



THE SCOTTISH HOUSING REGULATOR

Scottish Housing Quality Standard
Progress update 2009/10

March 2011

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1. Introduction

- 1.1. This report provides an overview of progress towards the Scottish Housing Quality Standard (SHQS) by social landlords. It covers:
- the rate at which social landlords are bringing their houses up to the Standard;
 - the costs associated with this improvement; and
 - the challenges and risks for the achievement of the Standard by 2015, the target set by Scottish Ministers.

2. Background

- 2.1. The Scottish Government expects all homes rented from social landlords to meet the SHQS by 2015, and we monitor landlords' progress towards this target. Delivery of the Standard is a significant contribution to the achievement of several of the National Outcomes the Scottish Government aims to achieve. To meet the Standard, a property must meet all five of the following criteria:
- compliant with the Tolerable Standard;
 - free from serious disrepair;
 - energy efficient;
 - provided with modern facilities and services; and
 - healthy, safe and secure.
- 2.2. Each criterion consists of a number of elements. More information on the Standard is available on the Scottish Government website: <http://www.scotland.gov.uk/Topics/Built-Environment/Housing/16342/shqs> and on how we monitor landlords' progress on our website: http://www.scottishhousingregulator.gov.uk/stellent/groups/public/documents/webpages/1shr_housingquality.hcsp#TopOfPage.
- 2.3. This report is based on the 2010 SHQS monitoring form for RSLs and local authority landlords which we received in September 2010. We have also used data from:
- published statistics from local authority returns to the Scottish Government;
 - published statistics from local authority returns to Audit Scotland; and
 - the Annual Performance and Statistical Returns (APSRs) from RSLs
- 2.4. This is the first year that we have the same information for registered social landlords (RSLs) and local authorities. This has helped us to analyse the whole sector's progress towards SHQS on a consistent basis. We plan to continue this approach in

subsequent years. This is also the first year in which we have measured compliance rates against the five criteria that comprise the SHQS, and this allows us to assess more precisely the level of progress.

- 2.5. This has been the most comprehensive data collection on the SHQS since the Standard Delivery Plans (the original plans submitted by landlords to the Scottish Government in 2005). This included some questions about landlords' stock condition information, on which compliance and investment projections must be based. We know from our inspections that many landlords have good stock condition information, but this is not universal. From our analysis of the monitoring forms we see that some landlords have not assessed their houses for SHQS compliance for several years, have stock profiles that suggest significant non-compliance, and some that did not provide evidence of a robust system for updating their information.

3. Summary

- 3.1. Social landlords have made progress towards the SHQS target in 2009/10, and through our inspections we have found some excellent examples of stock condition monitoring and investment planning. But other landlords remain at risk of not achieving the Standard by 2015, mainly because they still have some way to go to fully achieve the Standard in all of their houses and have not clearly demonstrated that they will deliver the necessary works over the next four years. Some landlords have yet to improve the quality of their stock condition information and forward planning, something that will be important in this period of financial constraints. We will seek the assurance we need with individual landlords through our [Regulation Plans](#)¹ (RSLs) and the [shared risk assessment](#)² (Councils) and will directly engage with them on their management of stock quality during 2011/12.
- 3.2. The main points emerging from the analysis of landlord returns are:
- 56% of social rented houses complied with the SHQS on 31 March 2010; up from 50% the previous year.
 - RSLs reported an overall whole-house compliance level of 70%, but the level was lower for stock transfer RSLs. Local authorities reported a whole-house compliance level of 43%.
 - 61% of landlords are already near to or fully comply with the Standard; 41 landlords (all RSLs) fully comply, and 68 (67 RSLs and one council) have compliance rates of between 80% and 99%.
 - Local authorities and stock transfer RSLs, which together account for 77% of all social rented houses, own 90% of the houses that do not yet comply with SHQS.
 - Houses that do not yet fully meet the Standard typically fail in only one or two criteria.
 - During 2009/10, landlords improved in total more than 200,000 houses to bring them up to, or closer to, the Standard.
 - Most RSLs appear to be on track to reach the Standard by 2015, although 11 local authorities and 21 stock transfer RSLs will need to accelerate the number of houses they bring fully up to the Standard each year.
 - Landlords estimate that 14,712 houses (equivalent to 3% of total current stock) require an exemption from the Standard, although landlords may revise these

¹ http://www.scottishhousingregulator.gov.uk/stellent/groups/public/documents/webpages/shr_regulationplansfrontpage.hcsp

² <http://www.audit-scotland.gov.uk/work/scrutiny/strategic.php>

estimates following the Scottish Government's publication of the SHQS exemptions policy.

- Landlords project a total investment of £2 billion between 2010 and 2015 to meet the Standard, equivalent to £6,500 per house still to be improved.
- To fund this and their other stock investments, RSLs estimate that they will need to draw down £670 million from private lending facilities and local authorities plan to use £1.5 billion of prudential borrowing.

4. Level of compliance at 31 March 2010

- 4.1. As at 31 March 2010, 56% of houses owned by Scottish social landlords fully complied with the SHQS, up from 50% in 2009. Overall levels of compliance increased for both RSLs and local authorities. Over half of the 179 landlords that submitted information to us are already close to the target: 41 RSLs reported 100% compliance by March 2010 and a further 67 RSLs and 1 local authority reported 80% to 99% compliance.
- 4.2. But most stock transfer RSLs and local authorities still have considerable numbers of non-compliant houses; the median for stock transfer RSLs is 66% and for local authorities it is 52%.

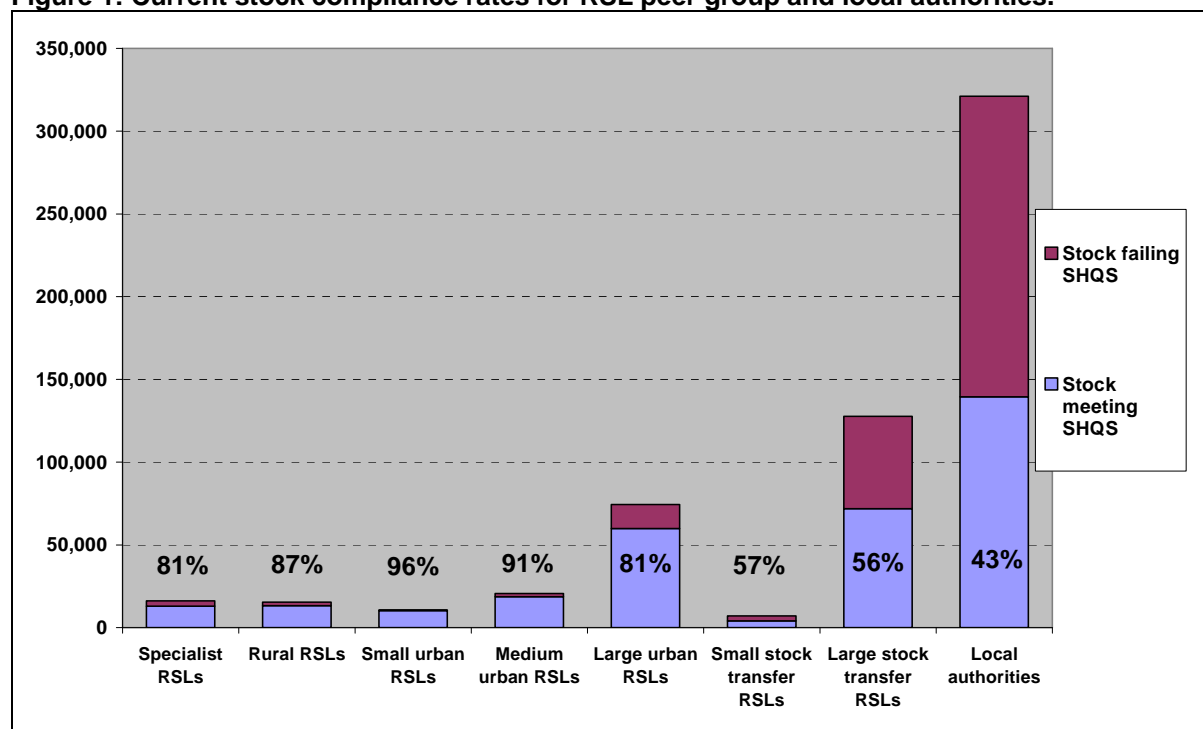
Table 1: Number and % of SHQS compliant stock on 31 March 2009 & 2010

	2009		2010	
RSLs	169,861	63%	191,367	70%
Local authorities	105,837	37%	136,354	43%
Total sector	275,698	50%	327,721	56%

Source: APSRs 2008/09, 2009/10, Audit Scotland returns 2008/09, 2009/10 and SHQS returns 2010

- 4.3. Most houses that do not yet meet the SHQS are owned by local authority landlords (69%) and large stock transfer RSLs (21%). The chart below also shows that small stock transfer RSLs report a considerably lower compliance rate than other RSL peer groups. For these reasons, we have presented measures in this report by three landlord categories: local authorities, stock transfer RSLs, and other RSLs.

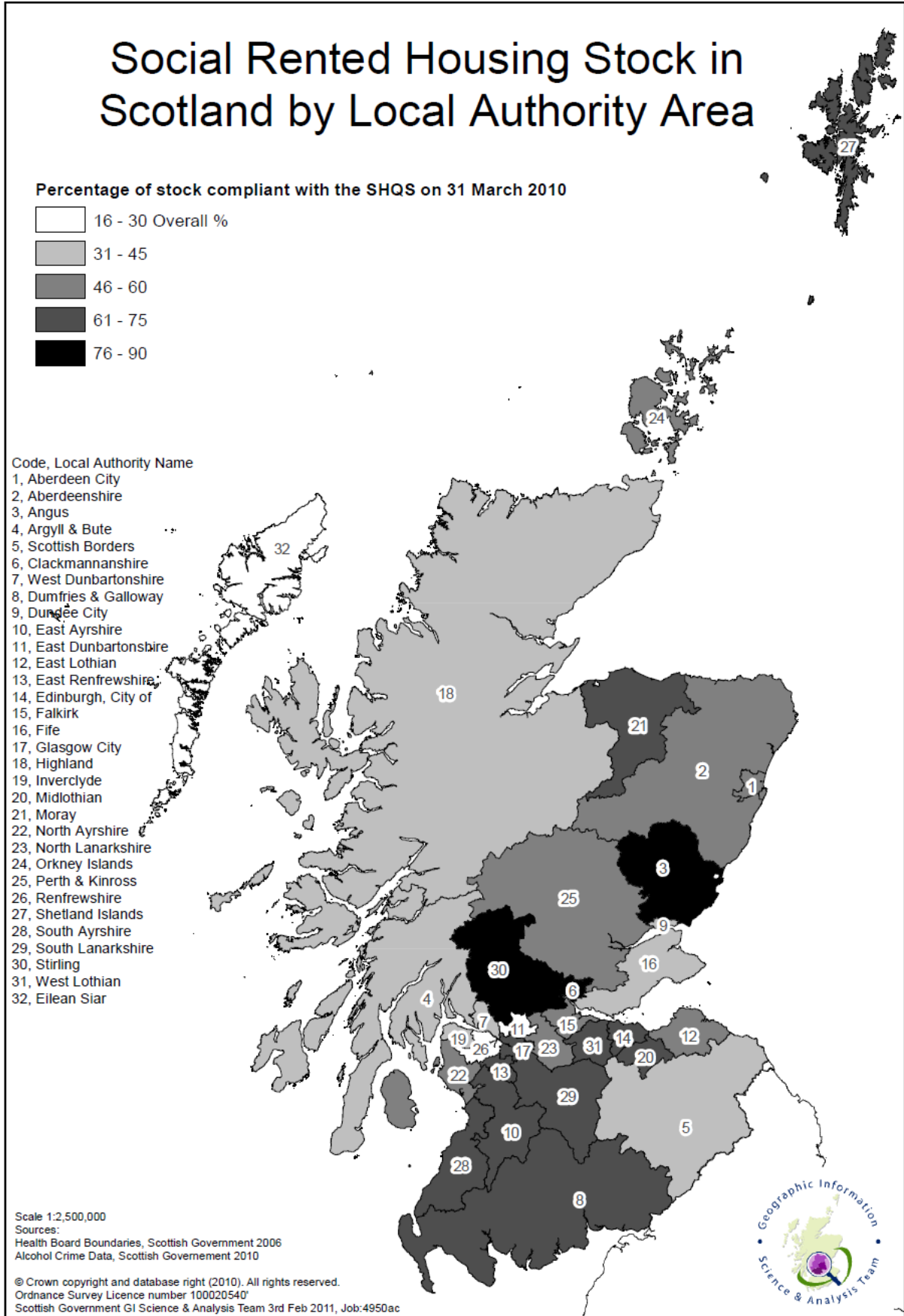
Figure 1: Current stock compliance rates for RSL peer group and local authorities.



Source: SHQS returns 2010

- 4.4. If we compare their reported compliance level on 31 March 2010 with the level they reported to Audit Scotland for 31 March 2009, 11 (out of a total of 26) local authorities need to accelerate the number of houses they bring fully up to the Standard each year if they are to meet the target by 2015. Their returns to us confirm that they project such an acceleration over the period to 2015. And 71 RSLs (out of a total of 153 that submitted returns), including 21 stock transfer RSLs, also need to accelerate the number of houses they bring fully up to the Standard each year.
- 4.5. The map on the following page shows the percentage of social rented stock in each local authority area that met the Standard on 31 March 2010 (taking RSL and local authority properties together). This shows large geographic variations in current levels of housing quality.

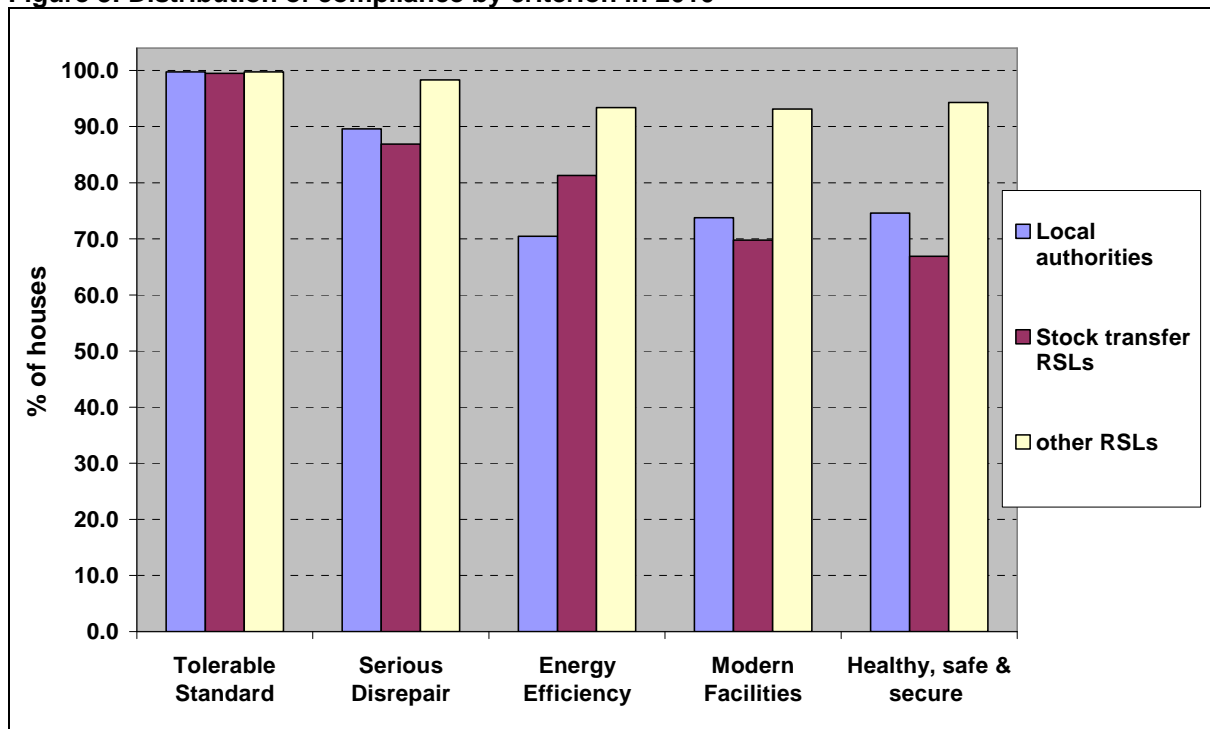
Figure 2: SHQS compliance by local authority area



Source: SHQS returns 2010

4.6. In 2010 we collected information on SHQS compliance rates by the five criteria that constitute the Standard. This information gives us an overview of the extent of achievement of the Standard beyond the whole-house measure. The chart below shows that non-stock transfer RSLs have achieved more than 90% compliance in every criterion. Stock transfer RSLs report the lowest compliance rates in the *Modern facilities and services* and the *Healthy, safe & secure* criteria and local authority properties in the *Energy efficiency* criterion.

Figure 3: Distribution of compliance by criterion in 2010



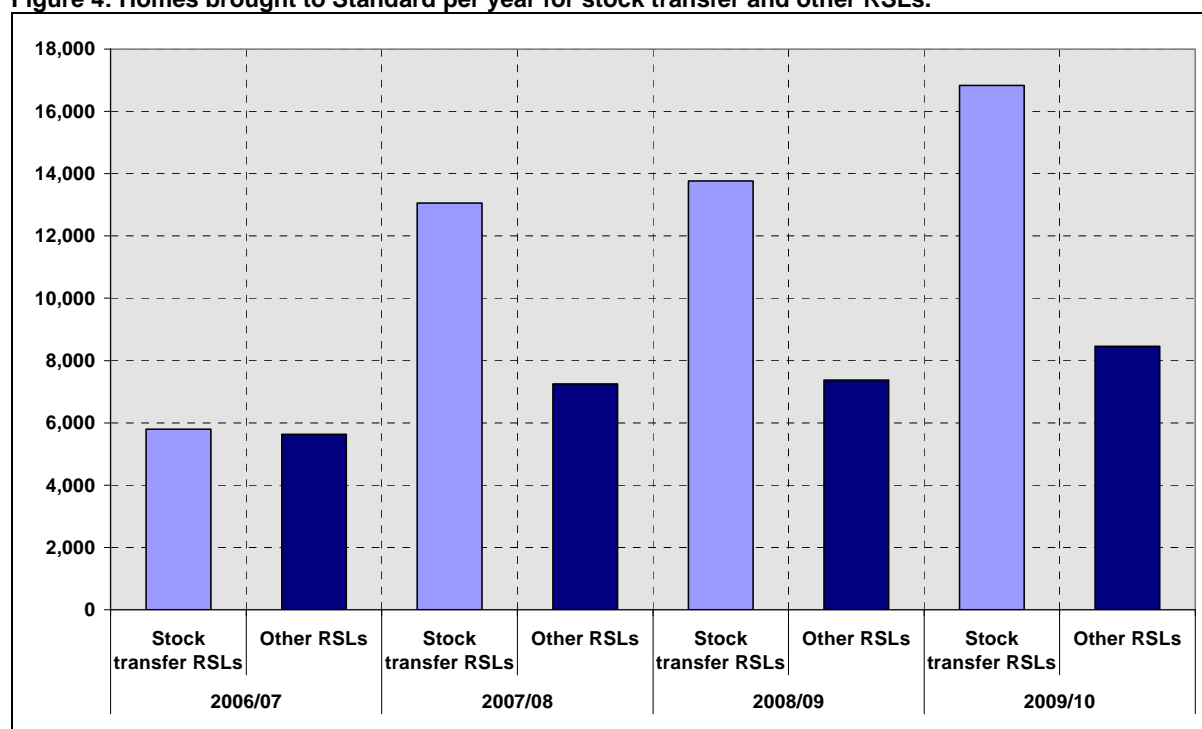
Source: SHQS returns 2010

5. Progress during 2009/10

Houses brought up to the Standard

5.1. In their 2009/10 APSRs, RSLs reported that they brought 25,292 homes (9% of their stock) up to the Standard; considerably more than the 19,476 they were planning to improve. We do not have this information from local authorities for 2009/10, but will be collecting it from 2011 onwards. The chart below shows that both stock transfer RSLs and other RSLs are bringing an increasing number of houses up to the Standard each year.

Figure 4: Homes brought to Standard per year for stock transfer and other RSLs.



Source : APSRs 2006/07, 2007/08, 2008/09 & 2009/10

Houses improved

5.2. We asked landlords to report the number of houses they improved in 2009/10 to bring them nearer to the Standard, up to the Standard, or prevent them falling below the Standard. We also asked landlords to split these improvements by SHQS criterion. Overall, the sector made SHQS-related investments in more than 200,000 properties; one third of all social rented homes. As the table below shows, the highest proportion of houses improved was amongst stock transfer RSLs.

Table 2: Percentage of total homes improved by criterion in 2009/10

	Tolerable Standard	Serious Disrepair	Energy Efficiency	Modern Facilities	Healthy, safe & secure	Overall % houses improved
Local authorities	0.3%	7%	12%	15%	15%	33%
Stock transfer RSLs	0.0%	10%	5%	32%	47%	57%
Other RSLs	0.1%	2%	5%	4%	8%	18%
Total	0.2%	6%	9%	16%	20%	35%

Source: SHQS returns 2010

- 5.3. We asked landlords to report by SHQS *criterion* in the 2010 data return, and 38 landlords also reported at the more detailed *element* level. This information shows the types of improvements that have been delivered to tenants and that these landlords tackled on average two elements in each home that they improved. And from the table below we can see that the highest numbers of improvements amongst these landlords were in bathrooms and kitchens.

Table 3: Top 10 SHQS improvements by element in 2009/10

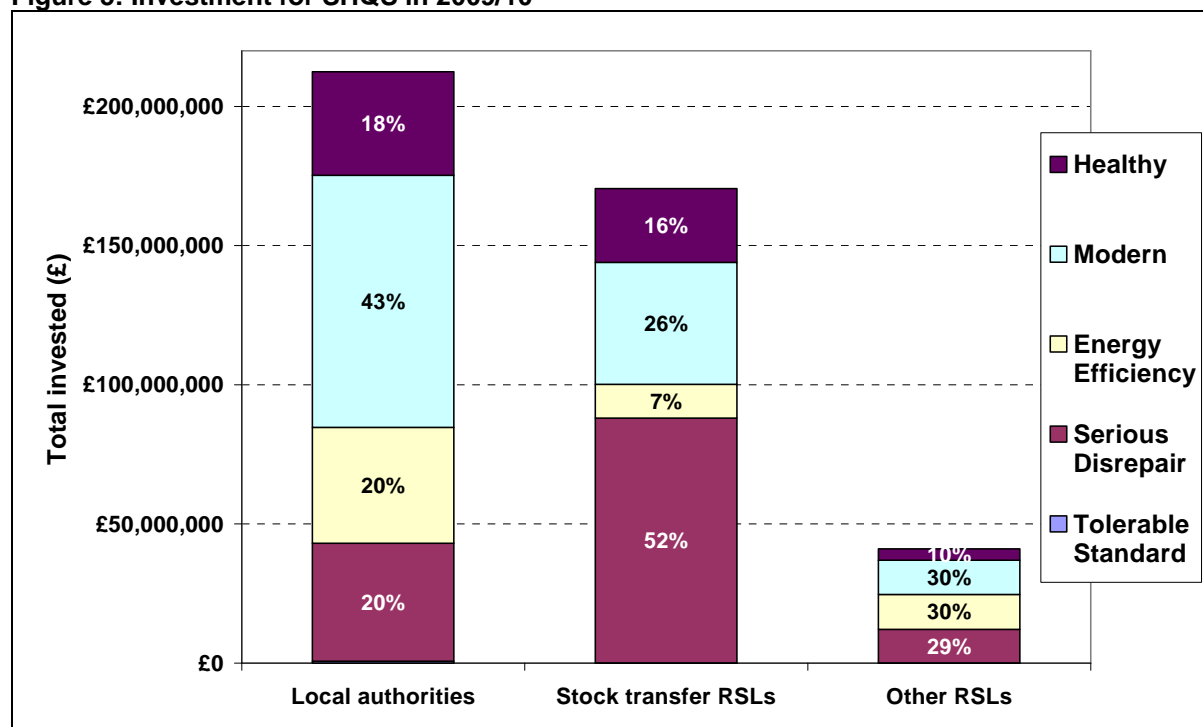
Element	Homes improved	Criterion
Kitchen : Safe working arrangements	17,992	Modern facilities and services
Bathroom Condition: Bath/shower	17,599	Modern facilities and services
Safe: Electrical system	16,929	Healthy, safe and secure
Kitchen : Adequate sockets	13,017	Modern facilities and services
Kitchen Condition: storage/worktops	12,538	Modern facilities and services
Healthy: Mechanical ventilation in kitchen and bathroom	11,262	Healthy, safe and secure
Kitchen Condition: Storage	11,257	Modern facilities and services
Kitchen Condition: Sink	11,133	Modern facilities and services
External wall finish	10,726	Disrepair
Bathroom Condition: Wash hand basin	10,702	Modern facilities and services

Source: 38 SHQS returns 2010 that showed investment by element

Investment

- 5.4. As well as the number of houses improved, we also collected information on the value of these improvements. Landlords told us that they invested a total of over £500m during 2009/10; split almost equally between local authorities and RSLs. As the chart below shows, stock transfer RSLs invested a considerably higher proportion in the *Free from Serious Disrepair* criterion than local authorities and other RSLs, while investment by local authorities was more focused on *Modern Facilities and Services*.

Figure 5: Investment for SHQS in 2009/10



Source: SHQS returns 2010

5.5. With the exception of the figure for investment to meet the *Tolerable Standard* by stock transfer RSLs, which actually relates to very few properties, RSLs reported the highest levels of investment per house in the *Free from serious disrepair* criterion while local authorities' unit costs were more uniform across the criteria. Local authorities used this investment to improve on average 1.4 criteria, while stock transfer RSLs focused the investment on one criterion.

Table 4: Investment per home improved by criterion, 2009/10

	Tolerable Standard	Serious Disrepair	Energy Efficiency	Modern facilities	Healthy, safe & secure	Overall
Local Authorities	£631	£1,982	£1,074	£1,934	£793	£2,567
Stock transfer RSLs	£23,986	£6,465	£1,648	£997	£416	£2,486
Other RSLs	£1,010	£4,969	£1,725	£2,571	£381	£2,072

Source: SHQS returns 2010

5.6. The table below lists the elements that account for the highest investment levels per house reported by the 38 landlords that reported their SHQS investments in 2009/10 by element. It shows that elements in the *serious disrepair* criterion, especially relating to walls, roofs and windows, account for particularly high unit costs. Elements related to central heating systems are also in this list.

Table 5: Landlords' highest investment per unit in 2009/10

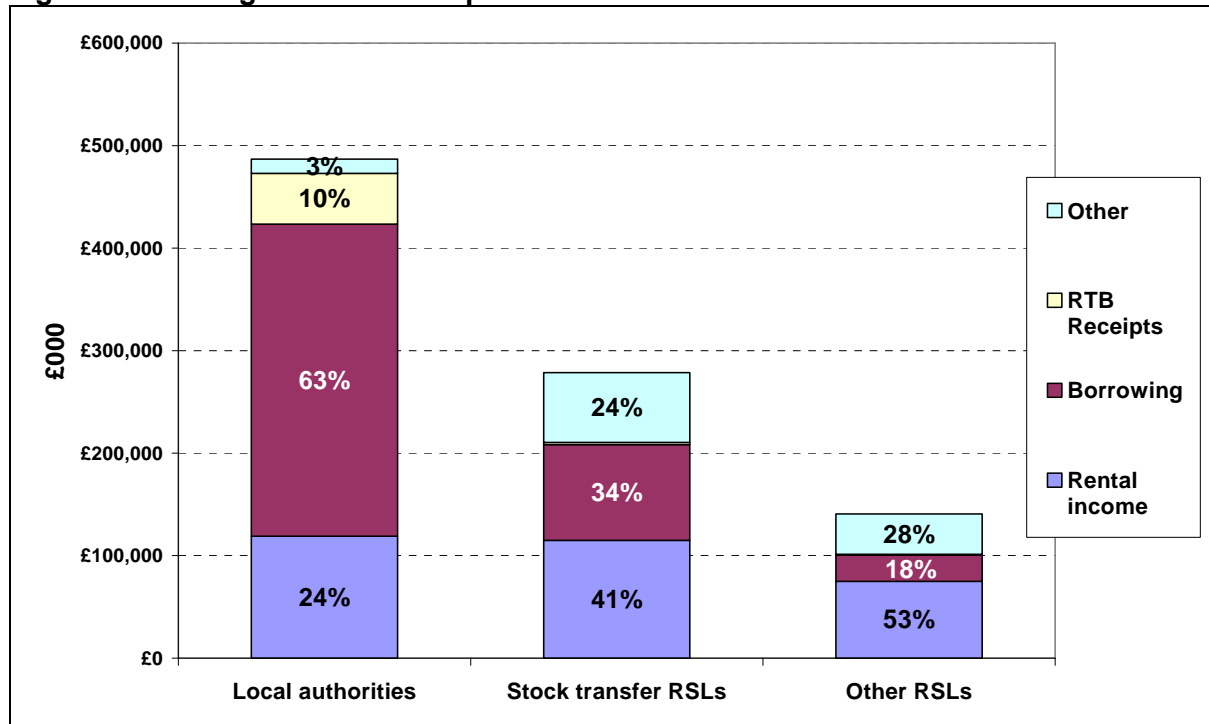
SHQS element	SHQS criterion	Homes improved	Total invested (£000)	Investment per unit (£)
External wall finish	Disrepair	10,726	£51,300	£4,779
Efficient central heating	Energy efficiency	2,002	£5,600	£2,823
Common rooflights	Disrepair	93	£200	£2,528
Full central heating	Energy efficiency	6,419	£13,900	£2,172
Common access stairs/landings	Disrepair	1,952	£4,000	£2,059
Safe: Lifts	Healthy, safe and secure	583	£1,000	£1,867
Windows	Disrepair	9,263	£16,200	£1,751
Paths, paved areas	Disrepair	4,692	£7,600	£1,617
Roof covering	Disrepair	9,994	£15,600	£1,565
Roof structure	Disrepair	270	£400	£1,535

Source: 38 SHQS returns 2010 that showed investment by element

Funding

5.7. In addition to their SHQS investments, landlords invested over £300m to maintain and improve other aspects of their houses. The chart below shows the value and proportion of landlords' funding for total (i.e. SHQS and other) investment in their houses in 2009/10. RSLs' single largest source of funding for this was their rental income. The 'other' category includes income from sales of land and other assets and grants for improving stock quality such as through the Mortgage to Rent scheme. The picture for local authorities was different, with borrowing accounting for most funding.

Figure 6: Funding sources for capital investments in 2009/10



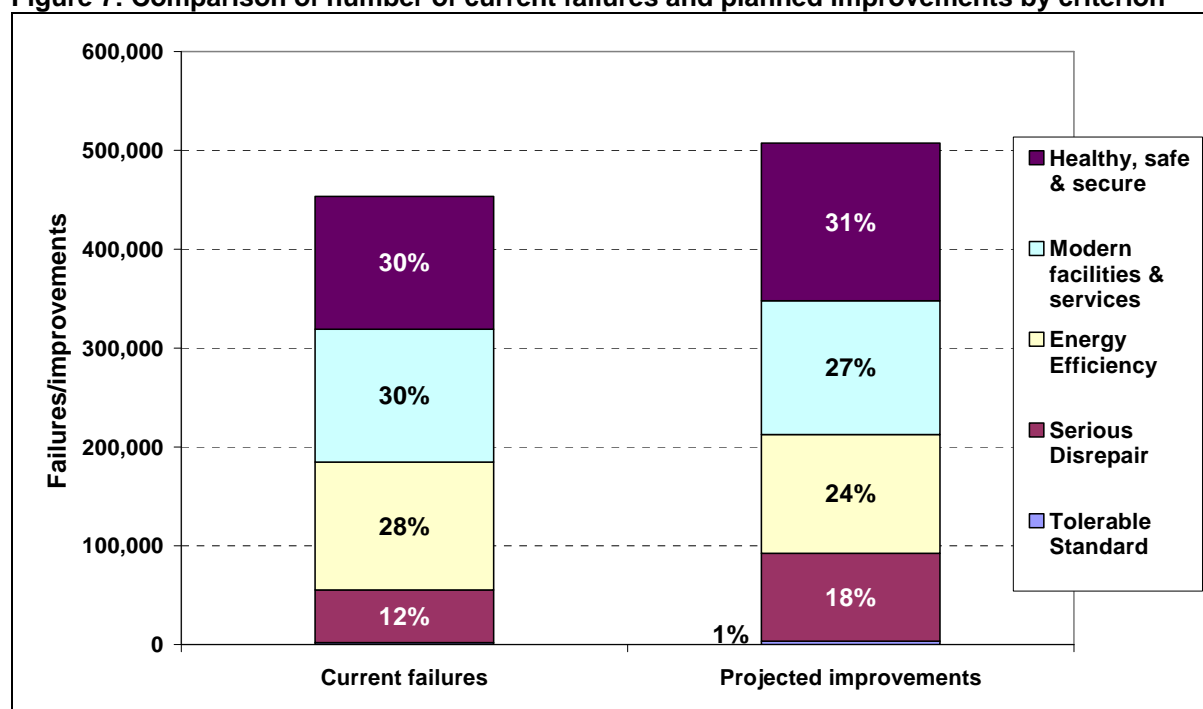
Source: SHQS returns 2010

6. Projections to 2015

- 6.1. Clearly, local authorities and stock transfer RSLs face the biggest challenges in meeting the SHQS. As well as improvements to houses, landlords can also remove houses that do not currently meet the Standard through demolition and disposal. In their returns last year, landlords estimated that they would demolish 4,247 houses that would otherwise not meet the SHQS over the course of the next five years. Local authorities plan to demolish around half of this number.
- 6.2. In certain circumstances, landlords will be able to claim an exemption from the SHQS for houses that cannot be brought up to the Standard. The Scottish Government plans to issue guidance on exemptions in March 2011, but we asked landlords to estimate the number of exemptions they might claim in their 2010 SHQS returns. From this information, landlords estimate that in total just under 3% of houses in 2015 (14,712 out of 544,922 properties) will require an exemption. Most of these (10,824) are RSL houses. Several landlords (7 local authorities and 12 RSLs) – with a total of 85,000 houses that do not yet meet the SHQS – commented that they would assess and report the estimated number of houses to be exempted after they have had an opportunity to consider the soon to be published guidance. So it is likely that the number of anticipated exemptions will rise.
- 6.3. The range of circumstances in which landlords expect to require exemptions include:
- disproportionate cost (including houses due for demolition shortly after 2015);
 - technical reasons (such as kitchens that cannot accommodate the required storage space);
 - owners in multi-tenure blocks preventing improvements to common elements such as roofs and common entrances;
 - tenants refusing work in their homes and/or are not able to deal with the disruption; and
 - planning permission would not be granted for the required work, as in the case of listed buildings.
- 6.4. In order to meet their SHQS obligations, landlords have to plan to bring current failures up to the Standard, maintain houses that already comply, and address failures in any future stock acquisitions. So, although there are currently around 260,000 properties that do not comply with the Standard, landlords estimated that they will invest in over 300,000 properties over the remaining period to 2015 in order to meet the target.

6.5. The improvements that landlords plan to make are distributed across the five criteria in roughly the same proportion as the current failures, as we can see in the chart below. The total of each column does not represent the total number of houses currently failing or being improved because some fail or need to be improved in more than one criterion.

Figure 7: Comparison of number of current failures and planned improvements by criterion



Source: SHQS returns 2010

6.6. From 2010 to 2015, RSLs project they will invest almost £800m in their houses to meet the Standard. Local authorities anticipate investing £1.3bn. Not all landlords split this by criterion in their returns to us, but from those that did, we can see in the table below that *Free from Serious Disrepair* accounts for the largest proportion of stock transfer RSLs' projected investment, although it accounts for only the third largest proportion of failures (see figure 3). The picture for local authorities is different, with *Energy Efficiency* accounting for both the greatest investment and the highest proportion of failures. Local authorities' projected investment in *Free from Serious Disrepair* is proportionately higher than failures in this criterion; this is not surprising given that remedial work for these types of failures is likely to be significant and therefore more costly.

Table 6: Projected investment for SHQS 2010 – 2015 by criterion (£000)

	Tolerable Standard	Serious disrepair	Energy efficiency	Modern facilities	Healthy, safe & secure	Unallocated	Total Investment
Local authorities	2,900	197,000	261,000	243,800	128,000	460,400	1,293,100
Stock transfer RSLs	1,600	214,000	68,300	157,600	80,000	89,500	611,000
Other RSLs	200	29,800	47,800	49,200	26,000	22,300	175,300
Total	4,700	440,800	377,100	450,600	234,000	572,200	2,079,400

Source: SHQS returns 2010

- 6.7. The table below shows, as might be expected, that stock transfer RSLs and local authorities account for the majority of total projected investment for SHQS. These landlords also report the highest investment per house to be improved, reflecting the higher number and/or type of elements to be addressed in these houses.

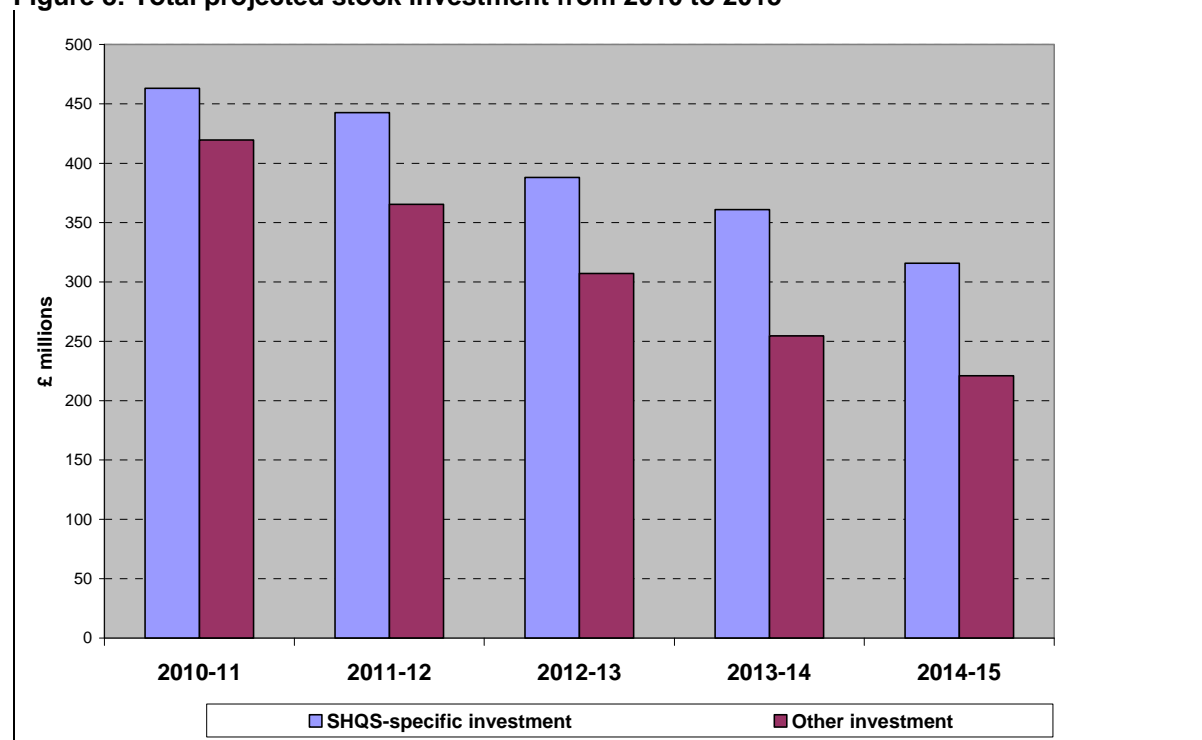
Table 7: Projected investment for SHQS per property to be improved

	Stock transfer RSLs	Other RSLs	Local Authorities	All landlords
Total SHQS investment	£611m	£175m	£1,293m	£2,079m
Investment per house to be improved	£6,981	£2,996	£7,333	£6,456

Source: SHQS returns 2010

- 6.8. The value of the sector's combined annual investment for SHQS is projected to decrease steadily over the next five years. Non-SHQS related investment is also forecast to decrease at the same rate over time.

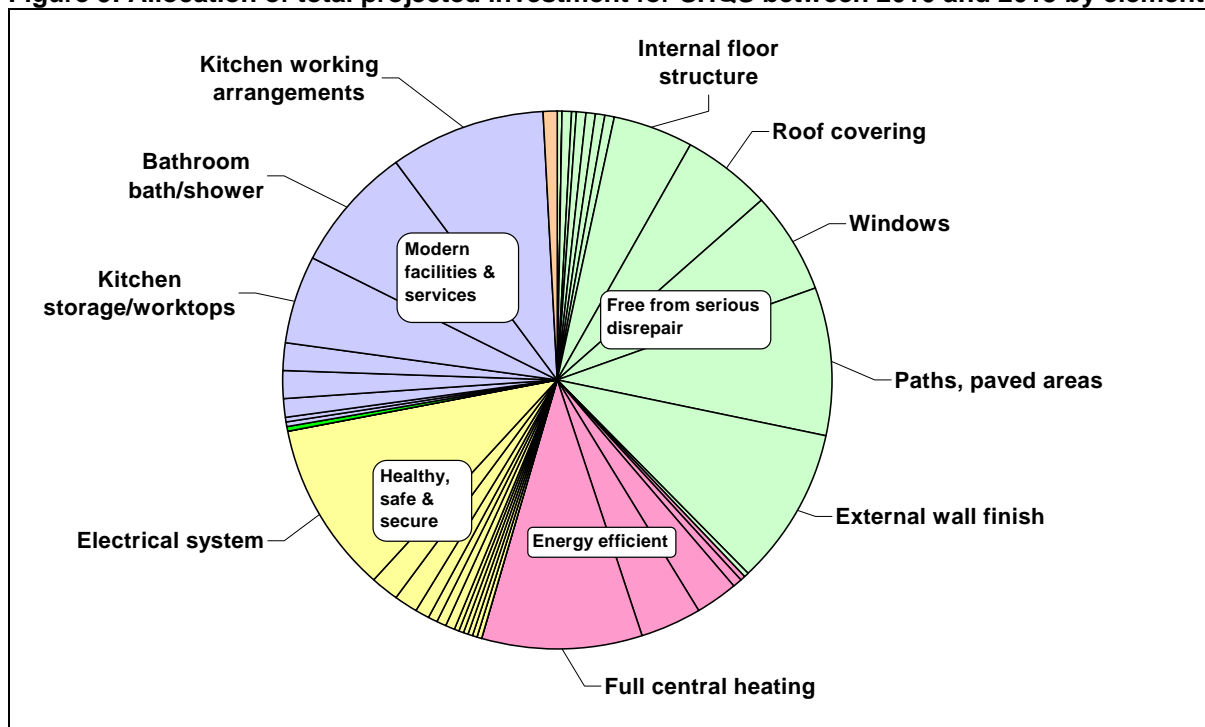
Figure 8: Total projected stock investment from 2010 to 2015



Source: SHQS returns 2010, for landlords that projected investment to 2015

6.9. According to the landlords that gave us a breakdown of their projected investment by element, the most extensive activity will be in the *Modern facilities and services* and the *Healthy, safe & secure* criteria. More specifically, they plan to make the greatest numbers of improvements in bathrooms, kitchens, electrical systems, ventilation and smoke alarms. But some of these elements are relatively inexpensive. So, in terms of the value of projected investments, *free from serious disrepair* elements account for the highest values. As the chart below shows, over a third of total projected investment is accounted for by elements in this criterion.

Figure 9: Allocation of total projected investment for SHQS between 2010 and 2015 by element

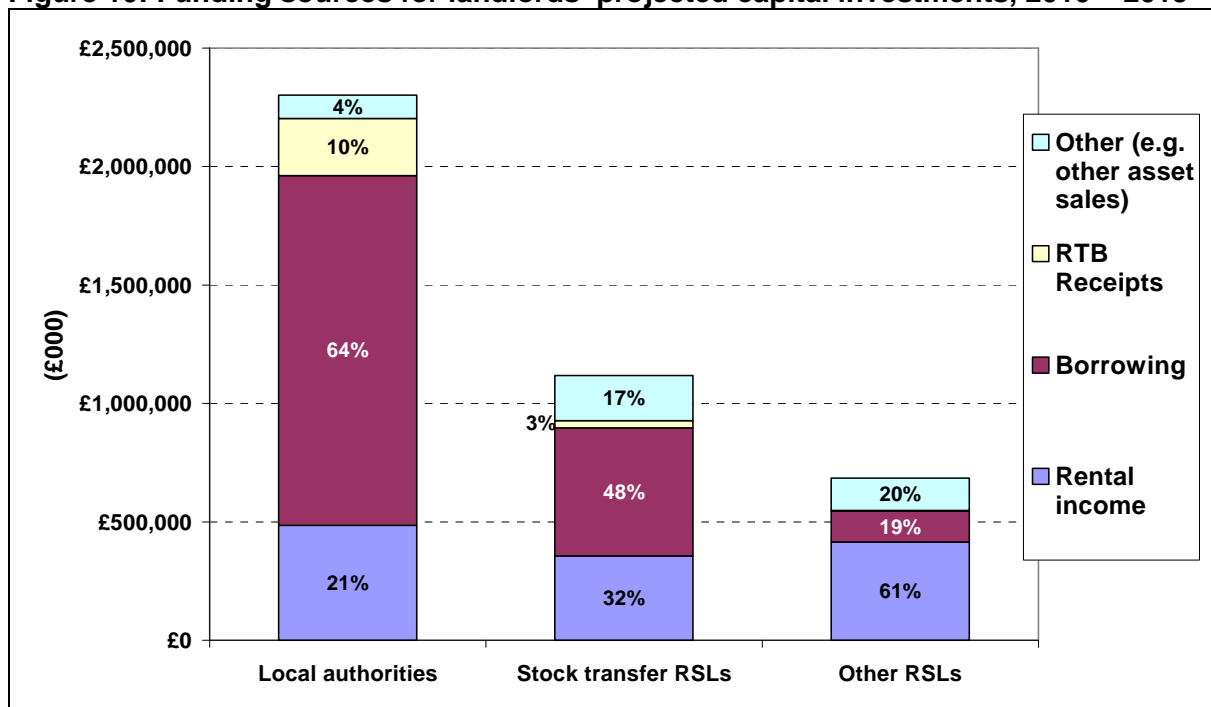


Source: SHQS return 2010 for landlords that reported investment by element

How landlords plan to fund this

6.10. Local authorities plan to use borrowing to fund almost two-thirds of their projected capital investments over the next five years (see chart below). This represents an increasing use of this form of funding; in 2009 local authorities projected that 53% of their capital investments would be funded by borrowing. This change is in part to compensate for lower than anticipated income from Right to Buy receipts, which local authorities had anticipated would contribute 18% of funds but now forecast this at 10%. RSLs' funding projections have changed less and they have a higher proportion from rental income. That said, their projections – particularly those of stock transfer RSLs – show an increasing use of borrowing compared to actual funding sources in 2009/10 (see figure 6).

Figure 10: Funding sources for landlords' projected capital investments, 2010 – 2015



Source: SHQS returns 2010

7. Conclusion

7.1. As we reported last year, the scale and nature of the challenge that landlords face varies greatly. For some, meeting SHQS involves mostly maintaining their houses while others must make considerable investments over the coming years. We also see that many of the key risks to the achievement of the SHQS by 2015 are as they were last year:

- **The rate landlords bring houses fully up to the Standard:** landlords progress towards the Standard by increasing the proportion of their houses that meets the Standard or by bringing houses closer to SHQS. Looking at “whole-house” compliance, some landlords – especially some local authorities – will not achieve the Standard by 2015 unless they increase the number of houses they bring fully up to the Standard each year. It is possible that landlords have invested at an element and criterion level that means their houses are getting ever closer to the Standard, but many of these landlords have not yet demonstrated that this is the case.
- **The quality of stock condition information:** some landlords need better and more comprehensive stock information. Better information may lead to the identification of additional work needed to achieve the SHQS. But, of course, it could also show initial assessments of level of work needed were overstated, and this has been something that we have found in our inspections.
- **Constraints on the availability of funds, including:**
 - (1) reduced income from Right to Buy sales, leading to greater reliance on borrowing;
 - (2) a more constrained private lending market in which availability of funds and the terms and expected future costs of borrowing are more challenging. Although the overall costs of borrowing decreased last year, margins on new debt are higher than before. These pressures are more fully detailed in our publication *Beyond the Crunch?*³;
 - (3) severe pressure on local authorities’ budgets, including increased costs of borrowing following the UK Government’s decision to increase the interest rate on new loans to local authorities to an average of 1 percentage point above the Government’s cost of borrowing with immediate effect; and

(4) potential increases in bad debts as a result of difficult economic conditions and changes to the welfare system.

- 7.2. Overall, most RSLs' work to date and projections suggest they will meet the target by 2015. Many have already achieved the target or are very close to it. We are engaging directly with those RSLs from which we require additional assurance around the SHQS; most of these are stock transfer RSLs. Progress towards the SHQS target is one of the factors we take into account in our annual regulatory risk assessments of RSLs.
- 7.3. The proportion of local authority houses which are SHQS compliant rose during 2009/10. This is welcome, but it is clear that a number of local authorities still have some way to go. In total local authorities plan to invest almost £1.3 billion to achieve the SHQS over the coming years. They forecast that they will fund 64% of this and all other projected stock investments over the period to 2015 from the prudential borrowing regime, with the balance generated from their own operations. Given the current pressures on local authority finances, it is clear this is a challenging scenario. Where we have concerns about a local authority's SHQS plans and/or progress, we will raise these through the shared risk assessment framework⁴.
- 7.4. We are integrating RSLs' 2010/11 and subsequent SHQS returns with existing regulatory returns (Annual Performance and Statistics Return and Financial Projections). This will make it easier for RSLs to return their information to us and will help us to integrate SHQS data with our analysis of the performance and finances of RSLs.
- 7.5. We will continue the level of monitoring that we introduced for 2009/10 in 2010/11. Our subsequent monitoring will be in the context of the Scottish Government's publication of clarification guidance on the Standard and exemptions. And landlords themselves are improving the quality of their stock condition information in the current financial year.

³ http://www.scotishhousingregulator.gov.uk/stellent/groups/public/documents/webpages/SHR_BEYONDTHECRUNCH_-_SHR'SANAL.hcsp

⁴ <http://www.audit-scotland.gov.uk/work/scrutiny/strategic.php>

About the Scottish Housing Regulator

The Scottish Housing Regulator (SHR) is an executive agency of the Scottish Government. We exercise independently the regulatory powers of Scottish Ministers in the Housing (Scotland) Act 2001. We register and regulate independent social landlords. These are usually housing associations, but they can also be housing co-operatives or companies limited by guarantee. We also inspect the housing and homeless services provided by local authorities.

We operate independently and impartially, while remaining accountable to Scottish Ministers for the standard of our work and for inspecting and reporting within the overall context of Scottish Ministers' strategic objectives for the social housing sector and tackling homelessness. A code of practice sets out what Ministers expect from us in delegating their regulatory powers to us.

Our independence is further safeguarded by a Regulation Board that supports the Chief Executive to manage and direct the organisation.

Our purpose is to:

- protect the interests of current and future tenants and other service users;
- ensure the continuing provision of good quality social housing in terms of decent homes, good services, value for money, and financial viability; and
- maintain the confidence of funders.

Our work supports the principles of public service reform by promoting good services that are organised around the needs of the people who use them. We encourage registered social landlords (RSLs) and local authorities to be open, accountable, efficient and well governed. And we expect them to provide equal opportunity and open access to their services.

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