Council housing transfers

Prepared for the Auditor General for Scotland and the Accounts Commission

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Audit Scotland

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Prepared by Audit Scotland on behalf of the Auditor General for Scotland and the Accounts Commission.

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Introduction and summary

Introduction

1. Scotland's councils provide some 364,000 homes at affordable rents, allocated on the basis of need. This is half the number they owned ten years ago, mainly because of housing stock transfers and right to buy sales. In the same period, homes owned by other not-for-profit landlords, such as housing associations, have tripled.

2. Housing transfer is the sale of all or part of a public body's housing stock to an alternative, not-for-profit landlord. Between 1998 and 2004, some 103,000 council homes transferred to new landlords, mostly in three large transfers completed in 2003. Six other councils are planning to transfer 50,000 more homes in 2006 and 2007.

3. Since 1998, the Scottish Office and the Scottish Executive have spent some £258 million on direct support for transfers and wider initiatives linked to the policy to attract new investment into housing. HM Treasury has provided £1.3 billion for early redemption of councils' housing debt on transfer and could pay a further £0.4 billion if all the current transfers go ahead.

Summary of key messages

Housing transfer policy

4. The Scottish Executive is encouraging transfers because they offer scope to increase investment and tenant control, thereby improving living conditions, promoting better services and more effective housing management and, ultimately, fostering community regeneration.

5. For some Scottish councils, comparatively high rents and a legacy of high historic housing debt have constrained their ability to improve poor quality housing. Council surveys funded under New Housing Partnerships (NHPs) indicate £7.5 billion is needed to improve current housing.

6. Writing off historic debt for council housing transfers frees up investment to improve the quality of social housing.

The management of transfers

7. New guidance in 2005 from the Scottish Executive and Communities Scotland applies to the housing transfers due to complete in 2006 and 2007. The new guidance benefits from the experience gained from earlier transfers.

8. Central guidance to councils for the earlier transfers did not provide a good 'route map'. The Scottish Executive and Communities Scotland had a lot of experience from the earlier Scottish Homes transfer programme but council transfers were more complex. The workload proved to be greater than forecast and the first transfers took an average of three-and-a-half years to complete. There were limited incentives to contain the £59 million transaction costs. There was no pilot work to help the planning and implementation of the first council housing transfers. The Executive felt that an approach involving pilot projects would have taken years longer and would not be defensible given the requirement for investment to tackle the urgent problems of social housing in Glasgow.

9. Improvements to the process mean that current transfers are expected to complete, on average, in just over two years and better financial controls are in place. The Scottish

Housing Quality Standard now provides a much clearer basis for directing, evaluating and monitoring the investment required.

Transfers and value for money

10. The new landlords are delivering higher investment and rent increases within the guaranteed limits and tenants consider service is better.

11. Under the Executive's community ownership policy, transfers should also promote tenant control, more effective housing management and area regeneration. Transfers have increased tenant control. But without assurance from competition and in the absence of targets or outcome measures, it is difficult to be sure that the terms for the initial transfers provide the best possible value for money.

12. Better, clearer measures are needed to assess impact and value for money. Communities Scotland is in the position to take the lead in measuring and assessing the impact of the transfer policy. Communities Scotland's first regulatory inspections of the new transfer landlords later in 2006 will provide a stronger basis for judging the landlords' performance and effectiveness.

This report

13. The focus of the report is on transfers completed under the NHP programme between 1998 and 2004, but reference is also made to transfers currently in progress as part of the Community Ownership Programme (COP), which succeeded NHP in 2004.

14. We examined the housing transfer policy and its impact on councils, central government and tenants (Part 1, page 4), how well the council housing transfer policy is being implemented (Part 2, page 11) and whether transfers have provided good value for money (Part 3, page 23).

15. Audit Scotland's research for this report included:

- Regular meetings with Scottish Executive/Communities Scotland.
- Consultation and discussion with the study advisory group (Appendix 1, page 46, lists the study advisory group members).
- Preparation and review of baseline data on council housing management in Scotland.
- A national survey of tenant participation in 600 tenant groups (Appendix 2, page 47 details the survey results).
- Interviews with representatives of tenant advisory groups.
- Collection and analysis of housing statistics (stock, rents, financial information, etc).
- A review of literature and key policy developments.
- In-depth examination of seven completed transfers under NHP and one transfer progressed under COP. We selected these eight cases to give good coverage of completed whole and partial transfers, to reflect the different geography of councils (urban and rural) and to include councils committed to future transfers and those which were not.
- Appendix 3 (page 54) summarises key facts and findings for each of the eight transfers we examined.
- Appendix 4 (page 58) provides illustrative details of aspects of the transfer process and outcomes.

Part 1. The housing transfer policy

Housing transfers

1.1 Scotland's councils provide some 364,000 homes[1] at affordable rents, allocated on the basis of need. This is half the number they owned ten years ago, mainly because of housing stock transfers and right to buy sales. In the same period, homes owned by other not-for-profit landlords, such as housing associations, have tripled. Exhibit 1 illustrates the overall trends in housing tenure between 1994 and 2004.

1.2 Housing transfer is the sale of all or part of the housing owned by a public body to an alternative, not-for-profit, landlord. The transfer policy was introduced in the mid-1980s and has affected more than 200,000 houses to date. Previous programmes include the Scottish Homes housing transfers (54,000 homes), the transfer of the New Town Development Corporation's housing (29,000 homes, mainly transferred to councils) and about 120 individual transfers of small parcels of council housing (21,000 homes before 1998).

1.3 This report is about the most recent transfers of council housing (Exhibit 2):

- Under the NHP programme launched in 1997, 103,000 council homes have been transferred to new landlords in nine council areas. The three largest transfers, in Glasgow (81,400 homes), Dumfries & Galloway (11,900 homes) and Scottish Borders (6,700 homes), were all completed in 2003. NHP also funded several smaller transfers of council housing.

- Under the COP launched in 2004, six other councils are planning to transfer their entire housing stock in 2006 and 2007, a total of 50,000 homes.[2] As with earlier transfers, tenants must approve each transfer by ballot before it can proceed.

1.4 Since 1998, the Scottish Office and the Scottish Executive have spent some £258 million on the NHP initiative, including direct support for transfers and wider initiatives. HM Treasury has provided £1.3 billion for early redemption of councils' housing debt on transfer.

For some councils, comparatively high rents and a legacy of high historic housing debt have constrained essential housing investment

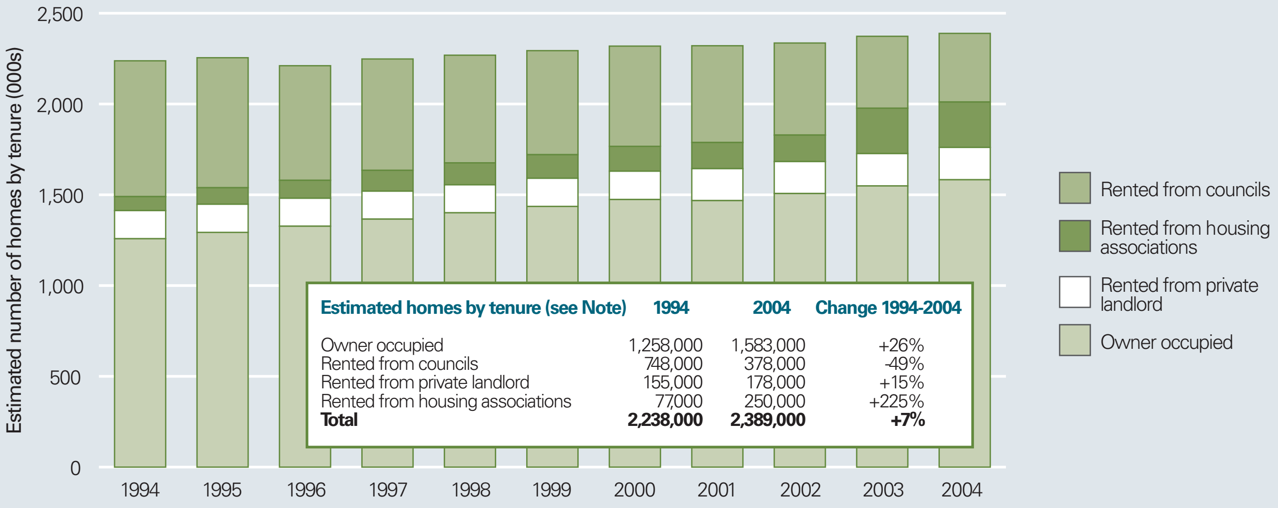
1.5 After the three major council housing transfers in 2003, 29 councils still own and manage council housing. The average number of homes owned and managed is 13,000, ranging from 42,000 homes in North Lanarkshire to 1,000 homes in Orkney.

1.6 Much of this housing requires a high level of investment to bring it up to an acceptable standard. Before the introduction of NHP, the total

1 This is the total recorded at September 2005. The Scottish Executive publish statistical information on housing in Scotland. In all cases in this report, we have used the most up-to-date information.
2 The Executive's 2003 Partnership Agreement included a commitment to transfer 70,000 homes, by 2006, to community ownership, subject to the approval of tenants. Seven councils joined the COP following its introduction in 2004. One of these seven, Edinburgh Council, withdrew after a ballot of tenants in December 2005 rejected its proposal to transfer its 23,000 homes to a new landlord under the COP.

Exhibit 1:

Trends in housing ownership and occupation in Scotland 1994 to 2004



Note: Data at December of each year. In September 2005, the estimated number of homes rented from councils had reduced to 364,000.

Source: Scottish Executive

Exhibit 2

Council housing transfers in Scotland under NHP and COP

New Housing Partnerships 1998 to 2004		**Community Ownership Programme 2004 to 2007**	
	Homes transferred		Forecast homes to be transferred
Glasgow City	*81,400	Highland	14,500
Dumfries & Galloway	*11,900	Renfrewshire	13,400
Scottish Borders	*6,700	Inverclyde	8,600
Dundee City	*1,500	Stirling	5,700
East Dunbartonshire	*900	Argyll & Bute	5,600
North Lanarkshire	*600	Western Isles	1,900
North Ayrshire	200	**Total homes proposed for transfer**	**49,700**
Edinburgh	*300		
Renfrewshire	100	Edinburgh (rejected by tenant ballot December 2005)	*23,000
Total homes transferred	**103,400**		

Note: * Transfers that were examined as part of this study.

Source: Audit Scotland

investment need was not quantified. With NHP funding between 1998 and 2004, 27 councils commissioned independent surveys of their housing to assess likely investment needs. The results depend on the quality of information available and the assumptions made. But, altogether, the surveys estimated that the total investment required is around £7.5 billion at 2001 prices. This includes:

- replacing roofs, doors, windows, and external wall coverings
- dealing with repairs backlogs or problems such as dampness
- bringing homes up to modern standards by providing or renewing insulation, central-heating, kitchens and bathrooms.

1.7 In the past, councils have funded investment to build, improve or refurbish homes either directly from tenants' rents or by borrowing money, mainly from the Public Works Loan Board (PWLB). Where tenants' rents do not fund investment directly, indirectly tenants must still pay because the money to pay interest on and repay borrowing comes from tenants' rents.[3]

1.8 Rent levels across Scotland increased by 26 per cent in real terms between 1996 and 2004, equivalent to 2.6 per cent a year, every year, in real terms. For individual councils, increases ranged from one to five-and-a-half per cent a year, every year, in real terms. Nevertheless, for some councils the cost of maintaining, renewing and improving homes has outstripped what can be afforded from rents.

1.9 On average in 2004/05, 24p of every £1 of council tenants' rent went to servicing historic housing debt. This is about twice the proportion that housing association tenants pay. For eight councils, debt charges are 30p in the £1 or more; for Glasgow City Council, in the year before it transferred its housing to Glasgow Housing Association Limited (GHA), debt charges accounted for some 46p of every £1 in rent. Exhibit 3 compares housing debt and rental income per home for the 29 Scottish councils that continue to own housing. Many of the councils with higher housing debt are now seeking housing transfer, for reasons we discuss below.

A primary aim of council housing transfer policy was to increase private investment to improve the quality of social housing

1.10 The Scottish Executive has encouraged council housing transfers as a means of tackling these financial problems and increasing investment in stock. The NHP's programme was introduced in 1997 to 'foster close collaboration between local authorities and their partners... to secure additional investment and promote good quality housing in the social rented sector'.[4] In November 2002, the then Minister for Social Justice announced:

"The whole stock transfer of council housing remains the central plank of our housing policy. Transfers provide the necessary investment to bring social housing up to the new standard and to put tenants at the centre of the decision-making process... Transfers will also remain the most effective use of the Executive's resources because of the investment that they unlock." [5]

Repayment of historic housing debt on transfer allows the new landlord to invest more in housing services and improvements

1.11 For each of the three main transfers under NHP, the investment required means that the price achieved has been less than the cost of redeeming outstanding debt held by the council. The price has also been less than the value of the housing recorded in the council's balance sheet (Exhibit 4).

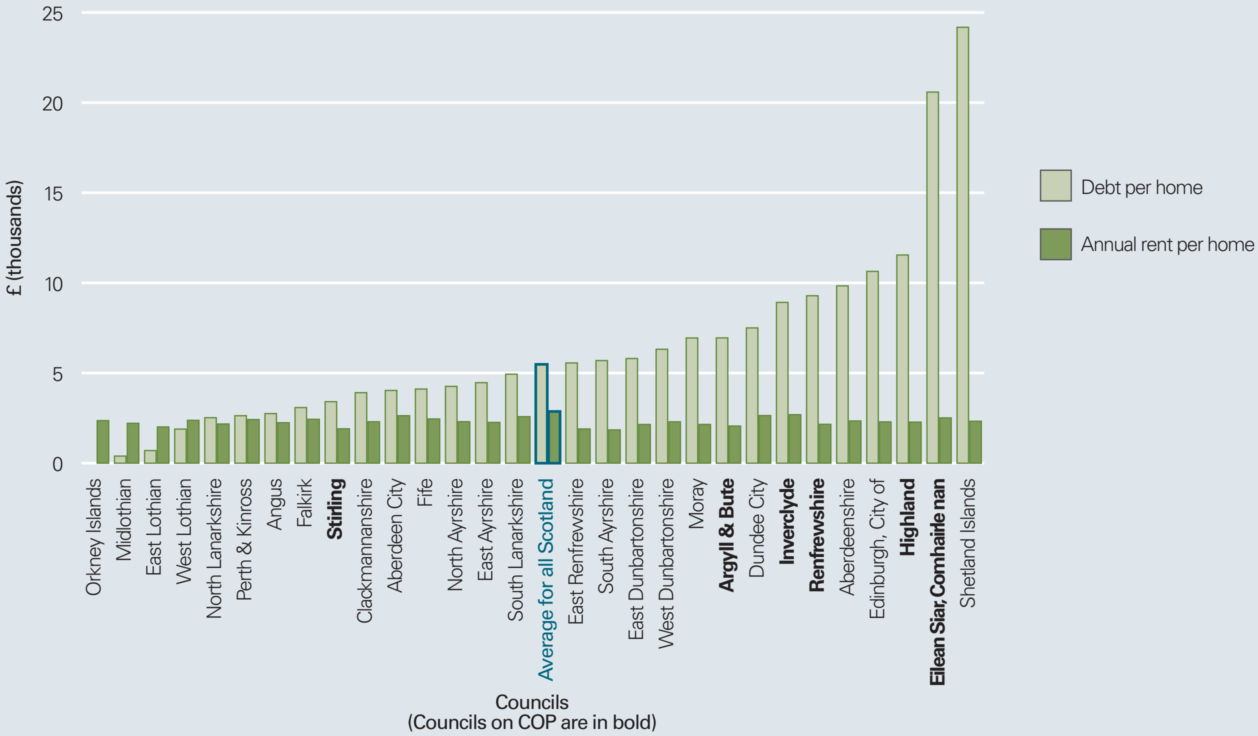
1.12 Normally, a council could not sell its housing for less than the associated outstanding debt. If it did so, it would have to continue to repay the debt with interest but would have lost the rent to finance this. A council could not legally charge the general fund or council tax payers to meet any such costs.

1.13 To enable transfers to go ahead, HM Treasury has agreed to repay 'overhanging' PWLB debt held by councils following a whole stock transfer on the same basis as in England.[6] Debt redemption costs of the three whole housing transfers under NHP to date, amount to a total of £1.3 billion. Subject to agreement, HM Treasury will pay £0.4 billion for further debt redemption if the six current transfers all go ahead.

1.14 The impact of this debt repayment is to allow the income raised through rents to be invested in improving service and the quality of the housing stock, rather than servicing historic debt. After transfer, tenants' rent goes to supporting housing services or funding future improvements in the housing stock rather than paying off debt accumulated

3 Councils must operate their housing revenue accounts with no subsidy from the general fund and council tax payers.
4 Scottish Office letter to council chief executives, December 1999.
5 Scottish Parliament Official Report, column 15023, Thursday 7 November, 2002.
6 Initially, the Scottish Office planned to service any overhanging debt following a whole housing transfer. In 2001, HM Treasury committed to repaying overhanging debt for councils completing a whole housing transfer. The Scottish Executive receives funding from HM Treasury, which it uses on behalf of the council to repay PWLB debt associated with the homes transferred.

Exhibit 3
Housing debt and rental income per home for 29 councils in 2005-06



Note: Excludes three councils which have transferred all housing to new landlords (Dumfries & Galloway, Glasgow and Scottish Borders).

Source: Audit Scotland

Exhibit 4
Price, debt repayment costs and book value for three whole housing transfers

Transfer	Date	Transfer price (£ million)	PWLB debt redemption costs* (£ million)	Book value of houses** (£ million)
Glasgow	March 2003	25	1,130	868
Scottish Borders	March 2003	23	81	56
Dumfries & Galloway	April 2003	33	109	91
Total	**-**	**81**	**1,320**	**1,015**

Notes: * The Treasury calculate debt redemption charges in accordance with *Government Accounting*, 29.2.19. The charges represent the present value of the future payments of principal and interest which would have been paid if the original repayment schedule had been met.
** Balance sheet value at March 2002 (Glasgow and Scottish Borders), or March 2003 (Dumfries & Galloway). Councils use different approaches for valuing houses for their balance sheets and for housing transfers. For further information see *Guidance on Stock Valuation for Resource Accounting*, Office of the Deputy Prime Minister, 2005.

Source: Audit Scotland

over a number of years, some of which may relate to housing that the council sold before transfer. After transfer, the new landlord starts operations with no accumulated historic debt and can afford to borrow more money from the private sector to fund future investment or invest a higher proportion of rental income back into the housing stock (Exhibit 5).

1.15 This form of debt repayment is not in itself a cost to government in cash terms. The original borrowing – and the investment it funded – was a cost to government. But subsequent debt interest and repayments are transactions entirely within the public sector, so there is no net effect (cost or benefit) for the Exchequer or the taxpayer when the Treasury provides grant aid to allow repayment of a council's PWLB loan debt. These are transfers within government. In the view of the Scottish Executive and HM Treasury the advantages justifying debt repayment are efficiency gains and the transfer of future investment costs to the private sector.

1.16 In some transfers, together with the repayment of debt, the Executive has promised substantial additional grant funding or other resources to the landlord receiving the housing. For example, in Glasgow the Scottish Executive has promised a total of £409 million grant to support the new landlord, GHA, over the next 30 years. The Executive is also providing other grants, such as central heating grant, to support housing investment by GHA. Where this level of grant is available – the grants come from Scottish Executive budgets – it provides another major incentive for both councils and prospective new landlords to pursue transfers.

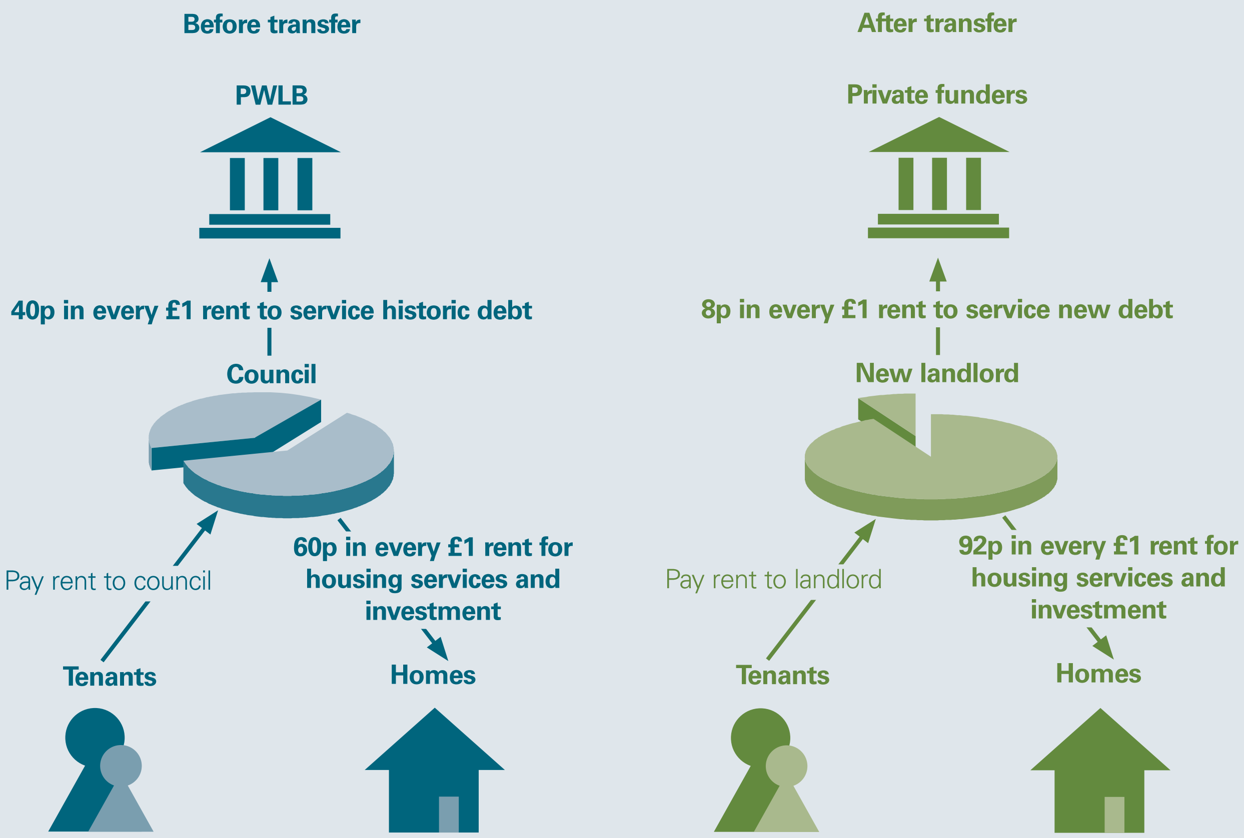
Council housing transfer should also bring additional benefits for the wider community

1.17 While housing transfer is one of the Scottish Executive's primary means of increasing investment in social rented housing, it should serve wider purposes too. In 1999, the Scottish Office defined the COP as 'a way of empowering tenants, maximising the total resources available for investment in public sector housing and securing additional benefits for the wider community,' (Exhibit 6).

1.18 As the central plank in the Executive's housing policy, transfers also served wider objectives. For example, Exhibit 7 (page 10) is an extract from the framework document for the Glasgow transfer, *Better Homes, Stronger Communities*, published in 2000. It shows, in addition to tackling housing debt and securing investment in the houses, a wide range of broader objectives for this transfer including:

- creating a more effective housing system
- promoting community empowerment, community control and community ownership
- contributing to area and community regeneration
- contributing to social inclusion.

Exhibit 5
The benefit of historic debt repayment



Note: £s are illustrative.

Source: Audit Scotland

Exhibit 6
Community ownership

This is a way of empowering tenants, maximising the total resources available for investment in public sector housing and securing additional benefits for the wider community. Community ownership would normally result from the transfer of existing public sector rented housing to alternative community landlords at a price which reflects the value of the stock, and under arrangements which ensure:

- the housing is owned by a non-profit making body on which there is tenant, council and community representation
- there is effective tenant involvement in key decisions
- housing is available, and continues to be available, to be let at affordable rents to those in housing need, including the homeless and other vulnerable groups
- there are guarantees for transferring tenants regarding rent increases, tenancy rights and repairs and improvements to housing stock.

Source: *Investing in Modernisation – an Agenda for Scotland's Housing*, Scottish Office, 1999

Exhibit 7
Objectives and desired outcomes of the Glasgow housing transfer

Objectives of transfer	• Securing investment in the houses. • Tackling housing debt. • Promoting community empowerment, community control and community ownership. • Providing opportunities for individuals to purchase their homes. • Creating a more effective housing system. • Achieving excellent standards of design, construction, management and maintenance.
Desired outcomes of transfer	• Full modernisation of all council houses identified as having a long-term life. • More stable and affordable rents for tenants. • New opportunities for low-cost home ownership and improvements to existing owner-occupied houses. • Contributing to area and community regeneration. • Contributing to social inclusion. • Continuity of employment for council staff and the provision of new opportunities. • Value for money for the public purse.

Source: *Better Homes, Stronger Communities*, Scottish Executive, Glasgow City Council and others, 2000

Part 2. How well transfers have been managed

Main messages

- Transfers involve significant project management challenges. Lessons have been learned but for the transfers completed before 2004, the Executive's guidance did not provide a good 'route map'.

- There was no pilot work to help the planning and implementation of the first council housing transfers. The Executive's priority was to tackle Glasgow with the most extreme housing problems. Given its size, some of the £43 million transaction costs may have been avoidable if other smaller transfers had been completed first and lessons learned. But the Executive considered that it could not justify delaying investment in Glasgow's housing.

- There was a lot of experience centrally of the earlier Scottish Homes transfer programme but council transfers were more complex. The workload proved to be greater than forecast and the first transfers took an average of three-and-a-half years to complete. There were limited incentives to contain the £59 million transaction costs. Typically, despite recognition of the importance of reliable physical stock condition information, some revised assessments from the experts came late in the process, disrupting previous agreements and/or requiring renegotiation of critical financial details.

- While the transfer process involved review and challenge the Executive did not use clearly defined gateways with financial limits to control the total costs of the major Glasgow transfer. At certain key stages of this transfer in 2002 and 2003, it was necessary for the Executive to agree significant financial changes, including £409 million grant to support the business plan of the GHA in its first ten years.

- New guidance in 2004 from the Scottish Executive and Communities Scotland applies to the housing transfers due to complete in 2006 and 2007. The new guidance benefits from the experience gained from earlier transfers. Improvements to the process mean that current transfers are expected to complete on average, in just over two years. Better financial controls founded on a clear gateway process are now in place.

- Decisions about early transfers were made on the basis of limited information about where investment was most needed nationally. The Scottish Housing Quality Standard, introduced in 2004, provides for the first time a national target for the condition and quality of houses, to be achieved by 2015. It offers a much clearer basis for directing, evaluating and monitoring the major investment required.

Transfers involve significant project management challenges

2.1 Transfers involve fundamental changes for councils, tenants and the new landlords. Owning and providing rented social housing and the associated services is a major undertaking. When a council decides to seek to transfer, it starts an intensive process of planning, development, review, communication, consultation and negotiation (Exhibit 8).

2.2 Each of these activities may involve many different interest groups and practitioners. Those involved include: the Scottish Executive; Communities Scotland; council members and committees; officials across many levels and disciplines; officials and board members of each new landlord; tenants; advisers to all parties; trade unions; and funders. These parties have diverse information needs (Exhibit 9, page 14).

The guidance for the earlier transfers did not provide a good 'route map', and the Scottish Executive and councils underestimated the workload involved

2.3 All the whole housing transfers were major and intensive work projects. There was a combination of sustained pressure, many detailed and complex issues to resolve, and a range of deadlines and pressures.

2.4 The Executive made funds available to allow councils to commission experienced consultants to help guide all the parties through the process. There was also experience within the Scottish Homes/ Communities Scotland Community Ownership Initiatives Team, working closely with the Scottish Executive's Housing Division 1. This experience was built on the earlier Scottish Homes transfers – some 150 transfers involving 54,000 homes and resulting in the creation of 40 new landlords.

2.5 Nevertheless, against the scale of the challenges for the whole housing transfers, and against the standards of the guidance now being applied, central guidance from the Scottish Executive before 2004 was insufficient. There were no pilot projects to help the planning and implementation of the first council housing transfers, which included Glasgow, with the biggest challenges. An approach involving pilot projects could have taken years longer because of the need to progress projects one after another not in parallel, and the extra time to evaluate. The Executive considered this would not be defensible given the requirement for investment to tackle the urgent problems of social housing in Glasgow. Consequently, while there was wider experience to inform the process, those involved had often still to design the processes and identify the solutions as and when they were required.

2.6 The Executive published limited guidance in August 2000. By the time the Executive had published it, the three councils leading whole housing transfer had already committed to the process – between six and 20 months previously – in response to the availability of NHP grant, from 1998, from the Executive.

2.7 The estimate in the Executive's guidance, that around 18 to 24 months in total would be adequate to progress transfer, proved unrealistic in practice. The guidance did not provide a detailed basis to show how to achieve this timescale. It did not provide a detailed inventory of the data needed to help plan and prepare for transfer process, nor did it estimate how long each stage should take. Critical events were not identified.

2.8 Professional project management and a structured allocation of roles and responsibilities can help projects by ensuring resources are adequate and key issues and interdependencies are identified and managed. The Executive's 2000 guidance offered little practical advice on such matters.

2.9 The Executive's 2000 guidance stated that 'the council should ensure that the receiving landlord is able to operate independently of the authority.' The Executive emphasised the need for a clear separation of roles, but it did not consider the timing of such separation. For the whole housing transfer cases, the shadow boards of the prospective new landlords were established up to two-and-a-half years ahead of the actual transfer. Because of the emphasis on independence, in the long separation before transfer, the parties concentrated too much on their differences at the expense of partnership working and overall shared goals.

2.10 For the transfers completed before 2004, the guidance did not provide a 'route map'. This contributed to the following difficulties:

- The transfer process was prolonged and subject to slippage.
- Essential information became available too late – creating difficulties, particularly with financing.
- The process of setting up new landlords was both more time-consuming and more difficult than expected.
- The relative responsibilities of the different stakeholders were not always clear.
- Not having a clear and orderly process, including clearly defined gateways with financial limits may have increased transaction costs, made outcomes riskier and weakened financial control.

Exhibit 8
Overview of transfer process

	Review of retain vs transfer options	Decision in principle for transfer	Negotiation & consultation	Statutory consultation & tenant ballot	Scottish ministers' consent	**Transfer**	Monitor & review
Council and its advisers	• Strategic review of housing activity • Option appraisal and consultation • Stock conditions survey		• Negotiate and appraise transfer terms and promises • Consult and involve tenants, including tenant ballot		• Formal case for transfer to ministers	• Legal completion of transfer	• Post-transfer monitoring
New landlord and its advisers		• Inception, recruit staff and board	• Plan and develop business • Formal transfer proposal to council • Negotiate transfer terms and promises	• Transition planning • Get external funding for business • Final transfer proposal		• Legal completion of transfer	• Start service and improve homes
Tenants		• Informal consultation with council	• Engagement with new landlord • Formal consultation with council • Selection of tenant board members	• Tenant ballot	• Continuing engagement with new landlord		
Scottish Executive and Communities Scotland	• Financial support and policy guidance to council and new landlord		• Initial appraisal of transfer proposal • Pre-transfer registration of new landlord	• Approval to go to ballot	• Final appraisal of transfer proposal and agreement of price	• Scottish ministers consent to transfer	• Post-transfer monitoring

Source: Audit Scotland

Exhibit 9
Information needs for transfer

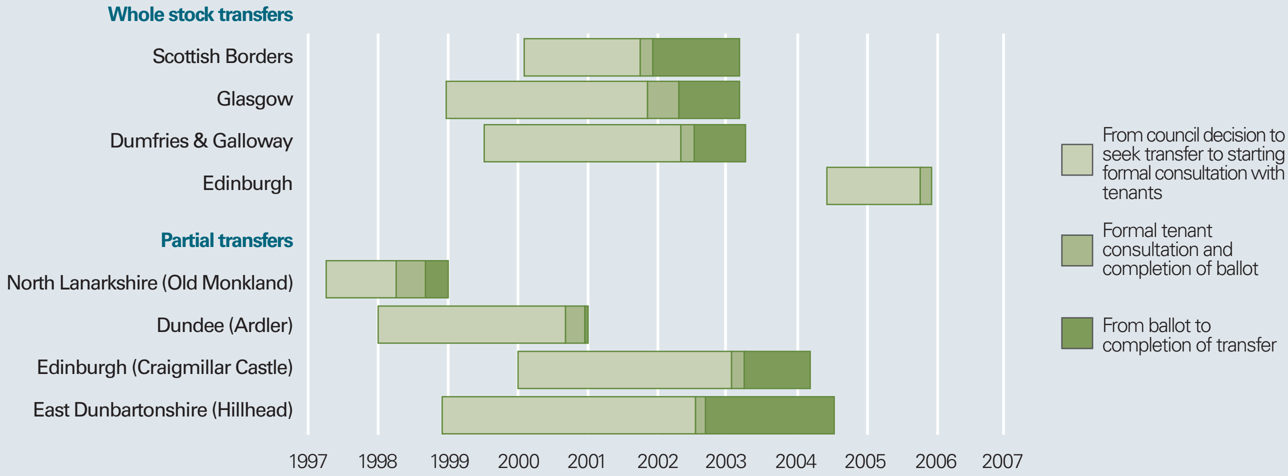
Where a council has decided to develop a transfer proposal, it will need to consider the following:

- The internal capacity of the council to deliver the transfer.
- How it will select a receiving landlord to develop a proposal for tenants to vote on.
- Developing a communication strategy for tenants, for joint delivery with the receiving landlord.
- The investment to meet the Scottish Housing Quality Standard and other key housing objectives.
- The need for 'early action' money (extra funding to pay for activity linked to transfer).
- The impact of the proposed transfer on the council's corporate strategy, organisational structure and resource allocation, including any potential impact on the general fund.
- The council's strategic and enabling role after transfer. Attention must be given to ensuring that the council has the structures in place to allow it to fulfil this role.
- The position of the council's direct labour organisation (DLO) and whether it should form part of the transfer proposal.
- The position with commercial properties and land, and whether they should they be included in the transfer.
- The quality of the council's information base and whether it is of a standard to be warranted by the council to the receiving landlord in the event of a successful transfer.
- A risk assessment and consideration of indemnities to support risk transfer.
- The corporate structure required for decision-making during the transfer process.
- Plans for involving elected members, tenants and staff in the transfer process.
- How the transfer can help to deliver regeneration.

Source: *Community Ownership Programme Guidance*, Communities Scotland, 2004

Exhibit 10

Housing transfer – overall project times



Note: In December 2005, Edinburgh Council withdrew from the COP after a ballot of tenants rejected its proposal to transfer its 23,000 homes to a new landlord.

Source: Audit Scotland

Slippage

2.11 Six of the eight transfers we examined had taken between three and five years from inception, through preparation and tenant consultation to the final agreement of transfer. One comparatively small partial transfer – for some 600 homes in North Lanarkshire – was completed much more quickly, in around 21 months. The large Edinburgh whole housing transfer was on schedule to have been done in about two-and-a-half years but it was cancelled in December 2005 after tenants rejected the proposal in a ballot (Exhibit 10). For current transfers, the latest guidance assumes that it should be possible to complete a transfer within around two years, providing there is commitment to an agreed programme of work with clear milestones.

2.12 Most of the eight housing transfers we examined took longer than initially planned to complete.

- Most of the partial transfers were significantly delayed. As well as the intrinsic challenge of the process, partial transfers suffered from factors such as changes in key personnel in council and landlord teams and other staffing difficulties and lack of experience. Often councils and the Executive treated these transfers as low priority because of their comparatively small scale and impact.

- All three completed whole housing transfers took around a year longer than had earlier been planned. For the whole housing transfers, the main reasons for extended timescales were the scale of the transaction, the complexity of the issues arising and the need for those involved to understand some issues they had not previously tackled. Case example 1, (Appendix 4, page 58) is an illustration of the wide-ranging research, analysis and data gathering required for the Dumfries & Galloway transfer.

2.13 In March 2003, Glasgow City Council transferred some 81,400 homes to the newly registered GHA. This was the largest housing transfer to take place in the UK. From December 1998, when the council first decided to seek transfer, completion took more than four years – about one year longer than first planned. GHA became the largest registered social landlord in the UK and a substantial business in its own right. While the scale of the Glasgow transfer was exceptional, the types of issues contributing to the extended timescale are typical of those experienced in all the whole housing transfers (Exhibit 11, page 17).

2.14 Guidance for the current transfer projects maps a clear critical path with, defined gateways to help ensure orderly and smooth progress. The current process improves significantly on previous arrangements, as we discuss later in this chapter.

Information difficulties

2.15 Preparation for transfer required a completely fresh examination by councils of the condition of their housing, their investment needs and the costs associated with managing the housing and providing good service to tenants. Councils and their advisers successfully got enormous amounts of new information and analysis to help forecast costs over 30 years for business planning associated with transfer. Nonetheless, and despite recognition of the importance of reliable physical stock condition information, some revised assessments from the experts came late in the process, disrupting previous agreements and/or requiring renegotiation of critical financial details.

2.16 In the case of the Scottish Borders whole housing transfer, the estimated transfer price increased from an initial estimate of some £18 million to some £23 million finally, mainly as a result of changes in the information available on the condition of the houses and the costs associated with managing them. The acquiring landlord, Scottish Borders Housing Association, has been pursuing a compensation claim against Scottish Borders Council. This is partly on the basis of alleged omissions and inaccuracies in the information from the council about the transferred properties, which it says resulted in over valuation of the properties by some £6 million. The association is claiming compensation and seeking indemnities from the council in respect of other costs which the association alleges were inadequately disclosed. The council contest these claims.

Financial control

2.17 In any project, decisions should be made with a clear understanding about the total costs and the likely financial commitment. There should be clear decision points so that the costs of a project can be assessed and, if necessary, limits set to guide the remainder of the process. In the case of the Glasgow transfer significant public spending commitments were made as the transfer developed. These commitments were made in parallel with the complex business process of developing, refining and appraising the receiving landlord's business plan. The Executive scrutinised these spending commitments during the process, but it did not use clearly defined gateways with financial limits. At certain key stages between September 2001 and transfer in March 2003, it was necessary for the Executive to agree significant increased public spending commitments, including £409 million grant to support the business plan of the receiving landlord, GHA. Exhibit 12 summarises the main changes affecting the level of grant support available to the new landlord in the Glasgow case (Case example 3, Appendix 4, page 60).

Transaction costs

2.18 As part of the NHP initiative, councils were offered funds to progress transfer proposals. This included both direct grant and borrowing consent to cover in-house costs and the costs of external advisors and consultants. This funding covered expenditure on:

- stock condition surveys
- stock option feasibility studies
- option appraisal work
- independent housing valuations
- tenant advisors
- business planning advice
- legal advice
- council staff involved in progressing the transaction
- staff costs for the newly formed successor landlord.

2.19 Similarly, the Executive also paid grant to transfer landlords to assist with transfer costs such as initial staffing, business planning, legal work and tenant communications. But, unlike councils, the new landlords had to pay back the grant after completion of transfer. The result is that tenants ultimately met the new landlords' share of transfer costs, while taxpayers met councils' additional costs.

2.20 For the seven completed transfers we examined, some £59 million was spent on total transfer costs as part of the NHP initiative. Expenditure ranges from a high of some £43 million in Glasgow to a low of £100,000 for a small transfer in Edinburgh Craigmillar Castle. Based on the number of homes transferred in each case, Glasgow's costs (for some 81,400 homes transferred) equate to £530 a home, while for Dumfries & Galloway (11,900 homes) and Scottish Borders (6,700 homes) the costs were £700 and £731 a home respectively.

2.21 Exhibit 13 (page 19) shows the total and the unit costs of each of the seven completed transfers we examined.

2.22 This high level of expenditure on transfer arose as a result of a number of key issues:

- At first, councils did not have good information about the quality of their stock on which to base a decision on whether or not to transfer. As discussed earlier, councils and the other parties had diverse information needs, and information on the condition of council housing was lacking.
- Much of the early spend on transfer costs was to enable councils to identify investment needs for their stock and examine options for addressing these needs. For the six councils currently on the COP, we estimate that some £6 million has already been spent on information gathering and this should reduce expenditure on this element under COP.

Exhibit 11
Glasgow housing transfer – main issues affecting the transfer timescale

- Clarifying policy issues.
- Estimating future social housing needs.
- Estimating capital investment needs.
- Developing tenant involvement arrangements.
- Managing staff transfers.
- Valuation of the housing.
- Clarifying big assumptions on rents, right-to-buy, management costs, repairs contracts, debt repayment, VAT issues, and so on.
- Financial viability issues.
- Commercial and legal negotiations.

Source: Audit Scotland. (See Case example 2, Appendix 4, page 59, for further information)

Exhibit 12
Glasgow housing transfer – changes in grant aid 2001 to 2003

Between September 2001 and transfer in March 2003, the Scottish Executive agreed significant financial changes to support the business plan of the receiving landlord, GHA. The main changes were:

- The introduction of a repayable grant to GHA to support its business plan, to a maximum of £300 million (later increased to £309 million). GHA to repay the grant after it passed its peak debt (then projected around year 12).
- Deferring repayment of the repayable grant (if repayment is required, see next bullet) to 2033, the end of the business plan period.
- Relaxing the requirement to repay any repayable grant if GHA succeed in transferring 80 per cent of stock through second-stage transfers by 2033.
- Deferring repayment of £30 million NHP grant to year 30 of the plan (had been year two).
- Introduction of additional contingent efficiency grant to GHA of up to £100 million over ten years.
- The introduction of a £252 million VAT shelter for GHA's investment programme, with the agreement of HM Customs and Excise.
- An insurance warranty grant of £10 million to the council, to meet the expected costs of insuring certain indemnities required from the council by GHA's (private) funders.

Source: Audit Scotland. (See Case example 3, Appendix 4, page 60, for further information)

- Under the NHP guidance, there was no target given to councils as to the level of costs that might be incurred in the transfer process. Given the timing of the first three transfers, there was little opportunity to learn from previous experience and/or to share resources eg, shared legal advice for the three councils.

- Although there was wider public sector experience of previous transfers of housing, in particular Scottish Homes transfers, many councils did not have direct experience. It was necessary for councils to hire consultancy firms with the capacity to help manage these complex transactions based on their experience of transfers elsewhere in the public sector.

- Incentives to contain transaction costs should have been stronger. Councils were required to develop a budget at the outset and monitor expenditure against forecast. However, in the absence of detailed guidance about what each stage of the process might entail, councils were left to manage costs as and when they occurred.

- All transfers we examined, with the exception of North Lanarkshire (Old Monkland), took longer than initially intended. Originally the three whole housing transfers were targeted for completion in 2001/02, rather than March and April 2003. The extended timescale inevitably increased costs.

2.23 Under the COP guidance, the Scottish Executive clearly states how much support will be available to each council in progressing a transfer. This support may cover:

- repayment of housing debt
- process support costs
- business plan support (linked to negative value transfers)
- allocation from early action funding for housing activity linked to transfer
- owner's costs.

2.24 For transfers now in progress, the level of grant available for support costs is to be based on the volume of stock to be transferred ie, a unit cost allowance, and business plan support will be based on the pricing model. This much clearer guidance should enable councils to forecast their costs and develop achievable budgets that can be monitored throughout the transfer timetable.

The introduction of a national quality standard now provides councils with a clear framework to manage their investment needs

2.25 Under the community ownership policy, a primary aim of council housing transfer was to free up resources to enable more privately funded investment to improve substandard housing. Implementation of transfer is by councils self-selecting for the programme and (subject to Scottish Executive approval and tenants voting in favour of transfer in a ballot) progressing their proposals.

2.26 Until 2004, however, the quality standard for investment in housing improvements was for individual councils to determine. There was not, at national level, any clear assessment of the level of investment needed or which were the areas of greatest need. This reflected the approach that responsibility for housing investment – and its relative position compared to other spending priorities – was primarily a matter for councils locally to determine.

2.27 It is therefore difficult to confirm that the investment in housing for the first three whole stock transfers was well targeted in relation to the greatest level of housing need nationally. In Glasgow, the problems of deprivation and ill-health relating to poor quality social housing are well known. But there was no national benchmark to compare housing needs in different parts of Scotland. Consequently, the relative national priority of investment in improving the condition and quality of housing in the Scottish Borders and in Dumfries & Galloway is less clear.

2.28 In February 2004, the Scottish Executive set a decent homes standard (the Scottish Housing Quality Standard – Exhibit 14, page 20). The target is for councils and registered social landlords to achieve the standard by 2015.

2.29 The Scottish Housing Quality Standard is a benchmark against which councils must measure the condition of their housing. In contrast to the position with earlier housing transfers, the quality standard now provides a basis for the Executive and Communities Scotland to target investment at areas of greatest national need and to help ensure minimum housing quality standards are achieved.

Exhibit 13

Transfer costs – seven completed transfers

Council	Total transfer costs (£ million)	Homes transferred	Cost per home (£)
Glasgow whole stock transfer	43.1	81,400	530
Dumfries & Galloway whole stock transfer	8.3	11,900	700
Scottish Borders whole stock transfer	4.9	6,700	731
East Dunbartonshire (Hillhead)	1.9	900	2,174
Dundee (Ardler)	0.5	1,500	*331
North Lanarkshire (Old Monkland)	Not available	600	–
Edinburgh (Craigmillar Castle)	0.1	130	*515

Note: * These transfers were to existing landlords who did not qualify for NHP grant for transfer support costs.

Source: Audit Scotland

2.30 Based on their earlier stock condition surveys, the six councils currently on the COP had forecast a total investment requirement of some £1.1 billion (14 per cent of the estimated national requirement of £7.5 billion – paragraph 1.6). Our analysis suggests that the current transfer programme is targeting investment at areas where councils may otherwise find it difficult to retain and improve housing, and provide tenants with value for money, compared to the transfer alternative. Exhibit 15 (overleaf) shows that, compared to the average for all Scottish councils, the six that have joined the COP have high investment needs and/or lower capacity to fund new investment. Thus, of the six COP councils:

- four have forecast investment needs of between £25,000 and £30,000 per home, compared to the Scottish average (for 27 councils) of almost £20,000 per home. This suggests these councils have proportionately greater underlying investment needs than others
- four have high average rents compared to the Scottish average. This indicates lower capacity to increase rents to finance additional investment
- four have high historic housing debt per home. This indicates a disproportionate level of income will be spent on debt costs and there will be little capacity to increase borrowing under the prudential code
- three have low surplus to income ratios. These councils therefore have little surplus revenue to finance additional investment.

2.31 Many councils revisited their stock condition surveys in 2004 and 2005. This was part of the preparation of a 'standard delivery plan', which Communities Scotland invited all councils and registered social landlords to prepare, to demonstrate how they will meet and maintain the new housing standard by 2015.

2.32 Communities Scotland's analysis of the delivery plans is not yet complete. Its target is to reach a preliminary view, by April 2006, on the readiness of the social housing sector to achieve the housing quality standard by 2015. A key issue for analysis will be how much councils need to spend to achieve the national standard and how they can finance the necessary investment. By April 2007, Communities Scotland's target is to have agreed a strategy with all councils to ensure they have a feasible delivery plan, or are progressing with a transfer which will secure the required housing quality standard.

The Executive's 2004 review resulted in significant improvements in transfer guidance

2.33 In 2004, the Minister for Communities set up a Community Ownership Review Group to examine transfer and community ownership policy and implementation. The group comprised civil servants and organisations, including the Scottish Federation of Housing Associations, two councils with experience of

Exhibit 14
The Scottish Housing Quality Standard 2004

In broad terms, to meet the Scottish Housing Quality Standard, a house must be:

- above the tolerable standard which is the absolute minimum standard that a house must meet
- free from serious disrepair such as major roof, dampness or structural problems
- energy-efficient, so it must have effective insulation and central-heating
- provided with kitchen and bathroom fittings that are in a good and safe condition
- safe and secure, for example, it must have a smoke detector, secure doors and safe electrical and gas systems.

Source: Scottish Executive

Exhibit 15
COP councils – key transfer indicators

Council	Total forecast investment need per home (£) over 30 years*	Average annual rent (£) in 2005-06	Average debt per home (£) March 2005	Surplus as a share of total income (%) 2004-05
Scotland average	19,600	2,330	5,483	15
Argyll & Bute	25,500	2,380	6,950	4
Eilean Siar	26,400	2,460	20,585	5
Highland	19,300	2,580	11,547	6
Inverclyde	27,700	2,870	8,918	0
Renfrewshire	20,500	2,640	9,287	0
Stirling	25,000	2,290	3,413	14

Note: Darker shaded cells indicate that the result for each council is in the top 25 per cent (upper quartile) of the results for all councils (or bottom 25 per cent (lower quartile) for surplus as a share of total income).

* Forecast investment needs reflect professional assessments between 2000 and 2003. Each council is reviewing these assessments, which may change in the light of more up-to-date information.

Source: Audit Scotland

Exhibit 16
COP gateways

Pre-transfer decision council activity

The council pre-transfer decision
1. Stock survey
2. Demand study
3. Option appraisal
4. Tenant consultation
5. Decision to apply to join COP
6. Assess level of financial support required
7. Consider process for selecting RSL
8. Confirm scope of understanding to be transferred

18 months from COP entry to ballot

Gateway 1
Council joins COP

Gateway 2
Transfer price agreed

Partnership approach

The new landlord – pre-ballot
1. Existing RSL selected or new landlord established
2. Develops policy framework
3. Committee training
4. Develops business plan
5. Governance review by Communities Scotland
6. Business plan review by council

The council pre-ballot
1. Develops regeneration priorities
2. Develops/Uses communication strategy
3. Agrees legal strategy
4. Agrees opportunities
5. Finalising pricing model
6. Agrees transfer price with CS/SE
7. Appraisal of landlord's business plan
8. Application to SE for 'in principle' approval

6 months from ballot to transfer

Gateway 3
Statutory tenant consultation and successful ballot achieved

Gateway 4
Transfer

The new landlord – post-ballot
1. Funding confirmation
2. Finalise legal contract with council
3. Final business plan approved by council
4. Completes policy development
5. Completes registration process

The council post-ballot
1. Final business plan appraisal
2. Application to ministers for formal consent to transfer

Source: *Community Ownership Programme Guidance*, Communities Scotland, 2004

transfer, housing consultancy advisers, and the Royal Bank of Scotland. Its remit was to consider and recommend streamlining and improvement of the housing transfer process.

2.34 The group concluded that experience of previous transfers showed a tendency to underestimate the time required for some stages of the process and for information to be provided too late. Much of the group's work was therefore devoted to trying to establish a clear and orderly stage process, with a realistic assessment of how long each stage would take, a series of clearly defined gateways and clear guidance on what would be required to pass each gateway. The group identified and recommended a four-stage gateway process for a council to follow once it has decided to opt for transfer, and recommended it should be possible to carry out a transfer in about two-and-a-half to three years (Exhibit 16).

2.35 In 2004, as part of the response to the Community Ownership Review Group recommendations, the Scottish Executive and Communities Scotland prepared and published new guidance for the current COP transfers ('COP Guidance').[7] The new guidance has a number of strengths:

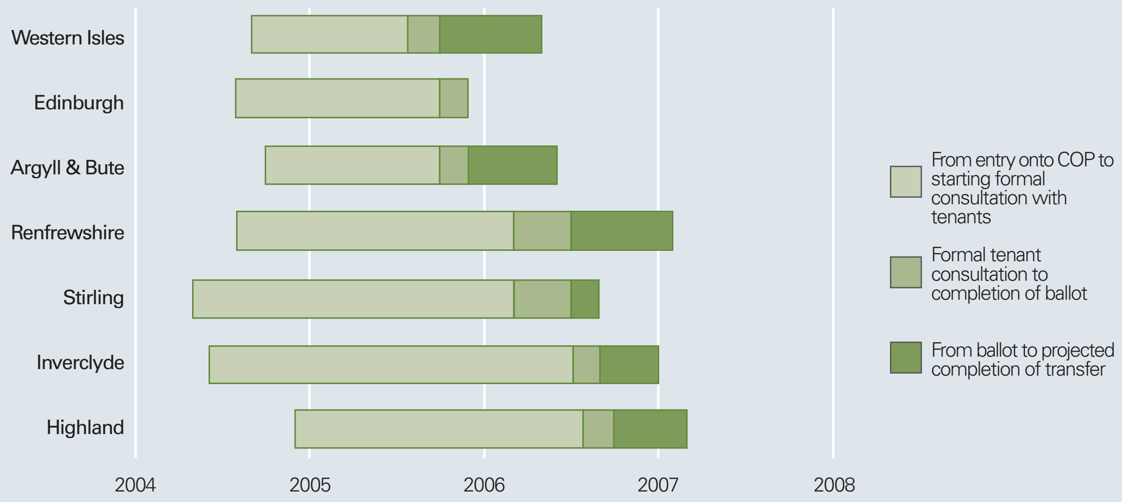
- The guidance is more detailed and covers more areas than previously.
- There is clear 'route map', with defined decision points. There is an indication of likely timescales, which is based on experience from early transfers and a judgement of what is realistic.
- The decision points require consideration and analysis of the level of any financial support required from the earliest stages of the transfer process. The new process requires clear agreement on the financial package for transfer before any proposal is formally offered to tenants.

2.36 The impact of the greater emphasis on timetable and a clear pathway is reflected in the transfer schedules in each project currently within the COP. The current transfers are expected to complete on average in just over two years (Exhibit 17, overleaf) compared to three-and-a-half years for previous transfers (Exhibit 10, page 15).

2.37 A further significant strength of the new process is the introduction of a 'standard pricing model' to promote better evaluation and value for money. The pricing model is the basis for negotiating the transfer price and business plan subsidy. The aim of the model is to improve the transparency, consistency, evidence base and audit trail for transfer pricing. This in turn allows Communities Scotland (now responsible for leading much of the appraisal of transfer proposals) to analyse transfer proposals more quickly, accurately and consistently, reducing the risk of errors and poor decisions.

7 The first versions of the new guidance were published in November 2004. The guidance is being gradually extended and additional guidance was issued in 2005.

Exhibit 17
Projected COP completions



Note: In December 2005, Edinburgh Council withdrew from the COP after a ballot of tenants rejected its proposal to transfer its 23,000 homes to a new landlord.

Source: Audit Scotland

Part 3. Transfers and value for money

Main messages

- For seven completed transfers we examined, planned investment after transfer totals some £3.2 billion over 30 years. In most cases this is significantly more than councils previously spent.
- Similarly, in all cases annual rent increases are guaranteed to be contained at no more than one per cent in real terms for at least five years after transfer. This is markedly less than the previous annual average increase of three per cent in real terms by all councils since 1996.
- Councils are monitoring tenant service by the new landlord but they have not compared performance with the level of service they previously provided. However, 64 per cent of the tenant groups responding to our survey believed the quality of repairs and maintenance had improved after transfer.
- Every transfer landlord now has tenants making up at least a third of its governing body, with additional places held by other community representatives. Sub-committees of the governing body or delegation of powers to other tenant-led organisations give tenants a further direct role in decision-making.
- While transfers have promoted greater tenant control, there is more still to be achieved. In our survey of tenant groups, 57 per cent of respondents with experience of transfer felt it had brought a big improvement. However, 26 per cent considered transfer had made no difference in this respect, while ten per cent thought it was worse.
- Effective tenant control and participation is a key issue for the GHA. GHA has already provided a high level of direct tenant involvement through devolved management. It is committed to achieving its plans to increase tenant control by transferring ownership of all its homes to the LHOs by 2008. But there are complex issues to be resolved and these plans for second-stage transfer remain subject to uncertainty.
- Transfer plans were subject to significant scrutiny. The Scottish Executive's value-for-money assessment of the Glasgow transfer was based on the best information available at the time and followed methods agreed with the Treasury. Nevertheless, without assurance from competition and in the absence of targets or outcome measures it is difficult to be sure that the terms for the initial transfers provide the best possible value for money. Better, clearer measures are needed to assess impact and value for money. For example, although

the GHA's plans provide for its management cost to fall steadily over its first ten years of operations, its forecast average management cost over 30 years will be £834 per house, per year, in real terms, still well above other landlords' costs.

- There is currently no national framework to monitor improvements with regard to the wider objectives of the programme. Communities Scotland is in the position to take the lead in measuring and assessing the impact of the transfer policy.

What transfer should achieve

3.1 Transfer is a complex process with various potential advantages and disadvantages (Exhibit 18). This part of the report examines the specific evidence about the outcomes and value for money that councils, tenants and others may reasonably expect from housing transfer. In particular:

- We review the evidence so far available about the overall outcomes of seven completed transfer cases, including the evidence from monitoring of the new landlords by councils, the Executive and Communities Scotland.
- We discuss outcomes in terms of investment, community ownership and wider policy outcomes (including regeneration and improved business management and efficiency).
- In law, tenants must be consulted about housing transfers, but, if tenants approve, the final decisions are matters for Scottish ministers. We review the quantitative evidence about the value for money of transfer contained in the Executive's financial comparison of transfer with the option of retaining the homes in council ownership. These comparisons support Scottish ministers' final decisions on transfer in each case.

Transfer is enabling major new investment

3.2 From our review of seven completed transfers, we identified planned investment levels of some £3.2 billion over 30 years to improve the quality and condition of homes transferred to new landlords. In most cases, this is significantly more than councils previously spent (Exhibit 19, page 27).

- The comparison is dominated by the largest transfer, Glasgow. In this case, the new landlord is planning peak investment of some £1.3 billion in the first ten-and-a-half years after transfer, averaging £129 million a year. Allowing for inflation and differences in stock numbers, this is double the investment per home, per year, compared to the council's spending in its last seven years of ownership.
- For the Dumfries & Galloway transfer, the forecast peak year investment increase is some 40 per cent. For Scottish Borders there is no absolute increase in forecast capital investment, partly because the new landlord is responsible for fewer houses because of right-to-buy sales. The council believes the investment under transfer was more than it could otherwise have afforded.
- For partial transfers, we have compared investment spend per home rather than total investment because the homes subject to transfer were only a small part of the council's whole stock. In these cases, the investment per home is between 60 per cent and three times more than previous average council spending.

3.3 In addition to investment in improving the quality and condition of the homes subject to transfer, in some cases, transfer involves wider investment.

- Following the Glasgow transfer, the GHA is committed to building some 3,000 new affordable homes. It will work in partnership with Glasgow Council. In addition, under arrangements negotiated with the Executive in parallel with housing transfer, the council is now responsible for managing and distributing more than £60 million development funds a year to landlords to help provide new social housing in Glasgow.
- Similarly, under proposals for the Edinburgh whole housing transfer, the Executive had approved up to £200 million investment over ten years by the city council for providing 10,000 new affordable houses in the city. Because of the tenants' ballot in December 2005 (rejecting the Edinburgh transfer proposals), these investment plans are now subject to review and reconsideration.

3.4 Under the whole housing transfers completed in 2003, the investment programme for both improvement of existing stock and the provision of new stock is at a comparatively early stage. In each case, there has been some initial slippage and plans have been adjusted since transfer, with investment now planned at similar or slightly lower levels than previously.

Exhibit 18
Advantages and disadvantages of housing transfer

Tenant control, participation and 'Community Ownership'

✓ Transfer is an opportunity for tenants to get a greater say in the management and direction of the landlord organisation, thorough voting for board members and through legal requirements for participation and consultation during and after the transfer process.

✓ Effective tenant participation and control, however, is about more than having tenants on the governing body. Effective tenant participation requires adequate resources and support for tenants, good leadership, excellent communication, early involvement in decisions and not approving plans already made. Housing transfer is an opportunity for tenants to see their ideas being put into action.

Rent stability

✓ Under transfer, the new landlord normally offers tenants a rent guarantee, often for five to eight years. Usually the guarantee allows for the cost of improvements to tenants' homes. Councils do not offer similar guarantees and may charge extra rent for improvements such as new bathrooms and kitchens.

Timely delivery of investment

✓ The National Housing Federation represents 1,400 independent, not-for-profit housing associations in England. It published research in 2004 reviewing 16 years of housing transfers in England (850,000 homes transferred). It concluded that 'transfer is a proven, stable and cost-effective way to bring new investment to homes and neighbourhoods.'

Sharing improvement costs

✓ Major repairs and renewals programmes have a cost. This cost has in the past been borne by tenants (through higher rents). Part of the higher rent paid by tenants is passed on to taxpayers through Housing Benefit (because increases in rent result in higher levels of this benefit). Where the cost of renovation is not met by higher rents, the cost is borne by the taxpayer through lower transfer prices.

Solving the problem of overhanging debt

✓ Where high investment needs are combined with relatively high rents and a legacy of high historic housing debt, it may be impracticable for councils to increase rents to pay for essential investment.

✓ HM Treasury has agreed to repay any 'overhanging' debt held by councils following a whole housing transfer. This allows the new landlord to spend more from rents on improving the quality of the housing stock, rather than servicing historic debt.

Better-quality housing management

✓ National Housing Federation research in England shows that transfer landlords tend to provide a better quality of service, at a lower cost than councils – through faster repairs and other services, and better management.

✓ Councils retain their strategic role as housing authorities, if relieved of operational management of the service.

Transfer costs

x Each transfer incurs transaction costs and the costs of setting up the new landlord and arranging finance. These costs are usually shared between tenants and taxpayers.

Higher cost of finance

x In any project requiring investment, there is a financing cost, for example, fees, loan repayments and interest paid to the lender when money is borrowed. Councils can almost invariably obtain more favourable borrowing rates than transfer landlords, so, under transfer, tenants must meet a higher financing cost.

Transfers are value for money

- If the higher costs to tenants and taxpayers are outweighed by the benefits of improved homes and the prospect of greater efficiency and better services.

- If transfer provides the best way to achieve these benefits, compared to alternatives.

Source: Audit Scotland

3.5 For example, GHA's capital investment in 2003-04 (its first year of operation after transfer) fell marginally short of its promise to tenants, but its expenditure in 2004-05 exceeded the promise. GHA completed a major review of its business plan in 2005. Based on professional advice from its advisers FPD Savills it considers its investment programme remains sufficient to fund the promised improvements to tenants in the first ten-and-a-half years after transfer. In June 2005, GHA's Board approved arrangements for awarding 50 works contracts with an estimated cost of more than £600 million, to deliver investment in its core housing between 2005 and 2008-10. This is potentially the largest investment programme to take place in social housing in recent years in the UK.

3.6 In Dumfries & Galloway, the new landlord (Dumfries & Galloway Housing Partnership) recovered from a slow start to investment in 2003-04. In its latest budget (January 2006), the repairs and capital programme over the period to 2008 is some four per cent above the previous business plan provision.

The new landlords have guaranteed low rent growth for tenants

3.7 Rent levels are a fundamental consideration for any transfer. Council rents vary across Scotland, with average rents per home, per week, varying from some £35 (Moray) to some £55 (Inverclyde) (Exhibit 20).

3.8 The question of how rents might change after transfer, if at all, was a matter for investigation and resolution as part of negotiation of the transfer price. In 2000, the Executive's guidance on rents was simply that, 'Rent levels for transferring tenants will generally be based on the rents they pay as council tenants, unless any cost-effective rent increases associated with specific improvements are proposed... The authority will need to reach its own conclusions about rent proposals from the new landlord. There is not expected to be a differential rent regime between those who are tenants at the time of transfer and subsequent new tenants. The starting rent level is likely to reflect the rents currently applied by the council.'

3.9 The outcome of this approach has been that, in general, transfer landlords have proposed and had accepted business plans which are based on low future rental growth compared to the historic trend in councils, and have guaranteed rents for specified periods with longer-term commitments to limit rental growth.

3.10 Exhibit 21 (page 28) summarises the rent promises for eight transfer cases and compares these to how rents have increased since local government reorganisation in 1996.

3.11 In all seven completed transfers we examined, the new landlords have complied with the rent guarantees given before transfer.

The transfer process fostered a high degree of tenant involvement

3.12 Tenant participation is at the heart of the Executive's housing policy. 'Tenant participation is about tenants taking part in decision-making processes and influencing decisions about housing policies, housing conditions and housing (and related) services. It is a two-way process which involves the sharing of information, ideas and power. Its aim is to improve the standard of housing conditions and services.'[8]

3.13 There is a wide range of legislation, policies, guidance and associated research which influence the development of tenant participation in Scotland. Exhibit 22 (page 29) summarises the key requirements for effective tenant participation, based on a literature review of key policies and research published in Scotland since 1999.[9]

3.14 The key legislation is the Housing Scotland Act 2001, which introduced a range of requirements relating to tenant participation:

- Every registered social landlord must prepare a tenant participation strategy.
- Registered landlords must maintain a register of tenant groups, open to all groups meeting certain criteria.
- The registered landlord must consult registered tenant organisations on specified matters – including any proposal which would result in a change of landlord – and on its tenant participation strategy. Landlords must also have mechanisms to take on the views of individual tenants.

3.15 In addition, the 2001 Act obliges councils that intend to seek to transfer homes to another landlord to consult tenants through a ballot. The Act prohibits Scottish ministers giving consent to such a transfer, unless they are satisfied that a majority of tenants who voted in such a ballot wished the disposal to proceed. The Act specifies what information councils must make available to tenants for this purpose. Non-statutory consultation measures complement the legal obligations to consult tenants.

8 *Partners in Participation, a National Strategy for Tenant Participation*, Scottish Office (1999).
9 Available from Audit Scotland on request.

Exhibit 19

Before and after investment in housing improvements for seven transfers

Whole housing transfers	Transfer peak investment promise/latest plan	Annual average council housing investment 1996-2003*
Glasgow	Average £129 million a year for ten-and-a-half years after transfer	£71 million a year
Scottish Borders	Average £4 million a year for 13 years after transfer	£4 million a year**
Dumfries & Galloway	Average £14 million a year for ten years after transfer	£10 million a year
Partial transfers	**Transfer investment per home, per year (over 30 years)**	**Council investment per home, per year 1996-2005***
Edinburgh (Craigmillar Castle)	£1,470	£920
East Dunbartonshire (Hillhead)	£1,340	£760
North Lanarkshire (Old Monkland)	£1,650	£600
Dundee (Ardler)	£2,120	£690

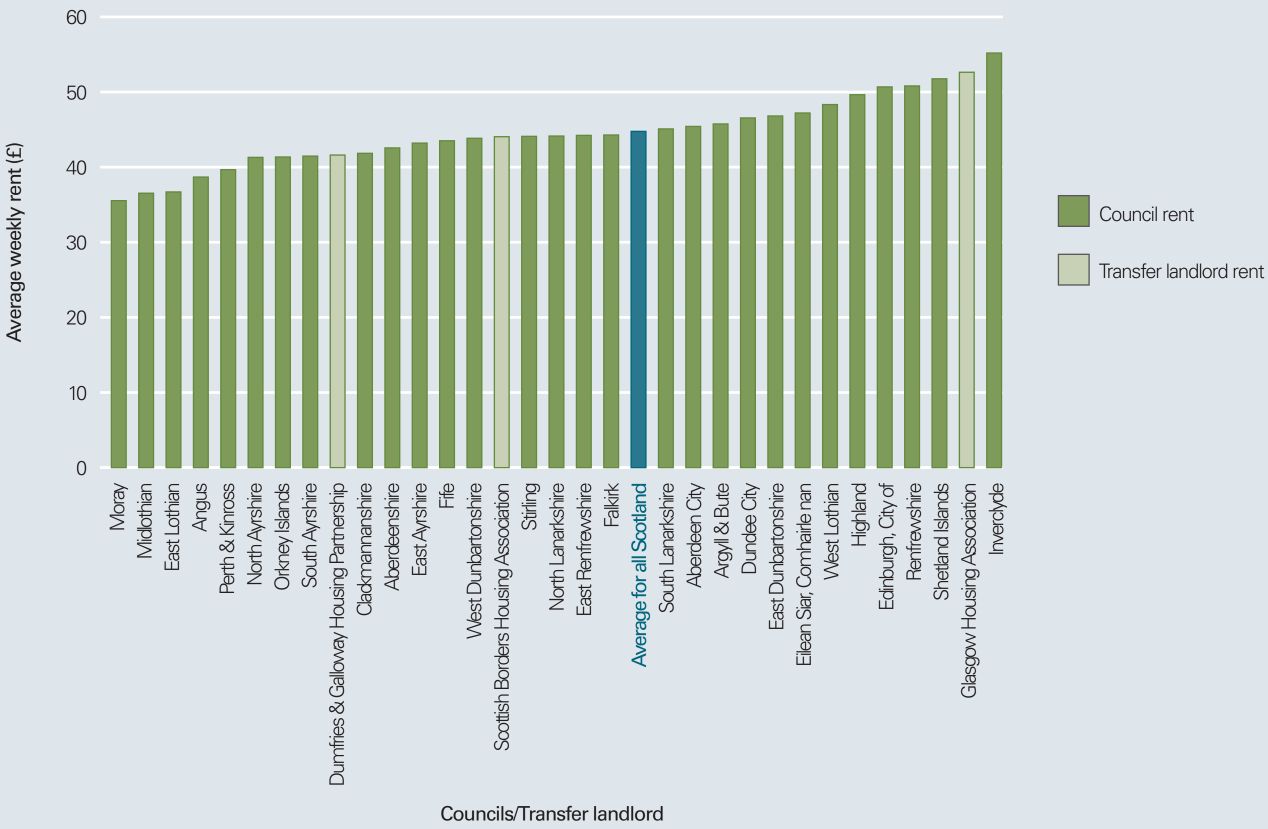
Notes: * Council expenditure adjusted to constant 2005 prices.

** While this was the level of expenditure pre-transfer, the council could not maintain this level of expenditure in future because of the expected continued loss of housing through right-to-buy sales and tenants' choice transfers.

Source: Audit Scotland

Exhibit 20

Council and transfer landlord rents in 2005-06



Source: Audit Scotland

Exhibit 21
Transfer rent promises compared to council rent trends

Transfer	Date of transfer	Average rent per week in September 2004	Transfer rent promise (maximum real annual increase)	Transfer future rent guarantee length	Annual real growth in council rent 1996/97 to 2002/03
Whole housing transfer					
Glasgow	2003	£52.63	0% (1% in years 6-8 after transfer)	8 years	4%
Edinburgh	Planned for 2006 – now cancelled	£49.44	0% (planned)	5 years (planned)	1%
Scottish Borders	2003	£44.05	1%	5 years	1%
Dumfries & Galloway	2003	£41.61	1%	5 years	2%
Partial transfers					
North Lanarkshire (Old Monkland)	1999	£53.82	1%	5 years	2%
Dundee (Ardler)	2001	£52.97	1%	15 years	2%
East Dunbartonshire (Hillhead)	2004	£47.79	1%	5 years	4%
Edinburgh (Craigmillar Castle)	2004	£46.77	Maximum £5/ week increase phased in over 4 years, 0% thereafter	10 years	1%

Source: Audit Scotland

Exhibit 22

Requirements for effective tenant participation

Adequate resources and support for tenants
Securing adequate resources to support the activities of tenants' groups is a prerequisite for effective participation. Resources include monies for attending meetings, training, receiving independent advice on housing management and housing transfer matters, and for supporting good communication. Information of the right quality and type is key to tenant participation. Tenants also need time to build their capability to participate.

Good leadership
Tenants need to be clear on the benefits of effective tenant participation, and on what needs to be done to achieve this in the local community. Leadership can be provided by a mixture of 'tenant champions' (tenants who speak out for tenants' rights) and tenant participation officers, encouraging and guiding tenants.

Excellent communication
This needs to be a continuous process where information, ideas and power are shared. Tenants also need to be communicated with in a variety of ways to suit the locality, geographic spread and types of tenants. Initially, communication may need to focus on overcoming previous negative experiences of tenant participation ie, lack of information and poor communication. Tenants need adequate time and accessible information so that they can consider issues properly. Time and information also help tenant representatives to build trusting relationships with each other and the landlord.

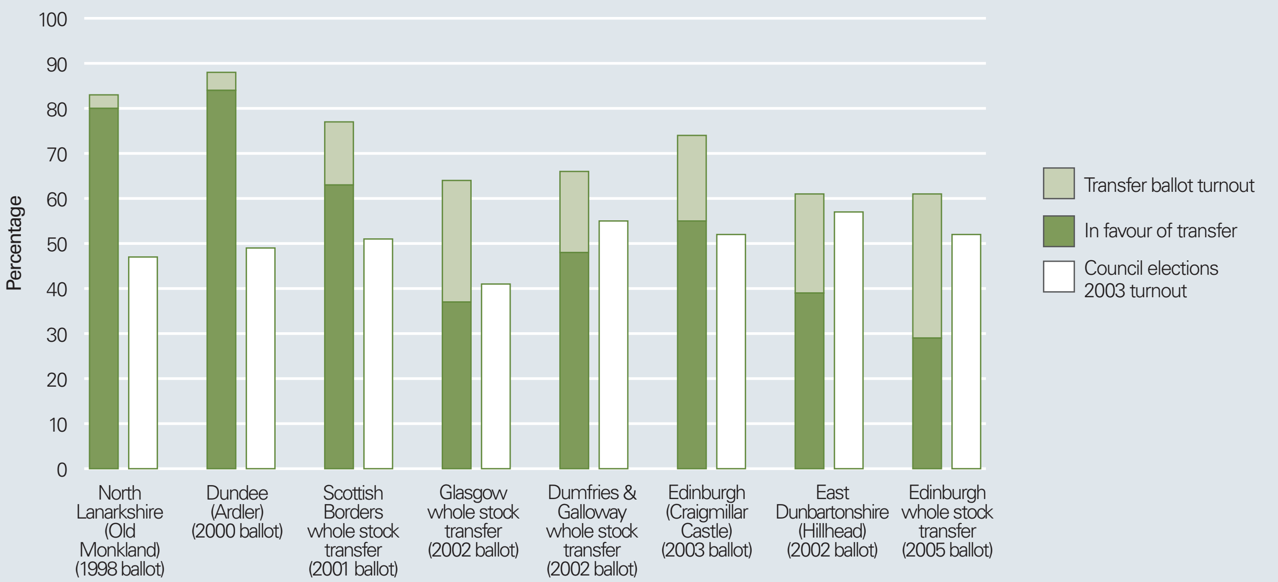
Early involvement
Tenants should be involved at the outset, ideally at the stage of identification of a problem or a need and thereafter in all stages of policy development. Tenants do not want to feel like they are simply approving plans that the landlord has already made. Tenants should be equal partners in decisions which affect their housing or services. They have a part to play in the future of the organisation through developing its business plans, policies and procedures.

A meaningful and up-to-date tenant participation strategy
Tenants and the landlord should both prepare the strategy together and agree how it will be monitored or revised. Tenants need to be involved in preparing the strategy from the outset.

Housing/Service/Community improvements
Tenants need to see action being taken early and they need any achievements to be communicated to them. Housing transfer provides opportunities for tenants to see their ideas being implemented. Realistic business plans should back up agreed developments or plans.

Source: Audit Scotland

Exhibit 23
Ballot results for eight transfer cases



Source: Audit Scotland

3.16 Consequently, for each completed transfer, tenants received very clear information on the pros and cons of transfer before being asked whether they supported transfer in a ballot:

- Tenants received written reports setting out the details of the transfer proposal and the likely consequences for them. These include aspects such as tenancy rights, rent guarantees, right to buy, housing benefit, level of services and tenant participation plans.
- The information included 'promises to tenants' about what impact transfer was expected to have. Typically, the promises covered rent levels, investment, housing service and tenant participation. We have summarised the key promises in each transfer we examined in our summary of cases at Appendix 3 (page 54).
- The information is scrutinised by all parties, including, the council, the prospective new landlord, and consultants appointed to help tenants receive accurate and independent advice.
- Individual tenants have the opportunity to speak to council staff about the implications of transfer or anything they wish to ask to supplement the written information. For example, in both the Glasgow and Dumfries & Galloway transfers, council staff personally contacted most tenants individually during the formal statutory consultation period before the tenant ballot.

3.17 The results of the consultation and ballots to date in eight transfers we examined suggest a high degree of tenant involvement in the decision to transfer. In each transfer ballot, the turnout among tenants was higher than the turnout achieved in the corresponding local government elections in 2003 (Exhibit 23).

- The lowest level of turnout was in the 2005 ballot for the Edinburgh whole housing transfer, 61 per cent, though this was nine per cent more than the turnout in the City of Edinburgh Council area in the local elections in 2003 (52 per cent).
- The highest levels of turnout were for partial transfers in Dundee (Ardler) and North Lanarkshire (Old Monkland). Turnout in these transfer ballots was 88 per cent and 83 per cent respectively.
- Turnout in all cases also compares favourably to national turnout in the Holyrood elections in 1999 and 2003, 58 per cent and 49 per cent respectively.

Transfers have increased the scope for tenant control, though there is more still to be achieved

3.18 Community ownership is a main policy objective for transfer. It is characterised by greater tenant control, effective tenant involvement in key decisions and the continued availability of housing for those in need, subject to guarantees about rent, tenancy rights and the quality of the housing stock. The desired outcome is 'community empowerment.'

Exhibit 24

Executive transfer guidance August 2000 – the acquiring landlord

Key points

All landlords must be registered with Scottish Homes (Communities Scotland since 2001).

The selection of the receiving landlord will depend very much on local circumstances.

Criteria for selection to include:

- involvement of tenants on the governing body
- long-term commitment and ability to provide rented housing which is affordable to those in low-paid employment
- financial viability
- financial and management expertise
- ability to provide a good service to tenants
- policy on tenant participation.

The new landlord should be independent of the council.

To achieve community ownership, it may be appropriate for the prospective landlord's governing body to have a third of its composition tenants, a third council nominees and a third others representing the wider community.

Source: Scottish Executive, 2000

3.19 The Executive issued guidance on the organisation and governance of transfer landlords in 2000 (Exhibit 24). Registration of the new landlords by Scottish Homes (later Communities Scotland) was a prerequisite of every transfer. Registration indicates that Communities Scotland have independently assessed the new landlord as satisfying the necessary criteria for constitution, governance, viability and sustainability.[10]

3.20 Consequently, as a result of each transfer:

- a not-for-profit organisation with tenant, council and community members on its governing body now owns the housing. In accordance with the Executive's guidance, every transfer landlord now has tenants comprising around a third of its governing body, with other community representatives holding additional places
- sub-committees of the governing body or delegation of powers to other tenant-led organisations may give tenants a further direct role in decision-making
- the housing continues to be available to be let at affordable rents to those in housing need, including the homeless and other vulnerable groups. The new landlords remain subject to monitoring, inspection and regulation by Communities Scotland, to help ensure they provide an effective housing service.

3.21 However, within this common framework, in the transfers we examined, councils and new landlords adopted different approaches to interpreting some key aspects of the community ownership policy. They chose different methods of promoting tenant participation and different organisational and governance models for the new landlords.

3.22 We identified cases which showed a significant degree of tenant participation during and after transfer. For example, both the Dundee (Ardler) and North Lanarkshire (Old Monkland) partial transfers involved significant investment to achieve area renewal and regeneration, and aimed to enhance community involvement in decisions affecting their lives. Both projects appear to have achieved, or are on course to achieve, their main goals. Case example 4 (Appendix 4, page 62) illustrates the aims and outcomes of the Dundee (Ardler) transfer and our assessment of the outcomes to date, including its effectiveness in permitting tenants to become involved in solving a long-standing problem of inadequate housing.

10 Communities Scotland published its detailed guidance on its registration criteria in 2002, superseding guidance its predecessor Scottish Homes had published.

3.23 The approach to community ownership in Glasgow after transfer allows a high level of direct tenant participation through a structure of local devolved management:

- GHA's Board includes tenants and the chair must be a tenant.
- Within one year of GHA taking ownership of the homes, it delegated responsibility for management and delivery of its housing services to LHOs. LHOs are designed to promote tenant participation and involvement in housing management. The governing body of each LHO includes tenants and community representatives.
- Of the 64 LHOs currently projected, 62 of these are now registered with Communities Scotland (approximately half are fully registered as landlords, the other half are registered to provide housing management services only). The LHOs cover 100 per cent of the stock. They are designed to help to satisfy the commitments given to tenants in the housing transfer ballot on local control.

3.24 Case example 5 (Appendix 4, page 63) summarises the complex new structures that were used to meet the community ownership goal in the Glasgow whole housing transfer.

3.25 GHA's programme of second stage transfers is intended to deliver local control by passing ownership of the housing to LHOs. While LHOs have responsibility for management of the homes, they will not have full control until they own them. GHA is committed to achieving its plans to increase tenant control by transferring ownership of all its homes to the LHOs. However, these plans for second-stage transfer remain subject to uncertainty (Case example 6, Appendix 4, page 65).

3.26 Where the move to community ownership involves the creation of a new organisation, a key issue is the governance of the new body. Registration of a landlord before transfer indicates that Communities Scotland has independently assessed it as satisfying the necessary criteria for constitution, governance, viability and sustainability. However, from our examination of five transfers to newly established landlords, three had faced governance issues or challenges to some extent in connection with or following transfer. The new landlords had difficulty in establishing collective responsibility and consensus between the tenants, independent members and representatives from the wider community, such as councillors, that are members of each governing body. In each case, there was evidence of constituency behaviours, although a fundamental governance requirement is that the best interests of the organisation as a whole take priority rather than sectoral interests (Case example 7, Appendix 4, page 68).

3.27 In contrast, there were no special issues or difficulties in the governance of three transfer cases we examined where the new landlord was formed as a subsidiary company or became an addition to the operations of an established landlord. For example, in the North Lanarkshire (Old Monkland) transfer, the new landlord is Clyde Valley Housing Association, which was established in 1996. Clyde Valley Housing Association owns some 1,600 houses, including 470 developed following the New Lanarkshire (Old Monkland) transfer.

3.28 Research on previous Scottish Homes transfers and transfers in England suggests that tenant participation has improved following transfers from other parts of the public sector,[11] but there is no strong basis to measure whether improved participation has followed housing transfers from Scottish local authorities.

- Under its regulatory and inspection role, Communities Scotland assesses the performance of landlords with regard to tenant participation, as with other key areas of housing performance. At the time of our study, Communities Scotland had not completed formal inspection visits to any transfer landlord. (Inspections are planned for two to three years post-transfer to give the new landlord time to establish their businesses. In the interim, Communities Scotland provides support to ensure new landlords understand their responsibilities and are properly organised to meet their commitments to tenants.)
- Although Communities Scotland published research in 2004 which suggested possible measures of tenant participation outputs and outcomes, there has been no further work to quantify transfer landlords' performance using these or other measures.
- Our examination of completed transfers showed that new landlords have got little quantitative evidence to help assess the degree of tenant participation.

11 *Learning lessons from the Estates Renewal Challenge Fund*, Office of the Deputy Prime Minister, 2005; *Review of the effectiveness and impact of transferring Scottish Homes houses into community ownership*, Communities Scotland, 2005; *An evaluation of Scottish Homes large-scale voluntary transfers*, Scottish Homes, 1999.

3.29 Against this background, we conducted a survey of registered tenant organisations (RTOs) – the legally recognised bodies for tenant consultation – to obtain their views on the degree of tenant participation across Scotland. Most of these groups have not been involved in transfers, but this survey helped to put views about the impact of transfer in a national context. For those tenant organisations which had been involved in a transfer, we asked for views on how it had affected participation. The key findings are summarised in Exhibit 25 (overleaf), and the full survey report is at Appendix 2 (page 47).

3.30 Overall, the survey suggests that tenants already participate positively in many areas, and most tenant organisations see housing transfer as beneficial in this regard. Tenant organisations value tangible factors such as increased investment and improvements in housing service following transfer. Of the tenant groups with experience of transfer, 57 per cent felt it had brought a big improvement. However, 26 per cent considered transfer had made no difference in this respect, while ten per cent thought it was worse (Exhibit 26, overleaf).

Competition has not been used to promote best value

3.31 Competition can be an important means of achieving best value. Well-designed competitions give incentives to suppliers to offer public bodies the best solutions at lowest practicable prices. The Executive's guidance on housing transfers advises councils to consider a range of options for selecting a new landlord. Under the guidance, councils may wish to use competition to select a new landlord, but this is not compulsory.

3.32 In practice, competition has not been a major feature of council housing transfers in Scotland. No council which has completed or is planning a whole housing transfer has used a competition for selecting the new landlord. For all three whole housing transfers so far completed, councils either did not consider competition to select the receiving landlord or ruled it out at a very early stage. Because competition for the transfers has been weak or absent, there was no ready assurance from there having been a competitive process that transfer terms provide value for money.

3.33 Both Dumfries & Galloway Council and Scottish Borders Council transferred their whole stock to a single successor landlord. A competition for transfer to a single successor was impracticable because these councils owned and managed many more homes than even the largest not-for-profit landlord. These councils ruled out the transfer of their whole stock to more than one successor landlord because:

- in their view, transfer to more than one landlord would increase complexity, add to costs and could increase the risk of complete transfer not taking place, for example, as the result of an unsuccessful tenant ballot in any area
- transfer to more than one landlord could result in losing of economies of scale in housing services compared to a single new landlord (although, as we discuss below, there is no particular evidence that the largest landlords provide such economies)
- the councils considered that tenants would prefer a single large landlord operating on similar lines to the existing service, rather than several independent providers with potentially diverse service standards and performance
- also, a decentralised structure of management within a single landlord could meet tenants' aspirations for increased involvement, with no need to transfer to smaller organisations
- Dumfries & Galloway Council considered transferring to a single landlord would increase its ability to influence its successor.

3.34 Similar considerations influenced City of Edinburgh Council's 2004 decision to seek transfer of its whole stock to a single successor landlord with a decentralised organisation.[12]

3.35 Different considerations applied to the transfer of Glasgow City Council's housing stock, but, again, competition for the purpose of promoting value for money was not a major feature.

- After transfer in 2003, the single successor landlord (GHA), appointed 64 LHOs to deliver local housing services under contract, as part of a commitment to local community ownership and control.
- In the cases where there was competition between prospective LHOs,[13] the process was not designed to select LHOs on the basis of value for money. The main selection criterion was tenant preference (measured on survey responses).

12 This transfer will not now take place after council tenants in Edinburgh voted to reject it in a ballot in December 2005.
13 GHA adopted an open bidding process, with prospective LHOs invited to make proposals. Thirty-one LHOs were formed from existing local tenant consultative forums while 33 LHOs were linked to established landlords.

Exhibit 25
Audit Scotland survey of registered tenant organisations

RTOs are the legally recognised partners (under the Housing Scotland Act 2001) for tenant participation and consultation by registered social landlords.

We conducted a survey of RTOs to assess their views on tenant participation. There are more than 600 RTOs across Scotland and we got a total of 226 returns, a response rate of 37 per cent.

Tenant participation in general
Participation in housing varies by RTO and includes involvement in both 'reactive' eg, responding to a consultation paper, and 'proactive' eg, negotiating of allocations, activities. The former type of activity has a higher level of participation.

Some 70 per cent of respondents stated they have some/a lot of influence on housing services in their area. A similar proportion reported benefiting from good practice features such as involvement in preparation of the tenant participation strategy (60 per cent) and availability of a tenant participation officer (69 per cent).

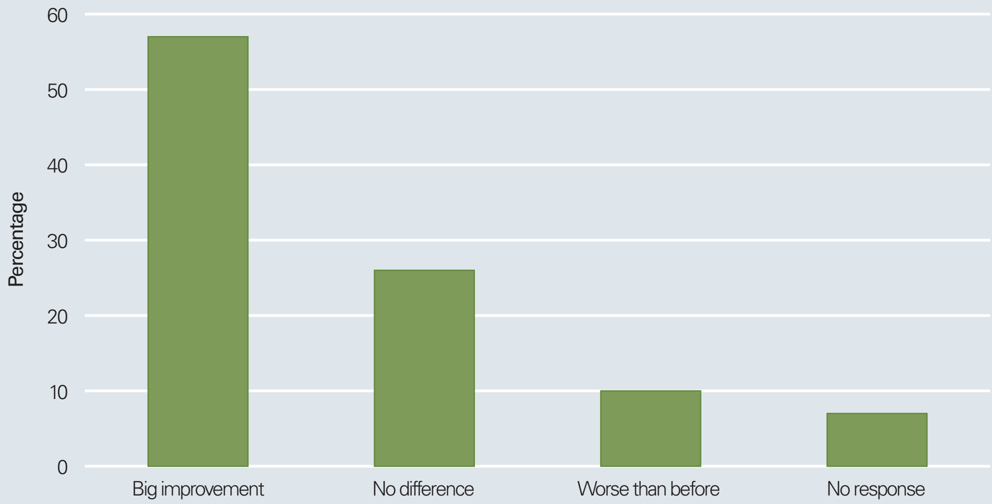
However, only 35 per cent of respondents believed they are involved as equal partners in the decision-making process.

Impact of transfer
A third of respondents have been involved in a housing transfer. Of this group, 57 per cent felt that transfer had brought a big improvement to tenant participation. Twenty-six per cent considered it had made no difference.

The level of investment, in both capital and repairs programmes, is seen, overwhelmingly, as a major benefit of transfer, and over half the respondents also stated improvements to the quality of housing service delivery had accrued.

Source: Audit Scotland

Exhibit 26
Difference transfer has made to tenant participation



Source: Audit Scotland

- The longer-term strategy in Glasgow is for onward ('second stage') transfer of ownership of GHA houses to individual LHOs, to maximise local control and accountability. Until 2008, GHA will only consider second-stage transfer bids from the currently designated LHOs. Thereafter, tenants will have the opportunity to consider proposals from other landlords.

3.36 For partial housing transfers, there has been a degree of competition, restricted to the initial process leading to the selection of a prospective development partner/ new landlord. In every such case we examined, the council and the prospective new landlord agreed the main transfer terms, after one-on-one negotiation, without further competition. However, in these cases, physical improvement works were competitively tendered before final agreement on purchase price and subsidy entitlement.

The new landlords' business plans have been thoroughly scrutinised to test sustainability

3.37 Evaluation and scrutiny of each transfer proposal involved financial and non-financial analysis, including both quantitative and qualitative factors. Typically, councils set a range of qualitative and quantitative aims and outcomes for the transfer, which became the basis for subsequent monitoring of progress and assisting the final transfer decision. Case example 8 (Appendix 4, page 69) is an example of one summary assessment. It shows Dumfries & Galloway Council's final assessment of the transfer proposal against its 12 key principles for assessment. Many of the principles for assessment concern non-financial aspects, such as, demonstrating benefits for tenants and improvements in tenant participation and control. Most other councils completing transfers completed similar assessments against similar criteria.

3.38 Transfer means changing the ownership of significant property assets which are also peoples' homes. While finance is not the only consideration, it is central to the transfer process. In the absence of a competition to determine transfer terms, the council and the prospective new landlord must negotiate to reach mutually agreeable terms, including the price for the homes on transfer to the new landlord. Broadly speaking:

- The council transferring the homes must ensure that: it receives reasonable compensation in exchange for the loss of the assets; any wider financial impact is manageable and sustainable; and transfer, is acceptable to tenants.

- The receiving landlord is acquiring a significant undertaking. It must understand the financial implications and be satisfied that it is taking over operations which are financially sustainable. The banks and financial institutions which provide loans to help finance the new landlord's activities need similar assurance.

3.39 Thorough analysis of all current costs and income is needed for transfer appraisals, but is only the starting point. All parties need to consider how costs and income will change in future years. Particularly for whole housing transfers, there is voluminous data analysis.

3.40 Until 2005, the main benchmark for financial scrutiny and appraisal of each transfer was an independent valuation of the houses. Now, councils seeking to transfer stock must prepare a pricing model based on agreed assumptions, working within detailed guidance from Communities Scotland. In practice, both the current pricing models and the previous independent valuations were prepared on a discounted cash flow basis (Exhibit 27, overleaf, and Appendix 5, page 70).

3.41 The move away from independent valuation followed a Community Ownership Review Group recommendation in 2004.[14] The group considered that the key issue in pricing the stock is the assumptions, and a pricing model based on agreed assumptions would assure the Scottish Executive on value for money and price. The group recommended the Scottish Executive should develop clear guidance on the key assumptions, and how they should be determined.

3.42 Technically, the processes involved in preparing a valuation and a pricing model are very similar, and both are useful to test and validate the main assumptions used by the new landlord in its business plan for the transfer, also prepared on a 30-year discounted cash-flow basis.

3.43 In each case we examined, council staff and their professional advisers thoroughly scrutinised all key features of the business plan using these tools. Scrutiny and challenge operated in two directions. This was because, in each case, the prospective new landlord used financial data for its business planning, for example, about historic management and maintenance costs, which the

14 The Group considered that while the Scottish Executive should no longer require an independent valuation, councils should be able to undertake one at their own expense if they felt it necessary to reassure elected members.

Exhibit 27
Cash-flow models and discounting

Cash-flow model

From 2005, Communities Scotland has prescribed the use of a generic model to help assess the housing transfer price. Using this 'pricing model', the council prepares comprehensive, long-term (30-year) forecasts of the cash flows associated with the homes to be transferred and the housing service.

The forecasts are based on factual historic data from the council about the homes to be transferred, modified by judgements about future changes from the council's research, experience and judgement. Income and costs must be balanced to ensure sustainability ie, that over the long term, all costs can be met from projected income from rent and other sources.

Guidance from Communities Scotland defines the individual assumptions and factual input required, to support consistency, transparency, evidence base and a clear audit trail. Three types of assumptions are specified:

Factual assumptions:

Any basically indisputable assumption (with a clear audit trail), such as, opening (year one):

- stock numbers
- rents, voids and bad debts
- reactive maintenance and cyclical maintenance costs.

Assumptions for individual discussion, for example:

- rental growth assumptions
- capital expenditure
- VAT liability
- financial assumptions contingent on the future of the DLO
- structural and environmental reports.

Benchmark assumptions, for example:

- future voids and bad debts
- future reactive and cyclical maintenance costs
- future management costs
- real variations in all costs over the long term
- preliminaries and fees associated with the capital programme.

For transfers before 2005, an independent professional appointed by the council was required to prepare a 'valuation'. The process leading to the valuation was technically similar but the output was more dependent on the individual valuer's judgements and approach, and there was no requirement for consistency.

Discounting

To obtain the transfer price or valuation, the costs and income streams are netted off against each other and the results converted to a single-figure equivalent by 'discounting'.

Using a discounting formula is a way of quantifying how much less a sum of money received or paid in the future is worth to the government (or an individual) compared to the same amount today. It allows a cash flow that takes place over a period to be expressed as a single figure, which is equivalent to what it would cost now, rather than spread over a number of years.

The discounting produces the present cost of the payments and the present value of the receipts. The payments and receipts are netted off to provide the Net Present Value (NPV) or Net Present Cost (NPC), according to whether receipts exceed costs or vice versa.

Appendix 5 (page 70) provides technical information about discounting and illustrates how the formula works.

Source: Audit Scotland

council had originally provided. In addition to scrutiny by the council, transfer proposals were also subject to review and challenge by the Executive and its advisers.

3.44 In some respects, this process in the first three whole housing transfers became divisive and in some ways counter-productive. For example, the transfer landlord and the council adopted the separate positions of the transfer landlord and the council as 'buyer' and 'seller' without always establishing good working relations leading to a lengthy negotiation period in each case. (As discussed in Part 2, page 11, in some cases the shadow boards of the prospective new landlords were established up to two-and-a-half years ahead of the actual transfer. Consequently, the parties concentrated too much on their differences at the expense of partnership working and overall shared goals.) But although there was sometimes a degree of conflict, the process allowed the councils and others acting on tenants' behalf to scrutinise and challenge, in detail, the reasonableness and viability of the new landlords' financial and operational plans.

3.45 An objective of three of the partial transfers was for the new landlord to build new houses to replace poor-quality existing stock. In each of these cases, the capital cost of new build was subject to additional benchmarking and other value-for-money tests by Scottish Homes/Communities Scotland, which provided additional assurance about cost-effectiveness and quality in these cases.

The Executive's evaluation of the earlier transfers

3.46 Although councils took the lead in scrutinising transfer proposals, the Scottish Executive (and since 2005, Communities Scotland) must approve any transfer as providing value for money. In doing so, the Executive must consider public expenditure consequences and the wider taxpayers' interests.

3.47 The Executive's value-for-money assessments comprised three main elements:

- An assessment of whether the best price was obtained for the housing. Until 2005, the approach was to get an independent professional valuation of the housing and seek a price in line with it. As discussed above, the approach now is to prepare a pricing model based on agreed assumptions.
- A comparison of the cost of the transfer with the cost of the notional alternative of retaining the housing in the public sector under council control and investment using traditional methods of funding.
- An affordability assessment, where necessary. For example, the Scottish Executive granted significant funds to allow the Glasgow transfer to proceed, and it was necessary to consider the impact of transfer on the Scottish assigned budget.

The comparison between price and value

3.48 In the Dumfries & Galloway and Scottish Borders transfers the Executive's assessment showed that the price paid on transfer, was slightly higher than the independent valuation.

3.49 However, in the Glasgow transfer, the valuation was prepared using assumptions which were not completely identical to those applying to the transfer. For example, the valuer assumed fewer houses would be demolished after transfer compared to the number assumed in the final accepted version of GHA's business plan. This complicated the comparison between price and value:

- The receiving landlord (GHA) paid the council £25 million for the transfer of the housing but, as discussed in Part 2 (page 11), the Scottish Executive also committed £409 million grant to support the association's business plan as part of transfer.
- Based on the association's final business plan, and taking into account the effect of discounting, the Executive calculated the net effective transfer subsidy required was £388 million.
- Using the most conservative assumptions, the independent valuer (FPD Savills) valued the housing transferred as £nil. Using assumptions which most closely reflected the conditions of transfer – but which were not identical with them – FPD Savills valued the housing between -£75 million and -£295 million.

3.50 The Executive concluded the valuation provided only a benchmark and that the different assumptions explained the difference between price and value in the Glasgow transfer.

The cost of transfer compared to the cost of the council retaining the housing

3.51 The Executive's evaluation of each of the completed whole housing transfers included a comparison with the notional alternative option of retaining the houses and investment using traditional methods of funding. This supplemented the comparison between the transfer price and the valuation, and provided a fuller appraisal using the best information available at the time. In the Glasgow transfer, the Executive's main assessment was based on this cost comparison (Exhibit 28).

3.52 However, as we discuss below, the cost comparison was subject to significant uncertainty in three areas: public spending effects; the choice of discount rate used for the comparison; and the comparison of investment costs. In our view, these uncertainties limit the usefulness of the cost comparison as a value-for-money test.

Public spending effects

3.53 The Executive's cost comparison included the financial impact of transfer on total (UK) public expenditure and on spending in Scotland. Overall, compared to the option of retaining the houses, the Executive estimated transfer would cost £120 million at UK level (Exhibit 28, row l) but would provide a very significant saving of £475 million for Scotland (Exhibit 28, row g).

3.54 This difference arose because the comparison includes the estimated £758 million repayment and servicing of Glasgow's historic housing debt as a cost, for Scotland, of retention (Exhibit 28, row e). There was no equivalent cost for Scotland from debt repayment under transfer in the comparison because the Executive received funding from the Treasury to allow it to redeem Glasgow's outstanding debt on transfer.

3.55 The financial saving to Scotland was an important consideration for the Executive. However, it reflects a transfer of funds from one part of the public sector to another and, as noted in Part 1(paragraph 1.15, page 8), has no real resource cost in economic terms. The saving is therefore less important for assessing the overall economic value of transfer. It should have been treated quite separately from the more important question of the relative efficiency of the two options in total public spending terms.

3.56 With regard to the estimated £120 million cost of transfer at UK level, the Executive decided to go ahead because there were wider non-quantifiable policy benefits associated from transfer. These included, principally, the proposals for greater tenant control and the prospect for better housing service and outcomes associated with transfer. As we discuss further below, the Executive also considered that the £120 million cost of transfer was very small – eight per cent – compared to the size of the investment programme. Consequently, the margin of error in the estimate could mean that transfer would provide cost savings.

Choice of discount rate

3.57 In appraising the cost to public funds, the Executive compared costs using discounted cash-flow methodology. It agreed the methodology and the discount rate (six per cent a year in real terms) with the Treasury in 1998. The Executive and the Treasury subsequently discussed, in 2001 and 2002, the initial results of each whole housing transfer appraisal.

3.58 The Treasury revised its guidance on investment appraisal in January 2003, requiring a three-and-a-half per cent discount rate for future appraisals combined with a new approach to appraising risk, including use of an explicit risk allowance. Using the lower rate would increase the cost of transfer. For example, for the Glasgow transfer, applying a discount rate of three-and-a-half per cent to the same data supporting Exhibit 28, would increase the extra cost to public funds to some £188 million, compared to £120 million at six per cent (Exhibit 28, row l). Under the new approach, additional adjustments are required to reflect optimism bias and risk transfer, which would mitigate this increase. But the overall effect of using the six per cent discount rate is that the comparison retains a greater degree of uncertainty than current appraisal rules allow for. This difficulty would apply to any appraisal using that rate at that time.

The comparison of investment costs under the two options

3.59 In statutory consultation notices before transfer, tenants were informed that there were limits on council spending on housing. Spending limits for councils were likely to be set at a level well below needs, tenants were told. While there would be financial help from the Government if transfer went ahead, if a council retained its stock, it could not promise the same investment to improve the houses.

3.60 However, in its cost comparison for the Glasgow transfer, the Executive assumed that the option of the council retaining the housing would involve investment by the council at an identical level to the investment under transfer that GHA proposed. Over 30 years, the total investment assumed under both options was £2.8 billion in constant prices before discounting (equivalent to £1.6 billion net present cost, Exhibit 28, row a). For the purposes of its comparison, the Executive assumed it would fund all the investment by the council under retention by grant, although, in reality the Executive considered the grant needed to fund this major investment under retention would be unaffordable.

3.61 The Executive justified this hypothetical assumption of like-for-like investment because any other assumption would involve a comparison between options which would produce different outcomes.

Exhibit 28

Retention vs. transfer – the Executive's February 2003 Glasgow evaluation

Estimated net present cost of each option A negative figure indicates an estimated saving or relative saving to public funds		**Transfer (£m)**	**Retention (£m)**	**Cost of transfer (£m)**
a.	Grants and subsidies	545	1,629	
b.	Less: Transfer receipt	-25	0	
c.	Less: Surplus on retained stock before financing costs	0	-1,320	
d.	Less: RTB receipts	-60	-109	
e.	Add: Debt servicing and repayment under retention	0	758	
f.	Add: Capital charges under transfer	23	0	
g.	**Total cost to Scotland**	**483**	**958**	**-475**
h.	Adjustment for transfers within government			
i.	Less: VAT on GHA activity	-140	0	
j.	Less: Debt servicing and repayment under retention	0	-758	
k.	Less: Capital charges under retention	-23	0	
l.	**Total cost to UK (excluding Housing Benefit costs)**	**320**	**200**	**120**
m.	**Housing Benefit costs**	**2,086**	**2,086**	**0**

Note: All net present values using a real discount rate of six per cent.

Source: Scottish Executive

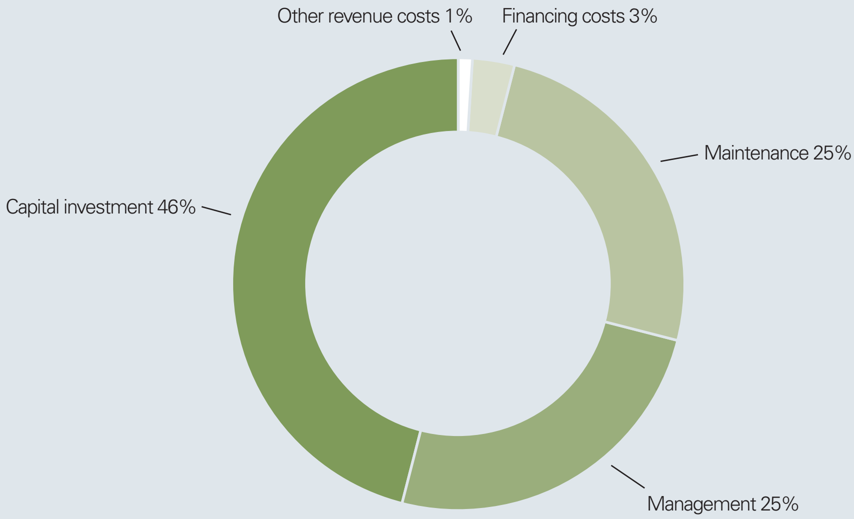
Exhibit 29

Thirty-year forecast costs for seven completed housing transfers – total

Total costs over 30 years – £7.2 billion

Average stock managed over 30 years – 83,000 homes

Average cost per home, per year – £2,882



Source: Audit Scotland analysis of seven financial models

Good practice in appraisals is that the cost of the 'do minimum' option should always be considered. However, the Executive saw no advantage in comparing the cost of an affordable retention option (with much lower investment than that under transfer), because that outcome would be unacceptable for policy reasons. It considered transfer was the only viable do minimum option.

3.62 In our view it was reasonable for the Executive to compare options based on similar outcomes, but the comparison was flawed because it assumed the level of investment ie, the input as well as the outcome, was identical for both options. Consequently, the comparison could not estimate the efficiency of the required level of investment delivered under either option.

3.63 The cost-effectiveness of GHA's investment programme under transfer was subjected to extensive research and analysis, and independent expert advisers had guaranteed the total investment cost. The Executive therefore considered that the costs should represent a realistic estimate of spending, reflecting, for example, economies of scale from centralised procurement of the necessary building works. In contrast, the Executive did not have clear evidence of the council's procurement efficiency, but it considered that GHA would procure investment more efficiently than the council. As noted above, the Executive decided to proceed with transfer, partly because it calculated that an eight per cent improvement in the efficiency of the £2.8 billion investment would thereby recoup the £120 million net present cost of transfer.

Better, clearer measures are needed to assess impact and value for money

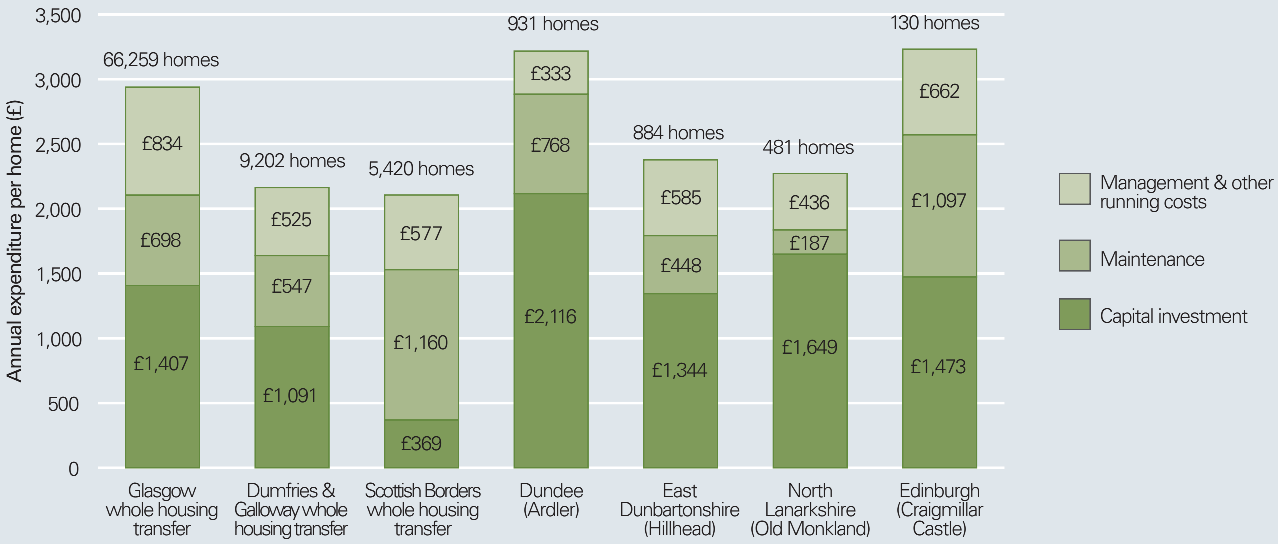
3.64 In the first three whole housing transfer cases, the councils and the Scottish Executive assessment team reviewed and challenged elements of the landlords' forecast costs. In these transfers, issues were considered on a case by case basis. But there was neither a systematic review and comparison of costs nor an objective set for efficiency or economy. Although better housing management was a key rationale for transfer, the Executive did not set targets or performance indicators to assess whether efficiency was achieved or to measure the new landlord's subsequent performance in this area.

3.65 Exhibit 29 summarises the main costs of the seven completed housing transfers we examined. We have summarised the total expenditure forecast for these transfers in real terms (without discounting) over 30 years. We obtained this information from the new landlords' approved financial model for each transfer. Exhibit 29 shows that capital investment is a key determinant of the transfer price, but only part of it. Management and maintenance costs together account for a similar (slightly larger) share of projected costs over 30 years.

3.66 Exhibit 30 analyses the main costs of the seven completed housing transfers we examined: this time showing unit costs in real terms over 30 years. There is a significant variation between them in the cost structures, and it seems that, for most of the completed transfers, the

Exhibit 30

Thirty-year forecast costs for seven completed housing transfers – comparative annual cost per home



Note: The number of homes in each case is the average to be retained over 30 years.

Source: Audit Scotland analysis of seven financial models

new landlords have adopted relatively high-cost business structures.

3.67 For the Glasgow transfer, for example, the GHA has comparatively high management costs of £1,032 per home in 2003-04, its first year of operations, much higher than other established landlords in Scotland (Exhibit 31, overleaf). Although GHA plans provide for management cost to fall steadily over its first ten years of operations, its forecast average management cost over 30 years will be £834 per house, per year, in real terms, still well above other landlords' costs. GHA's high costs reflect to some extent the type of housing it owes. For example, it has 22,000 multi-story flats which, for tenant security and other reasons, requires GHA to provide a full-time concierge service. Few other non-council landlords in Scotland have properties which incur similar costs. GHA's analysis is that its management costs were £634 per home in 2003-04 if the costs associated with providing the concierge service and with other special features of its properties are excluded.

3.68 For five of the other six transfer analysed in Exhibit 30, forecast annual management costs vary between £436 and £662 a home. That exceeds the lower quartile result for other landlords with more than 1,000 homes (Exhibit 31, overleaf). However, all such comparisons have to be interpreted with caution because Communities Scotland does not prescribe coding of costs and differences in reported costs may in part reflect different accounting treatment and classification.

3.69 The Executive and Communities Scotland have learned lessons in this area. Communities Scotland is now responsible for leading the financial appraisal of COP transfer proposals. Its appraisal of the transfer proposal from the City of Edinburgh Housing Association, completed in late 2005, included a far more systematic assessment of the new landlord's forecast management and other costs. Excluding exceptional and special costs such as the concierge service in Edinburgh, the outcome of the pricing model discussions completed in September 2005 was agreement of a transfer price based in part on average management costs close to the benchmark of lower-quartile RSL performance in 2004-05.

Communities Scotland is in the position to take the lead in measuring and assessing the impact of the transfer policy

3.70 Monitoring and evaluation provide evidence about how far a project, programme or policy represents value for money. Monitoring enables organisations to check on delivery against plans, while evaluation examines outcomes against initial objectives.

3.71 The Scottish Executive has not issued guidance specifically on monitoring or evaluation of council housing transfers. Its guidance on transfers published in 2000 and the 2005 COP guidance from Communities Scotland stop at the point of handover.

3.72 However, Communities Scotland has a legal duty to regulate and inspect all registered social landlords in Scotland. It publishes information about its regulation procedures, which apply to all landlords. Communities

Exhibit 31

Extract from Communities Scotland Digest for 2003/04

Management and maintenance administration costs

Large-scale voluntary transfer landlords and traditional Registered Social Landlords (RSLs) with more than 1,000 units have lower costs than smaller, traditional RSLs. There are many variations within the data set with some large RSLs having high costs and some smaller RSLs having low costs.

At each end of the scale, however, the median does not fit with the trend. The smallest RSLs with fewer than 250 units had the lowest costs and the largest RSL, GHA and the only RSL in the group with more than 15,000 units, has costs per unit of £1,032.

Management and maintenance administration costs per unit	Lower quartile	Median	Upper quartile
General RSL with fewer than 1,000 units	£409	£641	£934
General RSL with more than 1,000 units	£614	£693	£768

Source: Communities Scotland

Scotland regulation role starts before transfer, because no transfer can take place until it has appraised the new landlord as viable, effective and otherwise capable in accordance with its published criteria for registration as a social landlord. Its subsequent regulation work goes beyond monitoring and includes providing information, support and advice to landlords as it may consider necessary. It also has statutory powers of intervention, though it will only apply these if serious performance problems are present.

3.73 In addition to monitoring, Communities Scotland inspects all landlords on a five-year rolling programme. While inspections provide an in-depth assessment and are published, to date Communities Scotland has not inspected any of the landlords in the seven completed transfers we examined.

3.74 In practice, monitoring of council housing transfers has evolved as the partners have seen fit in each case. Both Communities Scotland and individual councils are involved in monitoring of each completed transfer (Exhibit 32).

3.75 Communities Scotland's monitoring provides broad assurance that landlords remain financially and operationally capable. Following registration of as part of the transfer process, Communities Scotland agreed a regulation work plan, with each new landlord detailing the necessary activity to satisfy its duties as a registered landlord. The work plans cover the period from registration to first inspection, approximately three or four years in total. They are the basis for Communities Scotland's monitoring prior to the first formal inspection.

3.76 In addition, the results of council monitoring of the seven cases we examined provide reassurance that transfer landlords are generally delivering against earlier commitments, including tenant promises and contractual commitments. However, council monitoring has been high-level in all cases; and in two of the four partial transfers we examined, council monitoring was not completely systematic, although there was no evidence of significant under-performance by the new landlord in these cases (Exhibit 33, page 44).

3.77 Although these results provide a broad degree of reassurance about the new landlords' performance, there are some weaknesses in these monitoring arrangements:

- Councils rarely measured performance after transfer against any baseline data for service delivery. Baseline data were rare and because of differing accounting practices costs for items such as management and routine maintenance, could not be compared before and after transfer. Therefore, while performance appears satisfactory, there is no systematic evidence to indicate the level of service and efficiency relative to what the council previously provided.
- Councils' monitoring is narrowly focused on activity measures such as expenditure on improvements compared to plan rather than identifying the outcomes that have occurred as a result of transfer.

Exhibit 32
Monitoring the landlord after transfer

Who monitors	Monitoring role and mechanism
Communities Scotland (Regulation and Inspection Division)	Responsible for monitoring all RSLs in Scotland through the Annual Performance Statistical Return (APSR) and collection and analysis of annual accounts, and more detailed financial information, to assess financial viability health. Communities Scotland also inspects all public housing service providers on a five-year rolling programme. Inspections provide an in-depth assessment of an organisation, its service quality and its ability to improve. Inspections will test organisations' achievement of Performance Standards. To date, none of the three whole housing transfers have been inspected. Inspections are planned for two to three years post-transfer to give the new landlords time to establish their businesses. In the interim, Communities Scotland provides support to ensure new landlords understand their responsibilities and are properly organised to meet their commitments to tenants.
Communities Scotland (Area teams/ case teams)	Monitoring varies depending on the transfer and is most thorough in Glasgow. There, the case team monitors GHA's grant spend and cash-flow on an annual basis, and briefs ministers and Communities Scotland staff on whether performance has been achieved or not. Although providing useful monitoring information for ministers, this is not a full-performance monitoring and scrutiny process.
Transferring council	Responsible for monitoring whether or not the new landlord complies with its obligations as set out in the transfer contract. Typically, transfer contracts will include obligations with regard to matters such as rent and service charges, repairs, investment in the housing, new-build programme and tenant control.
Receiving landlord	As with any organisation, the receiving landlord should be monitoring its performance, including delivery of transfer promises. The board has a duty to the tenants to monitor and report performance.
Private sector funders	The banks and lending institutions who lend money to the landlord will monitor its performance to help ensure that loan repayments will be made on time.

Source: Audit Scotland

Exhibit 33

Summary of council monitoring results for seven completed transfers

North Lanarkshire (Old Monkland) transfer (completed 1999)

The development programme was completed on time, and monitoring by the council indicates transfer has been successful. The new landlord has carried out regular tenant satisfaction surveys which show that 92 per cent of tenants are satisfied or very satisfied with their new homes.

Dundee (Ardler) transfer (completed 1999)

The development programme, now in its final phase, has been substantially completed on time, so far, and the evidence suggests that the project delivered its main goals.

Monitoring has taken place informally, and full reporting to the council and Communities Scotland has not taken place as set out in the transfer contract. The council plans to agree a revised strategy for monitoring with Communities Scotland.

Scottish Borders whole housing transfer (completed 2003)

The council's monitoring in 2005 showed promises to tenants have largely been met. The new landlord has since reported it has met targets reported as incomplete in the council's monitoring report.

Glasgow whole housing transfer (completed 2003)

The council's high-level monitoring in 2004 showed the new landlord was making satisfactory progress in five key areas (rent and service charges, repairs, investment in the stock, new-build programme and local tenant control). The new landlord had made a slow start to its new-build programme.

Dumfries & Galloway whole housing transfer (completed 2003)

The council's monitoring to April 2004 showed reasonable or good performance in most areas. The council's half-yearly update to May 2005 showed improvements in areas that had previously caused concern, including capital investment and unexpectedly high levels of right-to-buy sales.

Edinburgh (Craigmillar Castle) transfer (completed 2004)

The promised improvement to the housing transferred has been carried out. The council and the new landlord agreed a post-completion audit and formal compliance monitoring against the transfer contract terms should take place in 2006, after the completion of all physical improvement works.

East Dunbartonshire (Hillhead) transfer (completed 2004)

From monitoring to date, the majority of promises to tenants have been fulfilled. There has been slippage in the development programme and the housing repairs service is not achieving all its required service levels.

Source: Audit Scotland

- Councils do not appear to be well-placed to enforce guarantees to tenants in the case of any non-performance by the new landlord. In such cases, the remedy available to the council under the transfer contract would be a claim for damages. It seems doubtful that this remedy can be effective since, ultimately, tenants would pay any claim for damages upheld against the landlord. A better approach may be to rely on Communities Scotland's established powers as regulator.

- In the case of the Glasgow transfer, the Scottish Executive is committed to providing, over ten years from 2003, more than £1 billion in grants and subsidies, both direct to the new landlord, GHA, and in connection with associated spending programmes such as development funding for new social housing in Glasgow. Although individual components of this major investment programme are subject to appraisal, there is no arrangement for publicly reporting on its overall impact and effectiveness.

3.78 With regard to evaluation, in 2000, the Social Inclusion, Housing and Voluntary Sector committee (SIHVS) of the Parliament published its report on housing transfer.[15] The committee emphasised the importance of proper evaluation against clear and measurable objectives for transfers:

"Recommendation 6 – the NHP initiative should have clear, measurable objectives, with evaluation criteria in place now. An evaluation framework for the policy should be agreed and implemented as a matter of urgency.

"Recommendation 8 – evaluation criteria should be monitored on a regular basis. There should be periodic reviews on the operation of the policy, relative to its objectives and these reviews should be reported to the Scottish Parliament."

3.79 The Executive's response to these recommendations was to state that objectives should be established at the council level and it would undertake an evaluation of NHP funding in 2002-03. As noted in paragraph 2.33 (page 19), in 2004 the Minister for Communities set up a Community Ownership Review Group to examine transfer and community ownership policy and implementation. However, while councils and Communities Scotland are monitoring the performance of transfer landlords, no wider evaluation of transfers has been undertaken.

- While councils set objectives at the local level for each transfer, at the national level, there were initially no outcome measures for the transfer programme. Until the 2003 Partnership Agreement, there was no target for the number of homes to be transferred. Until the introduction of the Scottish Housing Quality Standard in 2004, there was no indication of where additional investment was most needed.

- Although there is now a clear target to guide investment under transfer – achievement of Scottish Housing Quality Standard by 2015 – no outcome measures for other transfer objectives have been set. Transfers were intended to achieve wider objectives in the Executive's housing policy, beyond tackling housing debt and increasing investment in housing. These included: creating a more effective housing system; promoting community empowerment, community control and community ownership; contributing to area and community regeneration; and contributing to social inclusion.

3.80 In summary, while the early indications are that transfer is delivering additional investment and other benefits to tenants, there is currently no national basis to monitor improvements with regard to the wider objectives of the programme.

15 Third report 2000, Housing Stock Transfer.

Appendix 1. Study advisory group

Membership

Members of the advisory group are invited to join the group and provide advice and guidance to the study team. Members are invited for their knowledge of the sector and, while the majority of members represent organisations active in the housing sector, they are invited to join the group as independent rather than as representatives of the organisations for which they work.

Lesley Baird	Tenants' Participation Advisory Service (TPAS)
David Corner	National Audit Office (NAO)
Margaret Moore	Scottish Executive/Communities Scotland
Nick Fletcher	Chartered Institute of Housing (CIH)
Gill Green	Audit Commission
David Orr	Scottish Federation of Housing Associations (SFHA)
Monica Patterson	North Lanarkshire Council
Craig Stirrat	Aberdeen City Council
Mary Taylor	University of Stirling

Appendix 2. Audit Scotland's survey of registered tenant organisations

Summary of key findings

- We conducted a survey of RTOs across Scotland to assess their views on tenant participation. A total of 226 returns were received, giving us a response rate of 37 per cent.

Tenant participation in general

- Participation in housing varies by RTO and includes involvement in both 'reactive' eg, responding to a consultation paper, and 'proactive' eg, negotiating of allocations, activities. The former type of activity has a higher level of participation.
- Some 70 per cent of respondents stated they have some/a lot of influence on housing services in their area. A similar proportion reported benefiting from good practice features such as involvement in preparation of the tenant participation strategy (60 per cent) and availability of a tenant participation officer (69 per cent).
- However, only 35 per cent of respondents believed they are involved as equal partners in the decision-making process.

Impact of transfer

- A third of respondents have been involved in a housing transfer. Of this group, 57 per cent felt that transfer had brought a big improvement to tenant participation. Twenty-six per cent considered it had made no difference.
- The level of investment, in both capital and repairs programmes, is seen overwhelmingly as a major benefit of transfer, and over half the respondents also stated that improvements to the quality of housing service delivery had accrued.

Background

1. Involving tenants in the decision-making process is one of the main objectives of housing transfer. Tenant participation is about tenants influencing the decisions that landlords take about housing policies, housing conditions and housing services. It involves a two-way process, including the sharing of information, ideas and power.

2. As part of our examination of housing transfer, it was important that we seek the views of those directly affected by transfer ie, the tenants. Given the numbers involved, we decided to conduct a postal survey to ensure the greatest degree of coverage.

3. The survey focused on tenant participation, with a sub-section focusing specifically on the impact of transfer on participation. The survey had four main sections:

- The structure of tenants' organisations.
- Participation in housing management.
- Influence on decision-making.
- Effects of housing transfer.

4. We sent the survey to all RTOs throughout Scotland, some 604 based on the Communities Scotland database. An RTO is a group who has applied to become registered with a landlord and meets certain conditions which have been set down in the Housing (Scotland) Act 2001. Groups who become RTOs are entitled to certain rights and the landlord has a duty to inform and consult with them on housing matters.

5. The questionnaire, together with a covering letter outlining the aims of the study, was issued on 19 August 2005. Responses were requested by 9 September 2005. A total of 226 forms were returned by the deadline, which is a 37 per cent response rate.

Findings

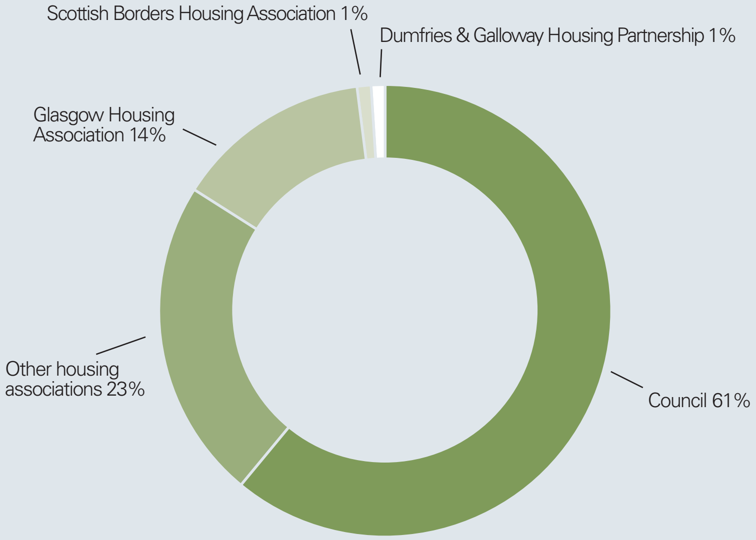
Respondents

6. Almost two-thirds of the groups who participated in the survey represent council tenants. Twenty-three per cent represent housing association tenants and 16 per cent are tenants of three transfer landlords (Exhibit 34, overleaf).

7. Thirty-one per cent of respondents had been involved in a housing transfer, either from a council, Scottish Homes or a New Town Corporation.

8. We asked groups to provide information on the number of members they have. The response suggested that groups appear to find this one of the most difficult questions to respond to. Sixteen per cent of respondents were unable to provide data on the size of their organisation.

Exhibit 34
Respondents by landlord type



Source: Audit Scotland survey

9. The groups who were able to provide details varied greatly in size, from small groups of four tenants to large federations representing up to 15,000 tenants. The largest proportion of respondents (49 per cent) have fewer than 100 members. Thirty-one per cent have a membership between 100 and 999, and five per cent have over 1,000 members.

10. We asked groups to state what percentage of tenants in the area their group represents. The largest proportion of surveys was returned from groups who represent 76-100 per cent of the tenants (Exhibit 35).

Participation in housing management

11. We referred to previous work carried out by the Scottish Consumer Council in 2003 on participation. Using a set of categories adapted from their tenant survey, we asked groups to identify activities in which they were involved (Exhibit 36).

12. Our findings show that a high proportion of groups are either always or sometimes involved in 'reactive' activities, as follows:

- Ninety-one per cent contact councillors.
- Ninety-two per cent of respondents receive funding to support their organisation.
- Eighty-six per cent respond to local consultations.
- Seventy-nine per cent respond on local issues.

13. However, when we look at the more proactive activities, the number of groups participating decreases:

- Seventy-seven per cent negotiate on repairs.
- Seventy-two per cent negotiate on community safety.
- Thirty-four per cent negotiate on allocations.

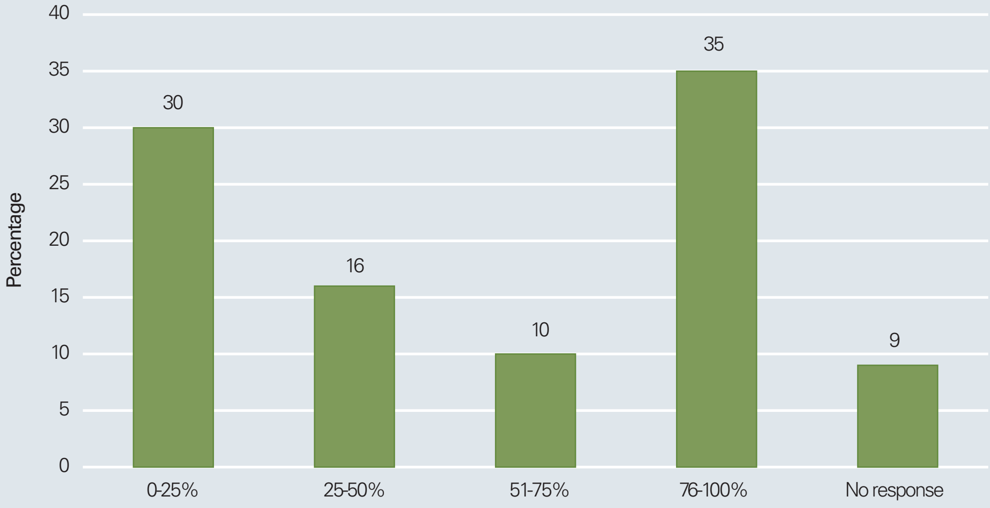
14. We found that tenants of local authorities participate more often in activities than tenants of RSLs. Forty-three per cent of council tenants always participate in five or more of the listed activities compared to 29 per cent of RSL tenants. RSL tenants were also more likely to say that they never participate in activities.

15. The findings suggest that there is no relationship between the size of the RTO and the amount of participation.

16. Groups were also asked to list any other activities in which they were involved. The responses varied greatly, but the most common activities are:

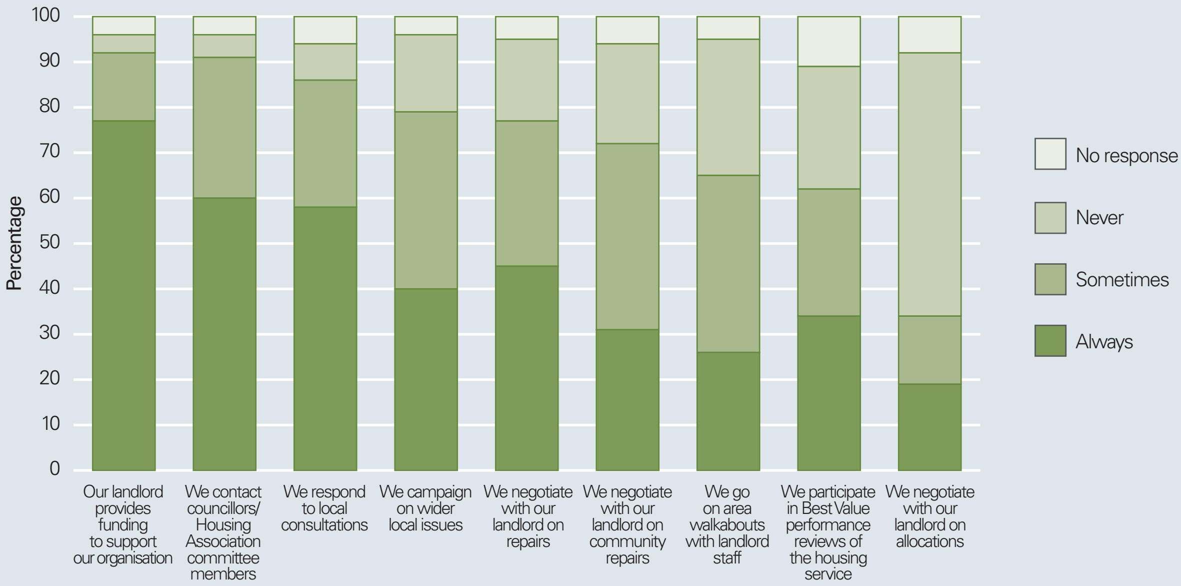
- social activities
- community safety
- environmental projects
- area regeneration
- rent setting.

Exhibit 35
Proportion of tenants that groups represent



Source: Audit Scotland survey

Exhibit 36
Responses to participation in housing management



Source: Audit Scotland survey

Opportunity to influence

17. We also asked to what extent RTOs believe they influence the delivery of housing services in their area. The results are shown opposite Exhibit 37.

18. Of those who believe they have a lot of influence on the delivery of housing services, 31 per cent have been involved in a transfer and 69 per cent are tenants of a council. Unsurprisingly, those who believe they have a lot of influence on services participate in a higher number of the activities listed in Exhibit 31, page 42.

19. There is variability in terms of influence by landlord type. Although those who feel they have a lot of influence are council tenants, those who feel they have no influence are also council tenants. This indicates that while some local authorities are working hard at getting tenants involved, there is room for improvement in others.

Landlord's commitment to tenant participation

20. The third section of the survey asks groups to consider how their landlord helps the organisation to share and influence decision-making. Groups were asked to tick one response ('yes', 'no' or 'don't know') to a list of statements. The key results were very positive, as follows:

- Eighty-five per cent said their landlord had a formal tenant participation strategy and 69 per cent said it was useful.
- Sixty per cent of groups were involved in preparing the strategy.
- Seventy per cent receive training to help their organisation participate.
- Sixty-nine per cent have a tenant participation officer.
- Sixty-three per cent receive good feedback on participation.

21. Exhibit 38 gives the full results.

22. However, despite these positive results, only 78 RTOs (35 per cent of respondents) believe they are involved as equal partners in the decision-making process.

23. Groups who answered 'no' to three or more of the statements (Exhibit 38) were asked to state the most important change that the landlord could make to improve tenant participation.

24. Some of the most commonly stated answers were as follows:

- Listen to tenants – many felt like they were being communicated to rather than communicated with.

  "Nobody wants to listen."

- Involve from the start – many groups felt they were being consulted after decisions had already been made.

  "Tenants need to be involved at the very beginning. This allows ownership of policies."

- Increase contact – the general feeling was that meetings were too infrequent for tenants to feel involved.

  "Let us know more about what is going on."

  "Landlords could attend meetings more frequently and keep us more informed."

- Give more feedback – there is little evidence that tenants views are being considered.

  "We want to take part on proper consultations, with our comments included in the final proposals and feedback on why suggestions were not included and why."

Effects of transfer

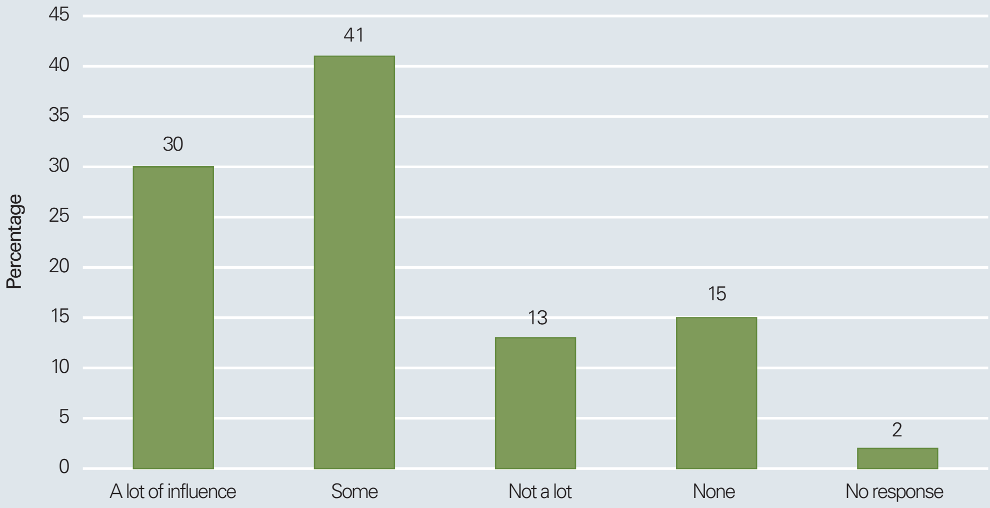
25. The final section of the survey asked groups if they had a new landlord in recent years as a result of housing transfer. Seventy RTOs (31 per cent of respondents) stated that they had.

26. Those who had been involved in housing transfer were then asked to complete the 'experience of housing transfer' section of the survey. The first question asked groups to state who had been their previous landlord:

- Sixty-seven per cent had transferred from a council.
- Twenty-six per cent had transferred from Scottish Homes.
- Six per cent had transferred from New Town Corporations.

Exhibit 37

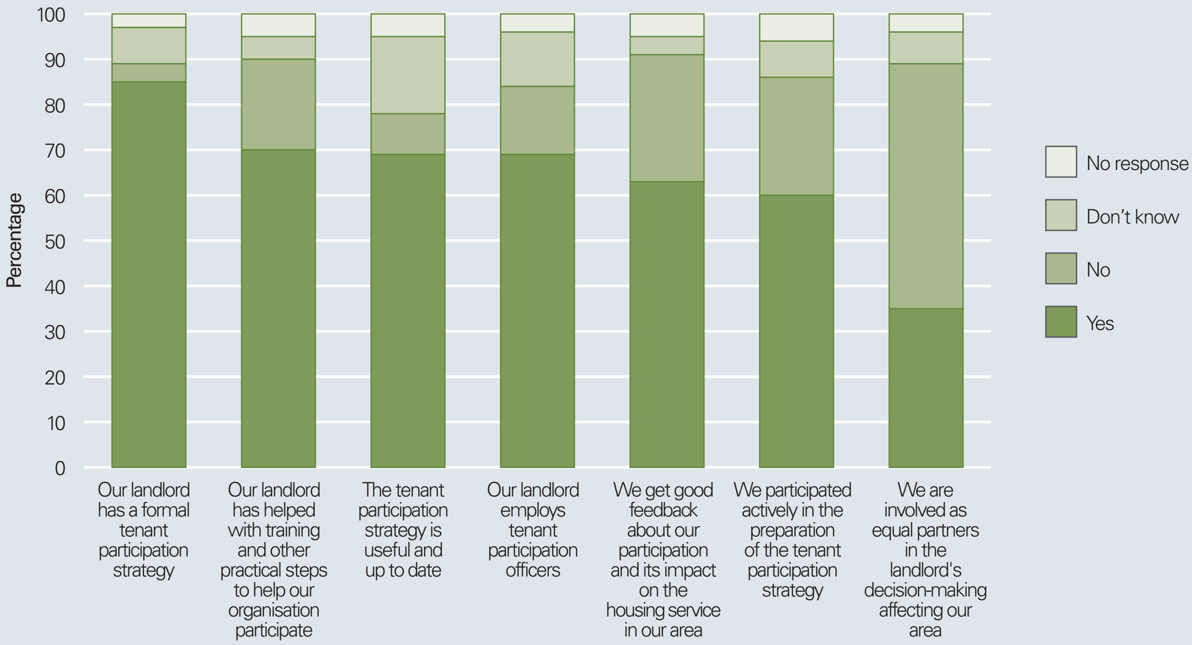
RTOs' perception of their influence on housing services



Source: Audit Scotland survey

Exhibit 38

RTO's perception of their influence on decision-making.



Source: Audit Scotland survey

27. Groups were then asked to state what difference transfer had made to tenant participation. The results are shown in Exhibit 39.

28. Of those who stated that there had been a big improvement in tenant participation, 68 per cent had transferred from a council landlord.

29. Groups were then asked to state whether a list of the wider effects of transfer were better, worse or still the same following transfer:

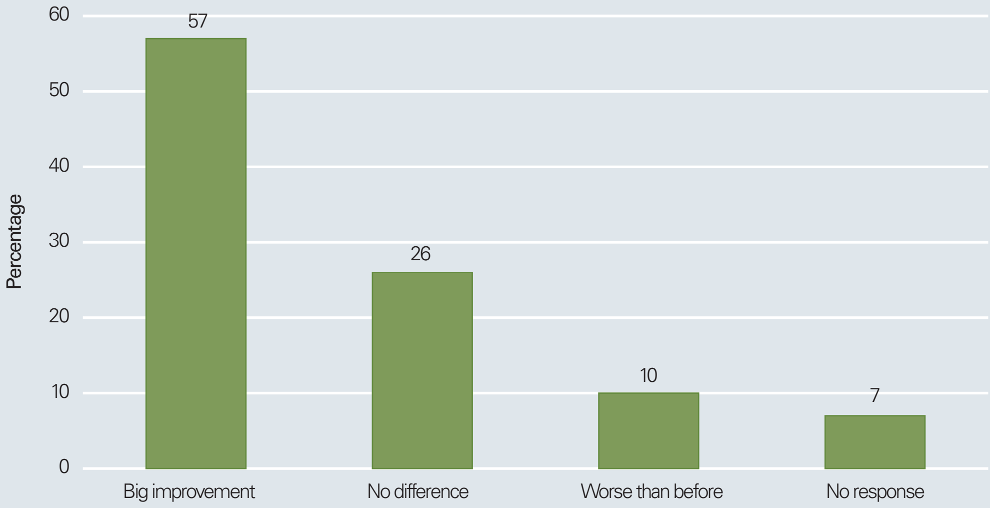
- Eighty per cent believe investment in improvements is better following transfer.

- Sixty-four per cent believed the quality of repairs and maintenance had improved.

30. This is a positive response as investment and repairs are often considered the two main benefits to tenants. Other than these two main benefits, there was no strong feeling that improvements have been made in other areas (Exhibit 40).

Exhibit 39

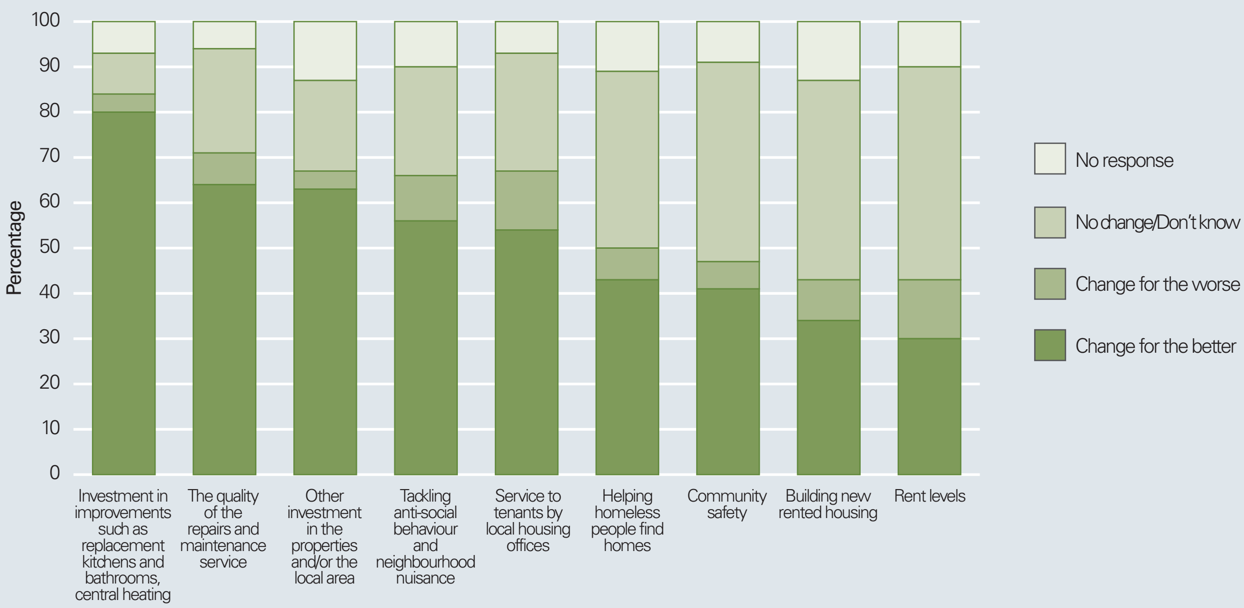
Difference transfer has made to participation



Source: Audit Scotland survey

Exhibit 40

Changes that have resulted from transfer



Source: Audit Scotland survey

Appendix 3. Transfer case studies

Whole housing transfers

Council		Scottish Borders
New landlord		Scottish Borders Housing Association
Transfer year		2003
Homes transferred/developed		6,728
Financial	Transfer price – initial offer/final agreed	£13m/£23m
	Historic debt repaid/breakage costs	£64m/£16m
	Grant support to RSL (for 30 years, in constant prices)	Nil
	Peak private loans £m/year	£38m/year 14
	NHP costs	£5m
	Average weekly rent 2004/05	£44.05
Key promises	Rent guarantee	RPI plus one per cent for five years
	Investment in homes	£75m on improvements in the first ten years
	Housing service	Up to 53 additional staff. Additional local offices.
	Tenant participation	5/15 board members to be tenants
	Other	Potential 300 jobs
Milestone dates	Council decides to seek transfer	February 2000
	Stage 1 consultation with tenants start	October 2001
	Tenant ballot competed	December 2001
	Transfer date	March 2003
	Overall duration	Three years and one month
Ballot results	Turnout	77 per cent
	For transfer (percentage of those voting)	82 per cent
Key points	Transfer process	Quickest of the three whole housing transfers. Seller/Purchaser split two-and-a-half years before transfer. Significant changes after Stage 1 consultation.
	Objectives	Driven by financial considerations: £70m investment needed; £30m available.
	Outcomes	Stage 1 promises have largely been met. Some unresolved issues around housing functions, land and assets retained by the council and budgets for dealing with residual issues. Two local area boards to ensure local tenant control.

Glasgow	Dumfries & Galloway	Edinburgh
Glasgow Housing Association	Dumfries & Galloway Housing Partnership	City of Edinburgh Housing Association
2003	2003	No transfer – a ballot of tenants rejected the transfer proposal in December 2005
81,366	11,850	~23,000
£25m/£25m	£35m/£33m	Proposed £21m (September 2005)
£909m/£221m	£91m/£18m	£260m/£50m (September 2005 estimate)
£409m	Nil	Nil
£694m/year 11	£68m/year 10	£1113/year 7 (September 2005 estimate)
£43m	£8m	Budget allowance £9m
£52.63	£41.61	£49.44
RPI for five years. RPI plus one per cent for years 6-8.	RPI plus one per cent for five years	RPI for five years
£1.3bn investment over ten-and-a-half years. 13,000 new houses for rent, including 3,000 to be built by GHA.	£195m investment in first ten years (including repairs and maintenance spend)	15,000 replacement bathrooms and kitchens by 2012. Investment of £3,100 per home, every year, for five years. 10,000 new homes across the city.
Improved repairs service	Ten additional staff. Additional local offices.	Same service with expanded services to tackle anti-social behaviour
9/21 board members to be tenants. Local tenant control through local housing organisations.	8/19 board members to be tenants	6/16 board members to be tenants
Regenerating local communities. 3,100 new jobs.	Potential creation of 500 new jobs	£100m over ten years to regenerate 3,200 homes and for wider action
December 1998	July 1999	June 2004
November 2001	May 2002	October 2005
April 2002	July 2002	December 2005
March 2003	April 2003	(Transfer rejected by ballot December 2006)
Four years and two months	Three years and nine months	–
64 per cent	66 per cent	61 per cent
58 per cent	72 per cent	47 per cent
One year longer to complete than planned £43m transfer costs. Scale and complexity main reasons for extended timetable. Significant grant support to new landlord.	One year longer to complete than planned. £8 million transfer costs. Protracted negotiations over price. Council chose to retain the DLO.	Clear and deliberate emphasis on partnership. Pricing model and financial package agreed comparatively early in the process. Better control of grant for transfer costs.
Debt repayment was the key issue. The Executive, the council and GHA had different priorities.	Driven by financial considerations.	Driven by financial considerations.
The Executive's value-for-money appraisal should have been stronger. Largest transfer, creation of the biggest social landlord in the UK. Investment doubled. Increased tenant satisfaction. Uncertainty around second-stage transfers.	DGHP, a company limited by guarantee. Council controls 26 per cent of board members. Governance problems. DGHP has demonstrated reasonable or good performance in most areas.	Transfer was cancelled after a tenants' ballot in December 2005 rejected the transfer proposal.

Partial transfers

Council		North Lanarkshire (Old Monkland)
New landlord		Clyde Valley Housing Association
Transfer year		1999
Homes transferred/developed		568/470
Financial	Transfer price – initial offer/final agreed	Nil
	Historic debt repaid/breakage costs	£3m (full debt repayment for the Old Monklands stock)
	Grant support to RSL	Included in NHP costs below
	Peak private loans £m/year	£9m private finance
	NHP costs	£7m
	Average weekly rent 2004/05	£53.82
Key promises	Rent guarantee	RPI plus one per cent for five years
	Investment in homes	£7m improvement over five years 296 new houses for rent
	Housing service	Local housing management office
	Tenant participation	Sixty per cent tenant representation on board
	Other	Introduction of innovative training, employment and childcare initiatives
Milestone dates	Council decide to seek transfer	April 1997
	Stage 1 consultation with tenants started	May 1998
	Tenant ballot competed	September 1998
	Transfer date	January 1999
	Overall duration (years and months)	One year and nine months
Ballot results	Turnout	83 per cent
	For transfer (percentage of those voting)	96 per cent
Key points	Transfer process	Quickest transfer to complete. Fast, focused and well-managed process. No TMV. Competitive selection of the new RSL.
	Objectives	Essentially a regeneration project.
	Outcomes	A significant number of training and job opportunities have been created. Original objectives set out in the NHP bid have been achieved.

Dundee (Ardler)	Edinburgh (Craigmillar Castle)	East Dunbartonshire (Hillhead)
Sanctuary Housing Association	Link Housing Association	Hillhead Housing Association 2000
2001	2004	2004
1,477/1,084	130	860
Nil	Nil	Nil
£1m p.a. debt servicing for five years	Offered debt servicing for five years	£4.5m debt associated with transferred stock/offered £1m p.a. debt servicing
Included in NHP costs below	Included in NHP costs below	Included in NHP costs below
Not available	Not available	£11m/year 18
£23m	£3m	£9m
£52.97	£46.77	£47.79
RPI plus one per cent for 15 years	RPI only plus maximum £5 a week increase phased in over four years; then RPI increases only for 26 years	RPI plus one per cent for five years
£80m investment 734 new houses for rent	Comprehensive improvements to tenants homes within two years of transfer, subject to adequate funding	£8m development programme in five years 142 new homes
–	Local housing office	New office in Hillhead Additional staff
More say in the management of tenants' homes	Fifty per cent tenant representation on board	4/12 board members to be tenants
Creation of an 'Ardler village'	-	–
January 1998	January 2000	December 1998
September 2000	February 2003	July 2002
December 2000	April 2003	September 2002
January 2001	March 2004	June 2004
Three years	Four years and two months	Five years
88 per cent	74 per cent	61 per cent
96 per cent	74 per cent	64 per cent
Competitive bidding process for the new RSL. Reasonable timescale given complexity of project.	Managed as a regeneration not a transfer project. Minimal transaction costs. High tenant participation.	Longest transfer to complete. Problems with stock information and staffing. Ballot was 18 months prior to transfer.
Driven by financial considerations and regeneration plans. Majority of transferred houses were to be demolished and rebuilt.	Regeneration of Craigmillar.	Regeneration of Hillhead
No monitoring of tenant promises. Project appears to have delivered its main goals.	Monitoring not due to start until refurbishment is completed in 2006.	Majority of tenant promises are being fulfilled. Investment is funded by overdraft.

Appendix 4. Transfer case studies – illustrative details

Case example 1

Dumfries & Galloway Council – Major Projects Scrutiny report, January 2002

What this case shows: This extract from a council report illustrates the wide-ranging research analysis and data gathering required for the Dumfries & Galloway transfer.

Very significant research, analysis and data gathering has been undertaken in-house or by specialist consultants. Key information and analysis included:

- Tenant communication strategy and tenant consultation exercise.
- Full stock condition survey of all houses.
- Identify total transferring asset, including houses, non-residential property, roads, footpaths and infrastructure.
- Full independent valuation of the housing stock and related assets subject to transfer.
- Convert all paper-based maps, plans, titles, etc, to comprehensive computer database (GIS).
- Identify and review existing key performance criteria.
- Planning future strategic responsibilities for the council, including homelessness, other non-transferring statutory functions and new obligations under the Housing (Scotland) Act 2001.
- Establish an Employee Framework Protocol, identify all staff who must transfer under the Transfer of Undertakings Protection of Employment (TUPE) regulations, and facilitate appropriate 'matching' interviews for all affected staff with DGHP.
- Region-wide environmental and structural risk assessment to inform the independent valuation and the assessment of warranty/indemnity issues.
- Develop a new responsive repairs and grounds maintenance contract to be awarded to CSG for five years, in line with council position.
- Review current service delivery from one-stop shops (area offices and LGO's) and carry out surveys of usage to inform negotiations with DGHP.
- Review current staff accommodation and plan for provision of accommodation for DGHP.

Case example 2

Glasgow housing transfer – main issues affecting the transfer timescale

What this case shows: In the Glasgow case, as in the other two whole housing transfers we examined, the main factors for the extended transfer timescale were the scale and novelty of the transaction and the complexity of the issues arising. This case illustrates the main issues arising:

- The process of deciding the right and proper assumptions to be used for valuing/assessing the net worth of the houses for transfer.
- The need to investigate and clarify (with the Scottish Executive and others) policy aims and requirements in many new areas relevant to the business plan.
- Examples of assumptions and issues arising include: rent policy and what are affordable rents; right-to-buy sales income and claw-back; policy on GHA contracting for repairs services and its ability to enter into a five-year contract for the repairs service with the council's labour force; policy on the repayment of existing housing revenue account debt and associated breakage costs; the potential VAT liability of GHA and ways to mitigate or avoid this.
- The process of establishing the scope of the major capital investment needed to achieve an acceptable quality standard for tenants (and defining this standard jointly with tenants).
- The process of establishing the long-term demand for social housing in Glasgow (and the associated programme of demolition of existing stock).
- Issues concerning the fundamental viability of the housing business to be transferred and how the business could achieve sustainable funding for all its activities in the long term. The financial viability of GHA's proposals, how far banks and other financial institutions would be prepared to lend funds and on what terms, and how far additional government grant was required.
- Developing a model for tenant involvement through 62 LHOs, and working through the complex operational managerial and financial implications of this model.
- The process of consultation with tenants (including extensive meetings and consultation with tenant groups and their advisers, and personal contact with most tenants individually by council staff in the time before the tenant ballot).
- The process of determining the scope of TUPE transfers of staff from the councils' housing department to the new landlord, and consulting and negotiating with the staff affected.
- Negotiation and planning for support service contracts for the new landlord (and how to minimise the knock-on costs to the council's general fund of housing transfer).
- The involvement of many parties in the process, each with their distinct, if not necessarily competing, aims and objectives. The need for all parties to spend time to resolve conflicts where they arose.
- Scarce specialist resources in some areas at some points, for example, at the latter stages of the transfer negotiation.
- Commercial and legal negotiation during the final stages of the transfer process, including establishing the parties' positions with regard to warranties and other risk transfer aspects.

Case example 3

Glasgow housing transfer – financial changes September 2001 to March 2003

What this case shows: This example summarises the main financial changes affecting the total cost of the Glasgow transfer between September 2001 and transfer in March 2003. During this time, the Executive agreed significant financial changes, including £409 million grant to support the business plan of the receiving landlord, GHA.

Because of the size and complexity of the transfer, the council, the Executive and Scottish Homes worked jointly on the appraisal of GHAs proposals.

In August 2001, the council had started pre-statutory consultation with tenants. Although financial proposals were uncertain at that time, the council told tenants the transfer proposal would mean 'an end to damp, cold, uncomfortable homes' for many, 'cast-iron guarantees on rent increases' and a 'huge programme of repairs and improvements' (costed at around £4 billion over 30 years).

In September 2001, the council completed its appraisal of GHA's outline business plan. The council concluded that GHA's proposal met most of its evaluation criteria but was evolving and the eventual price might be negative. A negative value could stop GHA getting the necessary private sector funds (around £800 million) to help finance its significant investment programme.

The council resolved to seek ministerial consent to move to stage 1 consultation with tenants, stating that the council could not subsidise a negative transfer price if GHA's proposals proved unfundable.

In October 2001, the Executive's assessment also concluded that there were significant financial uncertainties about the transfer proposal. The Executive did not explicitly state the impact of these uncertainties on the transfer price. However, it estimated a potential funding gap in GHA's business plan of the order of £272 to £299 million, with a peak in the first ten years after transfer linked to the peak of GHA's housing investment.

In November 2001, despite the uncertainties, ministers approved that the council should move to stage 1 formal consultation. Thereafter, revisions to GHA's financial plans continued but did not bridge the previously identified funding gap.

In February 2002, the Executive indicated it was prepared to consider a repayable grant to GHA to a maximum of £300 million, with no more than £30 million a year for a maximum of ten years. GHA would repay the grant after it passed its peak debt (then projected around year 12).

The Executive's offer was critical in addressing GHA's cash-flow position and therefore whether transfer could proceed. On this basis, and after completion of the stage 1 consultation of tenants, the council completed its appraisal of GHA's latest revised transfer plans. In February 2002, ministers accepted the council's proposal to move to stage 2 consultation and ballot.

In July 2002 (after tenants had voted for transfer in April 2002), GHA commenced a competition to get the necessary private sector lending for its activity. By December 2002, GHA had received best and final funding offers.

Funders' responses during the competition required further detailed discussions between GHA, the council and the Scottish Executive. These centred on the financial viability of GHA's proposals and the level of public subsidy and other support required. Further adjustments in financial support were needed.

In summary, throughout 2002, GHA made many changes to its proposals as its financial and business plans evolved. The Executive agreed significant financial changes, including:

- relaxing the requirement to repay any repayable grant if GHA succeed in transferring 80 per cent of stock through second-stage transfers by 2033
- deferring repayment of the repayable grant (if repayment is required) to 2033, the end of the business plan period (originally this grant was to be repaid with senior debt from around year 12 of the plan)
- increases in repayable grant from some £175 million net present cost to a maximum of some £253 million net present costs (before any repayment – see above)
- deferring repayment of £30 million NHP grant to year 30 of the plan (had been year two)
- introduction of additional contingent efficiency grant to GHA of up to £100 million
- the introduction of a £252 million VAT shelter for GHA's investment programme, with the agreement of HM Customs and Excise
- a £10 million insurance warranty grant to the council, to meet the expected costs of insuring certain indemnities required from the council by GHA's (private) funders.

Case example 4

The Dundee (Ardler) project aims and outcomes

What this case shows: This example summarises the aims and outcomes of the Ardler transfer. The project appears to have delivered its main goals of investment, regeneration and permitting tenants to become involved in solving a long-standing problem of inadequate housing.

Aims

The Ardler transfer is a regeneration project. Although 1,477 properties were transferred, 1,403 were to be demolished and replaced with 1,084 new-build houses. The housing transfer was a means to this end.

There were originally 3,160 properties in the Ardler estate in Dundee, and, in the 1990s, Dundee City Council has undertaken a range of measures to tackle the poor physical conditions. For example, in 1994 the council demolished four of the six multi-storeys in Ardler. The council concluded that it required an integrated and comprehensive solution that tackled physical, social and economic problems.

The launch of NHP funding in 1998 offered a comprehensive solution to provide quality rented housing and to give tenants a greater say in the management of their homes. The main objectives of the transfer under NHP were:

- Securing substantial investment in the stock condition. The council could not otherwise afford to invest to the standards and timescales required by tenants.
- Tackling low demand for Ardler's existing house types. The solution was not only about improving the condition of the existing stock, but also about reconfiguring the house types.
- Tackling the high level of social and economic deprivation. There was an opportunity to widen the scope of the improvements.
- Providing an integrated and comprehensive solution. Previous experience had taught the council that housing improvements alone did not lead to comprehensive regeneration.
- Sustaining the strong community. The council did not wish to disperse the community through re-housing packages.

Outcomes

While some monitoring has taken place, there has been no formal monitoring to demonstrate that the promises to tenants in formal consultation have been fulfilled.

However, interim conclusions on outcomes to date are possible. The Ardler community had suffered severe problems of poor housing and declining demand over many years before transfer. Although demand from the local population for the new rent units is about 12 per cent lower than originally forecast, the project appears to have been broadly successful in sustaining a core community of about 1,000 people.

On tenant participation, the council considers transfer was effective in permitting tenants to become involved in solving a long-standing problem of inadequate housing. There was a history of tenants losing battles to improve the area and consequently scepticism about 'tenant participation'. The council saw transfer as a way of improving community involvement. While it took time to change attitudes, the council considered the end result has been full engagement with the local community.

Tenants have been given unusually long rent guarantees, but from a high starting point. Current rents are at the top end of affordability, particularly when the combined impact of increased rents and higher council tax is considered.

In summary, the project appears to have delivered its main goals. The council agrees that the project should be subject now to formal post-project appraisal by its public funders, to confirm this and to identify any lessons or issues arising.

Case example 5

Glasgow housing transfer – community ownership structures

What this case shows: This example summarises the complex new community structures that were used to meet the scale, complexity and ambitions of the Glasgow whole housing transfer.

The council and Scottish Homes (later Communities Scotland) established a new Strategic Housing Partnership in May 2000, to lead and coordinate transfer planning.

At around the same time, they created local Area Housing Partnerships to build community capacity at a local level. The Area Housing Partnerships were to identify the local priorities (through the development of an Area Housing Plan), promote community ownership and local management initiatives, identify appropriate opportunities and structures, and coordinate the input of various local housing providers. They reported to the council and Scottish Homes through the Strategic Housing Partnership.

At the same time as the creation of the Area Housing Partnerships, an interim management committee of the GHA was established to take forward the city-wide transfer proposal. This management committee had 16 members; six councillors, five tenants and five independent people. All but two staff prior to transfer were seconded and were in the main employed by Scottish Homes, the council or local RSLs. This meant that there was a lack of cohesiveness to the organisation.

There was a need for new LHOs to deliver local housing services under contract from the GHA. The creation of LHOs reflected the commitment to community ownership and control. LHOs are tenant-controlled organisations. They must be registered with Communities Scotland, to demonstrate their capability as social housing managers. LHOs were either newly formed or evolved in partnership with existing bodies (eg, RSLs already operating in the neighbourhood).

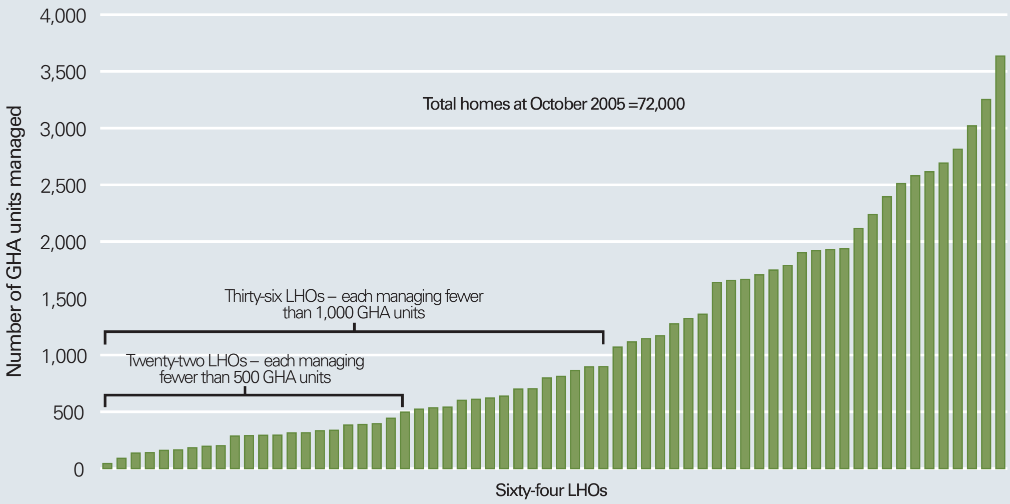
GHA and the Area Housing Partnerships decided how to establish the number of LHOs after discussion with the Citywide Tenants' Forum. This was an umbrella group of the Neighbourhood Forums, previously established to foster tenant participation in housing management. The Citywide Tenants Forum had some 40 tenant members, including one member appointed from the each of 31 existing Neighbourhood Forums.

GHA adopted an open bidding process, with prospective LHOs invited to make proposals. Many (31) of the current LHOs formed out of the existing Neighbourhood Forums. The rest (32 LHOs) are linked to existing RSLs. Where there was competition between prospective LHOs, GHA commissioned Management Information Scotland Ltd to carry out tenant preference surveys to determine who tenants wanted to be their LHO.

The outcome of this process was the disaggregation of housing management service to 63 LHOs in 78 neighbourhoods (some LHOs are responsible for more than one neighbourhood). Each LHO manages between 54 and 4,080 units. Many of the smaller LHOs are community-based housing associations. Thirty-five LHOs 56 per cent) manage fewer than 1,000 units and 20 (32 per cent) of these manage fewer than 500 units (Exhibit 41, overleaf).

Within one year of transfer, the LHOs became responsible for all housing services in their area. Individual contracts (Interim Management Agreements) between each LHO and GHA specify the services to be delivered and the performance expected to be achieved (the contracts were formally agreed between December 2003 and March 2004). The LHOs also provide a local coordinating role for the local investment programme for the area.

Exhibit 41
Sixty-four LHOs of varying size manage GHA's stock



Source: GHA

Case example 6
Glasgow housing transfer – second-stage transfers (SSTs)

What this case shows: Glasgow Housing Association (GHA) is committed to increasing tenant control by transferring ownership of most of its homes to the LHOs by 2008. But there are complex issues to be resolved and these plans for second-stage transfer remain subject to uncertainty.

SST, the onwards transfer of the ownership of GHA housing to LHOs, is an important aim. It may be argued that the transfer from the council to GHA in March 2003 was only the achievement of the first milestone towards community ownership.

GHA's business plan at the point of transfer in 2003 stated the main objective of SSTs is 'to capture fully the benefits of local control and accountability'. A 100 per cent SST could not be guaranteed, however, since 'LHOs are viewed as the first step on the road to community ownership. Some LHOs may choose to pursue full ownership of the tenanted stock... full ownership of stock... will be subject to consideration by GHA of the financial viability of any secondary transfers, and to the establishment by GHA of an annual programme of transfers. Local structures will require to be reviewed by GHA, and GHA will require the financial impact of the transfer to be neutral.'

SST is a condition of the original transfer agreement insofar as the Executive requires repayment of £309 million repayable grant if less than 80 per cent of the stock has not completed SST by 2033.

In 2002, GHA established the framework (in the box below) to govern SSTs.

SST framework, 2002

Stage	Process
1.	GHA invites interest from LHOs.
2.	LHO indicates that it is ready to consider SST and can, with appropriate support, either working independently or in partnership with others, meet the entry criteria.
3.	GHA and LHO agree an indicative price, tenant involvement strategy and timetable in the context of the Annual Transfer Programme.
4.	Communities Scotland undertakes an initial viability analysis and a pre-registration check.
5.	The LHO develops transfer proposal in consultation with tenants. GHA advises all tenants in the LHO area of what is happening and supports local tenants to appoint an ITA.
6.	LHO submits a transfer proposal that is then appraised by GHA and the ITA. GHA's assessment includes a specific analysis of the impact of the proposed SST on its ability to offer SST to others in the future. GHA passes the LHO's transfer proposal to Scottish ministers with its recommendation regarding approval.
7.	GHA approves proposal, including agreed price and arranges a ballot of tenants.
8.	LHO and ITA consults further on its proposal before ballot.
9.	If there is a successful ballot, consent obtained from Scottish ministers.
10.	Disengagement and transfer.

Source: Draft GHA Framework for second stage transfers, December 2002

Case example 6 (continued)

Glasgow housing transfer – second-stage transfers

There are 62 LHOs now registered with Communities Scotland. For the first five years after transfer, GHA will only consider SST bids led by the currently designated LHOs. Thereafter, tenants will have the opportunity to consider proposals from other RSLs. If GHA continues to own properties ten years after transfer, it will survey its tenants to determine whether they wish to remain with GHA or consider transferring to more local ownership arrangements. If the survey shows there is substantial support for further local ownership arrangements, a proposal will be worked up and put to tenants in a ballot.

Because of the large number of comparatively small LHOs, there is significant tension between the SST aim and the financial implications of breaking up GHA, which include:

- how to retain the economies of scale of GHA, for example, in the procurement of the investment programme, while maximising local tenant control
- the loss of a portfolio effect in managing the stock, where the relatively high cost of services, such as the current concierge service, can be absorbed across a wide tenant base
- how to avoid GHA being left with poor stock, high overheads and other liabilities.

There are many wider risks implicit in the SST process, for example, concerned with ensuring sustainability and business continuity, ensuring tenant support and participation, ensuring the effectiveness of the investment and wider regeneration programme, retaining and motivating staff and retaining the support of external funders. GHA's published criteria for assessing SST proposals (see box below) seeks to address these risks. Some of the smaller LHOs are collaborating to develop SST proposals jointly to help overcome some of these tensions and risks.

GHA's assessment criteria for SSTs:

- Contribution to long-term housing outcomes for the city.
- Compliance with GHA commitments.
- Community participation and control.
- Financial viability.
- Adequacy of investment and regeneration strategies.
- Organisational capability and performance.
- Efficiency and effectiveness.

Source: Ground Rules for Disaggregation of GHA, 2005

GHA remains committed to the concept of SST. The table below summarises progress to date. Externally, there is some concern amongst some LHOs that GHA's progress in pursuing the SSTs is not sufficiently rapid.

Progress with SSTs, 2002-05

2002	December	Approval of the SST framework document.
2003	June	SST assessment criteria published by GHA.
	July	GHA invites LHOs to apply to join prototype SST programme.
	September	GHA approves SST prototype programme.
2004	February	GHA notified funders of intention to commence SST programme.
2005	February	Ministers approve £1.045m seed corn funding for 17 SSTs.
	May	Seven LHOs accepted into the SST pilot programme and submitted bids to GHA. GHA is in the process of assessing these bids.
	June	GHA and Communities Scotland approve valuation principles for SST.
	November	GHA Board approves Community Ownership guidance confirming the process for SSTs.

In the first year after transfer, GHA's aim was to meet the Executive target to achieve 80 per cent SST by year seven or eight (2010 or 2011). While GHA has accepted seven LHOs into the SST pilot programme to date, the timescale for transfer remains uncertain. GHA's draft 2006-07 business plan promises faster and planned disaggregation and states that by 2007-08, it aims to have divested itself of a majority of stock. It approved the framework and principles for SSTs in November 2005, including four main gateways (below). But while the overall goal seems clear we are uncertain of the key intermediate milestones or measures to ensure progress towards the disaggregation aim. Another tension is that while GHA aims for disaggregation in the short to medium term, its business and financial plans continue to be constructed very long term (30 years for its financial projections).

SST gateways

1. Assessment of intention	Intention review discussion, key characteristics met, assessment of non-financial criteria, outline valuation: fundability and affordability.
2. Development of proposal	Agreement of 'no-detriment', service model proposed, planned disaggregation reflected in model, loan security, valuation for developed bid.
3. Development of final proposal	Submission of final bid, contracting and funding arrangements agreed, in-principle regulatory approval.
4. Finalisation and transfer	Tenant ballot, completion of final documentation, registration from Communities Scotland, transfer.

Source: GHA's 2006-07 business plan

Case example 7
Post-transfer governance issues

What this case shows: This illustrates three cases where governance issues have arisen in connection with, or following, transfer.

Initially the management committee of the GHA comprised broadly a third tenants, a third council nominees and a third independent representatives:

- The council appointments to the management committee are a council decision, the independent members were recruited by invitation and tenant members were initially nominated by established tenants' panels or (immediately after transfer) directly elected by tenants.
- In May 2004, GHA's Management Committee voted to remove two of its members because of conduct which did not comply with GHA's Code of Conduct for its members and other rules. One of the issues was a conflict these members perceived between what they believed was their duty to tenants and their obligation as members to act always in the best interests of the organisation.
- During 2003, the management committee commissioned a review of GHA's governance arrangements. The review resulted in significant governance changes with effect from October 2004, with changes affecting the aims and objectives of the organisation, its organisation and governance structure, including roles and responsibilities of board members, and a greater emphasis on conduct requirements and recruitment.

Since the transfer of homes, in 2003, to DGHP, there have been serious disagreements and conflicts involving the council members on DGHP's board and other board members. The status of DGHP, as a company limited by guarantee, may have contributed to the governance difficulties, by increasing the risk of DGHP's board operating in a divided, constituency style. DGHP's corporate decisions are subject to an effective veto by the council arising from its 26 per cent share of voting on special resolutions at general meetings.

In Scottish Borders Housing Association, there is an issue with council representation on the board of the association. The attendance record and contributions by councillor members have been poor over the initial two years (with one exception). The association is currently seeking a rule change to allow the council to nominate non-councillors to its board. Getting sufficient people with the right skills and experience to commit to serving on a housing association board is a significant issue and not unique to the Borders.

Case example 8

Dumfries & Galloway Council's non-financial appraisal of housing transfer

What this case shows: The table is Dumfries & Galloway Council's very positive assessment of the achievement of its key principles for housing transfer	
Key principle	**Council assessment**
1. Proposal must clearly demonstrate benefits to existing council tenants.	✓
2. Proposal must demonstrate the capability to achieve Communities Scotland registration and win tenant support for a ballot.	✓
3. Any transfer must minimise the cost to the General Fund and be guaranteed to repay the council's residual housing debt.	✓
4. Council will expect the Shadow Board to deliver a proposal which clearly demonstrates affordable rent levels and rent guarantees for at least five years.	✓
5. Any transfer must leave the council in a position to deliver against its community regeneration responsibilities and generally be in a better position to meet the needs of the whole community, for example, by securing the Communities Scotland development budget and any additional benefits that might be able to be secured in negotiation with the Scottish Executive.	✓
6. Specifically, any new-build proposals that feature in the submission must address area regeneration as well as providing new homes.	N/A – no new homes
7. Proposals must enable genuine local participation and control, and set specific objectives and targets for achieving these.	✓
8. Services must demonstrably be of a higher standard than before and affordability must be confirmed.	✓
9. Service planning must be compatible with the council's community planning objectives.	✓
10. The proposed RSL must be able to operate effectively from day one and achieve measurable goals over the first five years in relation to rents, services and local decision-making.	✓
11. The proposals must provide guarantees with regard to the new organisation's staffing arrangements, confirming the maintenance of pension rights through admission to the Local Government Pension Scheme.	✓
12. The proposal must acknowledge the Transfer of Undertakings Protection of Employment (TUPE) regulations and note the council's intention to pay this.	✓

Appendix 5. Cash flows and discounting

1. A discounting formula quantifies how much less a sum of money received or paid in the future is worth compared to the same amount today. It allows a cash flow comprising multiple items spread over many periods to be expressed as a single figure, which is equivalent to what it would cost now.

2. The following high-level summary of a landlord's financial plan is an example of a cash flow (table below).

3. To obtain the transfer price or valuation, the costs and income streams are netted off against each other and the results converted to a single figure equivalent by discounting.

4. From an accounting and economic perspective, the process of discounting is quite separate from adjustments to allow for inflation. Even in the absence of inflation, normally people prefer to have cash sooner rather than later. Hence, there is a need for separate adjustments for inflation and for discounting.

5. The technical background to the cost of capital and discounting in government is complex. However, for central government appraisal and evaluation from 2003, HM Treasury suggests a three-and-a-half per cent real public sector discount rate is usually required (combined with a separate and explicit risk allowance). Previously, the discount rate was six per cent real, with no requirement for an explicit risk allowance.

6. The discount rate measures how rapidly the value to the public sector today of a future pound (£) falls away through time. The three-and-a-half per cent rate is a real discount rate ie, excludes the effect of inflation. What that means is that £100 in 12 months' time plus an adjustment for inflation is worth, on average, £97 today.

	Item	Year 1 (£m)	Year 2 (£m)	Year 3 (£m)	… and so on, until	Year 30 (£m)
a.	Income from rents, etc	6.0	6.2	6.4	…	10.9
	Housing maintenance costs	-1.8	-1.9	-1.9	…	-3.3
	Management costs	-2.1	-2.2	-2.2	…	-3.8
b.	Total revenue expenditure	-3.9	-4.0	-4.1	…	-7.1
c.	Capital costs	-3.1	-6.0	-4.0	…	-2.0
d.	**Net surplus or shortfall (a+b+c)**	**-1.0**	**-3.8**	**-1.8**	**…**	**1.8**
e.	Interest charges	0	-0.1	-0.1	…	-0.4
f.	**Surplus or shortfall after interest**	**-1.0**	**-3.9**	**-1.9**	**…**	**1.4**
g.	Shortfall funded by borrowing	1.0	3.9	1.9	…	-
h.	Surplus to reserve	–	–	–	…	1.4

7. To illustrate how the calculations work, the table below shows a series of four payments of £1,000 at one-year intervals from now, and the effect of discounting.

8. The first payment is discounted by factor of three-and-a-half per cent ie, it is divided by 1.035. The receipt in year two receives two years of discounting – it is divided by 1.035 and again by 1.035. The process continues for the number of periods into the future that payments are made.

9. The discounting produces the present cost of the payments. Where there is a stream of future receipts as well, the same rule applies and their present value can be calculated. The payments and receipts are netted off to provide the NPV or NPC, according to whether benefits exceed costs or vice versa.

	Payments	Discount factor at 3.5 per cent	Discounted payments
One year from now	£1,000	0.966	£966
Two years from now	£1,000	0.934	£934
Three years from now	£1,000	0.902	£902
Four years from now	£1,000	0.871	£871
Total payments	**£4,000**	**Total present cost after discounting**	**£3,673**

Council housing transfers

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