflect differences in availability and affordability in different regions.

Q2. Could you explain how the figure of £5,500 per remaining tenant was established as the debt burden from previous RTB sales? Also, what is the total financial debt burden?

2.1 Estimates of Housing Revenue Account debt take account of the current Right to Buy provisions and other financial provisions relating to social landlords. As a result of the prudential borrowing regime, which was introduced in 2004-05, local authorities can now make their own decisions whether or not to pay off the outstanding debt or invest the income from RTB sales receipts on existing or new housing stock.

2.2 £5,500 is a Government estimate of the approximate average outstanding debt on local authority housing stock in 2008 (that is per housing unit, not per tenant as stated in the question). It is a function of the financial management decisions by landlords including those on the use of RTB receipts and was calculated by the Government based on actual debt and housing stock information submitted by the 26 local authority landlords. The Government estimates that this has increased to approximately £7,000 per unit in 2010 based on estimated data from local authorities.

2.3 The total outstanding Housing Revenue Account debt for these 26 local authority landlords was approximately £1.8 billion in 2008 and is estimated to be approximately £2.2 billion in 2010.

2.4 These data are available from the ‘tsDebt’ tab of the Housing Statistics for Scotland Dataset on Local Authority Housing Income & expenditure, which can be found at the following link: http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSF5/HRATables

Q3. Could you explain how the replacement cost of £120,000 was arrived at for new build properties?

3.1 £120,000 is the average unit cost of all units bid for by local authorities in round 2 of the Government’s incentivising new council house building fund.
Q4. Could you explain how the net rental income that would be retained from keeping a house in the rented sector was calculated as £53,000 over 30 years? Does this figure apply to RSLs too? What is the total estimate net rental income that would be retained from the Bill’s proposals?

4.1 The Government has estimated that the rental surplus on a property in the local authority sector (i.e. the calculation is not for the RSL sector) that might otherwise have been sold under RTB could be between £16,000 to £53,000 over 30 years. These figures are expressed in present value terms, which involves discounting a future stream of costs and benefits in order to calculate an equivalent value in today’s money.

4.2 If a local authority retains a house, it will receive a rental stream from that house. However, it will also have to incur costs associated with the house, such as supervision and management, repairs and maintenance, and capital costs relating to major repairs to the house. The rental surplus from retaining the house is estimated by calculating the present value of the rents less the associated costs over the remaining lifetime of the property. Note that debt service costs should not be included in the calculation. This is because the debt has already been incurred; thus the local authority is liable for the debt service costs regardless of whether the house is sold under RTB or whether it is retained. Landlords can use this rental surplus in a number of ways, e.g. to undertake capital expenditure in the year in which it accrues, to service existing debt or new prudential borrowing, etc.

4.3 Since these calculations are based on future rents and costs, it is necessary to estimate what these might be in order to calculate the rental surplus. The value of the rental surplus will vary depending on what assumptions are made. The assumptions used to calculate the estimated values given in 4.1 are summarised below:

- The Government only collects aggregate data from local authority landlords in their HRA returns. However, it is likely that the houses sold under RTB are in relatively better condition than the average house, and thus have higher rents and lower costs. The rent and costs associated with an average house were therefore used to derive a lower estimate of the rental surplus. To calculate an upper bound which reflects the relatively better condition of the RTB stock, rent was assumed to be 10% higher than the average figure, and repairs and maintenance and capital costs to be 50% lower than the average figure. Supervision and management costs were also assumed to be zero for the upper bound. The rationale for this is that the presence of fixed costs involved in managing housing stock makes this type of expenditure less responsive to changes in stock than maintenance and capital expenditure, and this has made it difficult for local authority landlords to reduce supervision and management costs as stock levels have fallen due to previous RTB sales. Assuming that local authority landlords would not be able to reduce supervision and management costs in the future if stock levels fall due to RTB sales, then, if the RTB reforms result in fewer sales, it should be possible for local authority landlords to manage these retained houses within the same supervision and management budgets, i.e. there will be no additional supervision and management costs due to the retained stock than under the no-reform scenario.

- The starting figures for average rents, supervision and management costs and repairs and maintenance costs were taken from the Housing Revenue Account returns supplied by local authority landlords to the Government, and reflect their budgeted figures for the 2009-10 financial year. The data are available at http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/Hsfs/Hratables
• Capital expenditure on major repairs cannot be separately identified in the Capital Returns supplied by local authorities to the Government. Instead, a figure of £592 per house per annum was used. This was taken from the HAG guidance of March 2010 (HIGN 2010/04, available at http://www.scotland.gov.uk/Topics/Built-Environment/Housing/investment/guidancenotes/hign201004) and is the maximum major repairs allowance permitted under HAG guidance in respect of properties built over 10 years ago.

• Rents were assumed to grow at inflation plus 1.5%. This is in line with the average real increase over the last 4 years. Costs were assumed to grow at the same rate as inflation, which reflects the general need for government expenditure to be contained given the current fiscal climate.

• The discount rate used was a real rate (i.e. after adjusting for inflation) of 3.5% - the rate recommended by HM Treasury’s Green Book for Appraisal and Evaluation in Central Government.

• The remaining lifetime of the property was assumed to be 30 years. Given the assumptions described above, this yields a lower bound of £16,000 and an upper bound £53,000 for the present value of the rental surplus. If the remaining lifetime is assumed to be 40 years, then the estimates vary between £22,000 and £66,000, and if the remaining lifetime is assumed to be 50 years, then the estimates vary between £28,000 and £77,000.

4.6 The RTB reforms could safeguard between 10,000 to 18,000 properties over a 10 year period. If 10,000 properties are safeguarded and each of them generates the lower estimated rental surplus of £16,000 over a 30 year period, then the RTB reforms could generate an estimated total rental surplus of £160 million (in present value terms). If 18,000 properties are safeguarded and each of them generates the higher estimated rental surplus of £53,000 over a 30 year period then the RTB reforms could generate a total estimated rental surplus of £954 million (in present value terms).

4.7 The extremely wide range between the lower and upper bounds of these estimates highlights the limitations of the Government's data sources. Social landlords, who hold detailed information, are best placed to forecast the financial impact to them of RTB reforms (as summarised in paragraphs 265 to 267 of the Bill’s Financial Memorandum). In addition, the estimates will vary depending on what is assumed about future trends in rents and costs; however, these factors are under the control of social landlords.

Social Housing Division, Housing and Regeneration Directorate

10 May 2010