

THE SCOTTISH HOUSING REGULATOR

Social Landlords in Scotland: Shaping up for improvement
July 2009

The Scottish Housing Regulator

The Scottish Housing Regulator is the agency that operates independently the regulation and inspection powers in the Housing (Scotland) Act 2001 to:

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

We regulate over 240 registered social landlords and 26 local authority landlords, who between them house one in four households in Scotland. We also regulate the homelessness functions of the 32 Scottish local authorities. Around 56,500 people apply as homeless every year. And we assess how well registered social landlords and local authorities provide factoring services to owners and sites for Gypsies/Travellers.

Registered Social Landlords (RSLs) are independent landlords run by professional staff and governed by volunteers. They are non-profit distributing organisations that are mainly housing associations or co-operatives.

We would like to thank everyone who commented on earlier drafts of this paper for their time and help in shaping this paper.

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Summary

1. Introduction

Social landlords are important to the wellbeing of individuals and communities across Scotland. Local authorities and registered social landlords (mainly housing associations and co-operatives) provide homes for one in four households and contribute to the economy through significant stock investment and new house building. This report summarises findings from our regulation and inspection work over the last five years, and in our first year as The Scottish Housing Regulator. It recognises many strengths and some excellent performance in a sector that has a strong track record of providing affordable housing. But it focuses primarily on areas where there is considerable scope for improvement to deliver better services for tenants, homeless people and other service users.

2. Service outcomes

- While 53% of the housing services we inspected were good or excellent, just under half, serving 320,000 households, were either poor or only adequate.
- These are the service areas that matter most to tenants:
 - good quality accommodation;
 - speedy day-to-day repairs done right first time;
 - antisocial behaviour and nuisance neighbours dealt with;
 - to feel safe and secure;
 - modernisation work to improve their homes;
 - good customer care and to be treated with respect;
 - affordable and transparent rents;
 - to be listened to and have their priorities met; and
 - redress when things go wrong.

Our findings show that some organisations need to work harder to get these basics right.

- Tenants value being involved in decisions about the way their services are delivered. But, in terms of priorities, most tell us participation is less important than getting a decent home in a safe neighbourhood with good services. Many tenants would like to be involved in ways that take less time and effort than attending meetings or joining formal organisations.

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- Landlords do not always set explicit standards with or for their tenants. This matters in helping tenants understand what they can expect and in holding their landlords to account.
- Social housing generates relatively high numbers of complaints to the Scottish Public Services Ombudsman. Landlords could do more to train and empower frontline staff to handle complaints; record complaints properly; and use complaints information to drive improvement.
- Rent levels and structures show little coherence across landlords and even within a landlord. There is often little relationship between the rents tenants pay and the quality of the home, service or location they get.
- Far too many homeless people are not getting good enough services or outcomes. Only 4 of the 28 inspected local authorities were delivering good or excellent services for homeless households, with 7 delivering services we described as poor overall. Often we find a lack of corporate leadership around homelessness issues, weaknesses in basic assessments, reliance on B&B accommodation, limited opportunities for involvement by service users and poor measurement of outcomes. We also recognise the challenges facing a number of local authorities that operate in pressured housing markets in meeting the Scottish Government's target of giving all homeless people a right to settled accommodation by 2012.
- Owners that get a factoring service from an RSL or local authority are generally satisfied with the service, although over one third feel they get fairly or very poor value for money. Improvement is often needed around communication, information exchange, itemised billing, the cost and apportionment of work carried out, the quality of work and complaint handling.
- Overall, landlords and homelessness authorities need to become much more responsive to their service users, treating people as customers, and placing them at the heart of their work. Landlords need a better grasp of the profile of the people they are housing and understand the way this may be changing over time in order to plan and invest wisely for the future.

3. Stock quality and management

- Four out of five tenants live in houses that are more than 25 years old. So, the way landlords manage and invest in existing houses will often have a greater impact on people's lives than building new houses. While there is a clear need for more affordable housing, sometimes landlords can spend too

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much time pursuing a small number of new developments rather than focusing on the quality of services and stock for existing tenants.

- Landlords need better information about the condition of their houses, costs, and demand to underpin their management and investment decisions. Without this some landlords risk not meeting the Scottish Housing Quality Standard by 2015.
- Most landlords have started to use modern procurement approaches and better management of supply chains. But this is not yet well established in the Scottish sector.

4. RSL finances

- The sector overall is relatively stable financially, and many landlords continue to represent good investment opportunities for lenders and good investment partners for public funders.
- In the current financial and economic climate, landlords need to focus on direction, stewardship and financial viability. They need to be extra vigilant in reviewing and stress-testing financial forecasts; assessing their exposure to housing and finance markets; managing short term liquidity; and monitoring compliance with financial covenants. For some RSLs, particularly those developing new build houses, standards of governance, business planning and treasury management must improve.
- Total operating costs have been increasing steadily in the sector over the last ten years. This is not sustainable into the future. Landlords must do more to curb cost growth and to focus on efficiency and value for money.
- RSLs have been very successful in securing large amounts of private finance to deliver new houses, invest in existing stock and regenerate communities. Borrowing costs are likely to be higher in future, although they should remain significantly cheaper than the deals secured by commercial and unregulated sectors. Fewer financial institutions are willing and able to lend to the sector at the terms it has previously enjoyed. Around 70% of the Scottish RSL finance market lies with three lending institutions. The sector should explore other sources of debt funding or more strategic approaches to procuring finance if it is to secure adequate amounts of competitively priced loans in future.

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5. RSL governance

- More than 2,000 volunteers serve on RSL governing bodies and around 45% are tenants. Some governing bodies are excellent: they have a good chairperson, a solid understanding of their role, focus on strategic issues and have independent thinkers who are willing to constructively challenge and act as a critical friend with senior officers. But, overall, we have found that the quality of governance in the sector is variable.
- Governing bodies often have a rather light-weight approach to risk management and (along with some senior officers) are struggling to understand the financial challenges their organisations are facing.
- Determining the right blend of governing body membership will depend on the type of RSL in question and what it is trying to do. Some RSLs need to consider whether a governing body made up of a majority or solely of tenants will deliver the sort of governance they need in less benign times. The sector could do more to generate different networks and encourage a more diverse pool of potential governing body members for the future.
- There is no one governance or ownership structure that automatically offers best value for tenants or guarantees successful outcomes for residents and communities.
- RSLs are facing tougher times. Governing bodies will need to make difficult decisions about their purpose, the sort of business they want or can afford to be in, and what impact they are aiming to have on an area or community. They will need to consider closely how they should use their resources to meet a range of competing demands in terms of services, neighbourhood management, stock quality, regeneration and new development. Some will need to think beyond themselves and their organisations for the greater good of the tenants and communities they serve to ask if their RSL is achieving as much as it could or should in its current structure and with the resources it is likely to have in future.

1. Introduction

- 1.1 We regulate social landlords and the homelessness functions of local authorities to protect the interests of tenants and the people who use their services. This report draws on evidence from our regulation and inspection work over the last five years, and in our first year as The Scottish Housing Regulator, to highlight key areas that still need to improve to make things better for tenants and service users.
- 1.2 We have seen some excellent performance and innovative practice in a sector that has a strong track record of providing affordable housing for many in Scotland. And we have worked with some talented and dedicated staff, governing bodies and councillors. We have written this to encourage RSLs and local authorities to evaluate their own performance, build on their strengths and improve areas of weakness; to highlight the broader macroeconomic factors that could undermine the performance of some landlords if improvement is not made; and to contribute to the debate on the future of the social rented sector and the development of standards, as the Scottish Government consults on our role as a regulator.
- 1.3 In this paper we are focusing not on the excellent areas of provision we have identified, but on the areas that require improvement, or that might be undermined by macroeconomic instabilities. We have used the evidence set out in our published inspection reports, thematic studies and statistics. And we have also drawn on our broader regulatory engagement with organisations throughout the sector.

2. Context

Who we regulate

- 2.1 We regulate over 240 RSLs and 26 local authority landlords, that in total provide one in four (577,650) homes in Scotland. We also regulate the homelessness functions of local authorities. Around 56,500 households apply as homeless every year. We also assess how well RSLs and local authorities provide factoring services to owners and sites for Gypsies/Travellers. We regulate to protect the interests of people who are among the poorest in Scotland and who often live in the most disadvantaged areas.
- 2.2 RSLs are non-profit distributing, independent landlords that together have an annual turnover of around £1 billion, have secured £3.3 billion in private lending facilities to support their businesses, have invested an average of £130 million in their stock every year, and have received over £3 billion of public funding¹ over the last fifteen years to build and improve social housing. For local authorities, landlord services are often the third highest area of spend, with housing revenue account turnover that amount to over £1 billion in total across Scotland and a gross annual investment in their housing stock of around £450 million.

Why we regulate

- 2.3 We regulate social housing because:
- a) tenants have limited bargaining power, the supply of affordable housing is constrained, and tenants cannot easily shop around for another landlord. Many landlords and homelessness authorities offer good services. But regulation is needed to protect tenants and other service users when they do not;
 - b) there has been substantial past public investment in social housing and regulation makes sure it is properly safeguarded and used in the public interest and for future tenants;
 - c) the quality of housing stock and services affects the wider quality of life in communities. Regulation can reduce the potentially damaging wider effects of poor housing within neighbourhoods; and

¹ This figure relates to Housing Association Grant and does not include other forms of public funding

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- d) private investors take considerable comfort from the ability of a regulator to step in and take action if a landlord becomes financially unviable, is badly governed or homes are being poorly managed and maintained.

The policy and economic climate

2.4 We are writing this at a time when the Scottish Government:

- a) is reviewing the way it administers capital grant for new social house building;
- b) is consulting on new legislation to create a charter of standards for social housing tenants in Scotland;
- c) has included in this new legislation proposals to separate standard setting from our work in assessing performance, and to modernise our regulation framework by providing a statutory basis to our independence and giving us a broader set of intervention powers; and
- d) has set out its response to the Crerar review of public service scrutiny in Scotland, is reorganising some scrutiny functions, and expects scrutiny bodies to better co-ordinate and reduce the burden of scrutiny on local government and to work within the principles set out in the Concordat with local government.

2.5 In addition, our regulation, and the bodies we regulate, will be affected by:

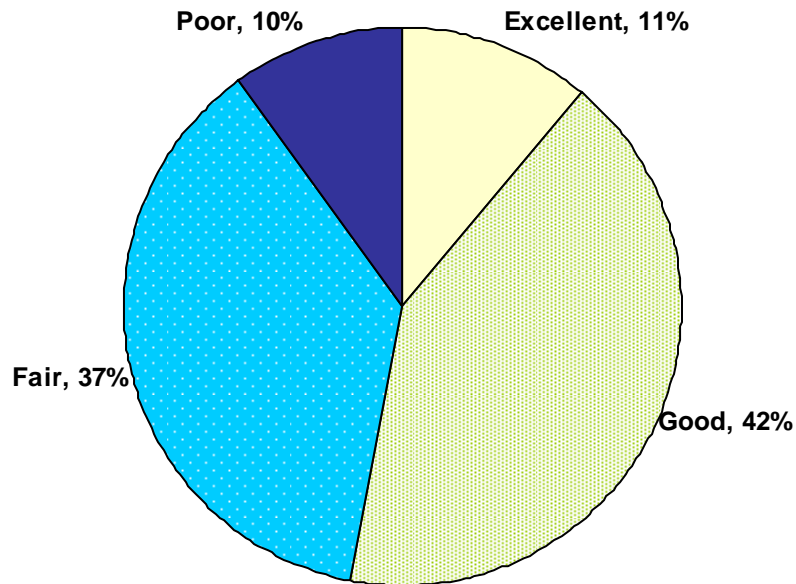
- a) the slowdown in the housing market;
- b) the effects of the banking crisis and the reduced levels of liquidity in the private finance markets;
- c) the general economic downturn;
- d) the UK government's approach to welfare reform and worklessness; and
- e) more constrained public spending in coming years.

3. A snapshot of performance

Grading outcomes for landlord services

3.1 Since 2004 we have published inspection reports on 112 social landlords: 84 RSLs and 28 local authorities. Our inspections have covered 215 service areas, as well as the quality of governance and financial management in RSLs. This section of the report deals with RSLs and local authorities as landlords. Overall, as shown in figure 1, we have found that 11% of the areas we graded were excellent, 42% good, 37% fair and 10% were poor. Appendix 1 explains what we mean by the grades we award.

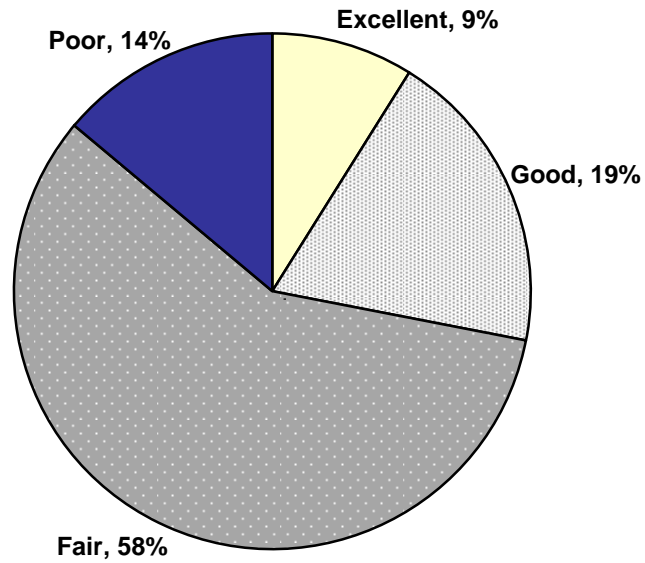
Figure 1: Grades for all landlord services inspected since 2004



LA grading

3.2 The 28 local authorities we have inspected house over 70% of all local authority tenants in Scotland. As figure 2 shows, we found that 28% of inspected services were good or excellent; 58% were fair; and four landlords (together serving around 35,000 tenants) were poor in terms of landlord services. We have re-inspected two local authorities that received poor (D) grades. Both have improved and received C grades, in recognition of their progress in meeting our inspectors' recommendations for improvement.

Figure 2: Grades for local authority landlord services since 2004



- 3.3 In general, we have found poorer performance in the local authority sector. We have had a shorter scrutiny history with local government than with RSLs – five years. We are just concluding our baseline inspections of individual local authorities. And we recognise that improvement takes time. Local authorities have had a best value framework since 1997, initially on a voluntary basis, with services and corporate areas subject to audits of their performance management and planning frameworks (PMP audits) by external auditors. From 2003 the pursuit of best value became a statutory duty. The first Best Value Audit (BVA) report was published by the Accounts Commission in 2004. It has been widely accepted that the BVA approach has significantly improved local government accountability and supported improvement in corporate leadership and performance management arrangements. But its impact on service improvement has been more limited. Instead, the Accounts Commission has placed reliance on the role of other service-specific scrutiny bodies.
- 3.4 The Housing (Scotland) Act 2001 introduced a single regulatory framework for all social landlords, including local authorities, based on the premise that tenants deserved good services and homes regardless of who their social landlord was. It introduced a common set of performance standards, service-user focused inspection, and slightly enhanced intervention powers for the

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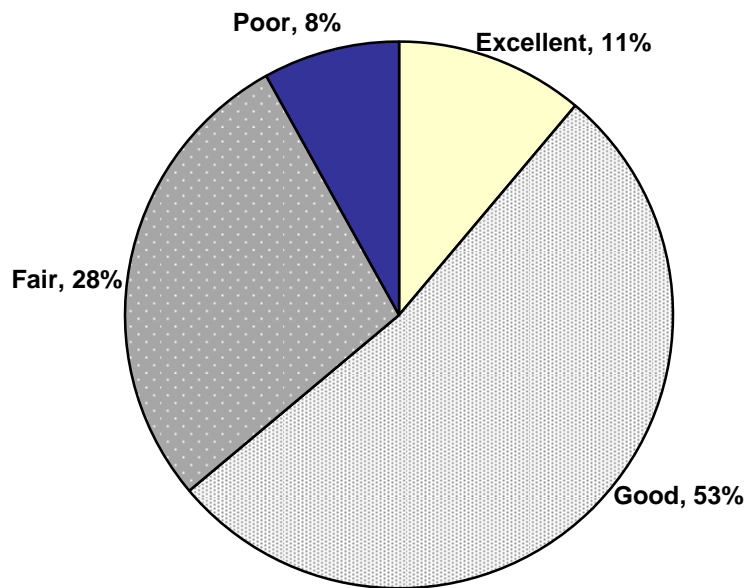
regulator. We became a regulator for all social tenants. We began a more targeted inspection programme of landlord and homelessness services in 2003. In our experience, few landlords perform consistently well across all services on a first inspection, and local authorities are no exception. More focused scrutiny by housing and homelessness professionals has been a catalyst for improvement – through the self evaluation we have expected before inspection, in setting out practical recommendations for change, highlighting areas of good practice in getting housing and homelessness issues onto the corporate agenda in local government, and through our work with Audit Scotland. But we have also found that, in general, local authorities are taking longer to improve. In part this is a reflection of scale, the place of housing within a broader set of corporate priorities, and the under-developed nature of some of the performance management systems we have seen in local government.

- 3.5 We have been working closely with the Accounts Commission as it co-ordinates scrutiny activity relating to local government and develops an approach to shared risk assessment and best value audits. This joint work would rely on, and direct, our professional input and agreed response. The Scottish Government is currently consulting on changes to our regulation framework and asks whether we should continue to have a role in scrutinising local government's landlord and homelessness services.

RSL grading

3.6 We have inspected 84 RSLs that between them house around 60% of all RSL tenants in Scotland. As figure 3 illustrates, we found that 64% of the services we inspected were good or excellent; 28% were fair; and eight landlords (together serving just under 5,000 tenants) were poor in terms of landlord services, governance or financial management. We have since re-inspected five of these poorly performing landlords and have found improvement, with three now providing good services.

Figure 3: Grades for RSL inspected services since 2004



3.7 Of the 56 smaller RSLs we have inspected (owning under 1,000 houses) 66% of their service areas were good or excellent, while 12% were poor. We found slightly less variable performance in RSLs owning between 1,000 and 2,000 houses, where 72% of service areas were good or excellent and none were graded as poor. In the eight largest RSL landlords, 44% of graded areas were good or excellent and 6% were poor.

3.8 For the larger RSLs many inspections were of fairly new RSLs that took houses transferred from a local authority. We inspected them after their first two years of operation. Our inspections found that stock transfer RSLs had built the foundations for increased investment in stock, improved tenant involvement, and devolved decision-making structures, while making

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progress in delivering important promises to tenants and, by necessity through reliance on private finance, bringing more business-like disciplines into the way the organisations are run and assets managed. But changes in ownership structures and access to private finance are not, in themselves, sufficient to deliver the necessary improvements in performance. Few have achieved good grades at first inspection because it takes time to bed in a new organisation, culture and way of working and to deliver tangible service improvements. Some business plans have needed early revisions, particularly where information gaps emerged or asset management priorities changed because of a better understanding of stock condition data and tenant priorities. Relationships with the local authority after transfer have not always been straightforward. And getting the right governance arrangements, to move beyond the stock transfer project into running an independent organisation, where all governing body members understand their role, has often absorbed significant amounts of senior management time. These organisational dynamics have formed an important backdrop to the delivery of services and investment in the early years.

- 3.9 We have not inspected or graded every RSL. So, the analysis of grades outlined above may provide only a partial view of the RSL sector's performance. Our engagement with the RSL sector now relies on annual risk and performance assessments, based as much as possible on the information RSLs routinely give us. We develop regulation plans for RSLs with whom we need a high or medium level of engagement. In our second year of assessments we applied our risk based methodology and concluded that we needed to develop plans for 55 RSLs (36% of those assessed). These plans determine what sort of engagement we will have, with inspection being only one of a number of possible activities. Our most recent RSL inspection programme has selected a number of RSLs for inspection based on their development risk or poorer performance profile. This may affect grading outcomes in future and will put more established, developing RSLs under a greater spot-light in terms of their longer term business and financial planning.
- 3.10 It is important that landlords develop an efficiency and effectiveness culture in which they use information to monitor, cost and plan services. Our aim is to ensure that robust and comparable data across different size and type of

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landlords will allow us to make desk-top assessments of performance outcomes and to select cases and topics for more detailed scrutiny. Inspections will remain a critical part of what we do to understand more about the contexts, systems and capacities that underpin both weak and strong performance. Through our national oversight role, we have a capacity to inform practice as well as measure it.

Characteristics that determine good performance

- 3.11 Performance is variable within and across the housing sectors in terms of service outcomes, stock and financial management, costs and rents. No one particular organisational type, size, constitution, or structure determines the sort of overall performance we will find or, in itself, guarantees successful delivery for residents and communities. For example, we have given an A grade (a rating of excellence) to a local authority landlord, a community-based organisation, and an RSL with a group structure.
- 3.12 So, besides a relationship between size and cost (for landlords that provide their own full range of services) - where bigger organisations generally have lower administrative overheads per unit - we have not found a direct relationship between organisational form and overall outcomes. Instead, we have found that a series of characteristics mark out the organisations that deliver good outcomes – in particular:
- good leadership and a commitment to delivering quality services and improvement;
 - clear organisational plans and priorities;
 - sound self evaluation and performance management, based on good quality cost and performance data;
 - good business planning and financial management;
 - an appetite for management change to secure improvement;
 - responsiveness to tenants and locally focused customer services;
 - strong connections with local partners and funders;
 - the pursuit of value for money, benchmarking, market testing, and modern procurement; and
 - resources, and staff training and development, aligned to improvement activity.

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3.13 Active, informed performance management is a vital ingredient for success and improvement. We have seen that the best performance management has:

- sound systems providing accurate and reliable information (including robust methods of finding out what their customers want and doing something about what customers tell them);
- honest self-assessment;
- benchmarking with better organisations and against better processes;
- good reporting to people who can challenge and make decisions;
- action plans;
- performance indicators;
- clear links to corporate processes; and
- good training and development for staff.

3.14 Performance management, with varying degrees of formality, is about ensuring that strategy and service objectives are effectively aligned with staff and other resources to produce the desired outcomes for customers. It is a systematic way of effectively delivering the things that tenants and other stakeholders value most. In our experience, performance management is under-developed in the housing sector, and particularly so in local authority providers. Organisations that have difficulty in completing an inspection submission or providing self-assessments against Performance Standards often have poorly embedded performance information and management approaches.

3.15 Allied to this is the need for good comparable financial information. In local authorities the financial statement showing the summary of the year's housing activities through the Housing Revenue Account is clearly fit for the purpose it is designed for. The statements may provide a starting point for preparing performance indicators and benchmarking information, but there is merit in supplementing accounting rules by more detailed instructions to allow the preparation of comparative information. In particular, these could cover the allocation of central administrative overheads, the capitalisation of expenditure, and the funding of housing staff and communal areas. More consistent benchmarking data will help decision-making and our analysis of the cost of landlord services. We have more consistent cost information for RSLs. We discuss this further in the sections on housing management

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performance indicators and RSL finances. In both sectors there is a need for better business planning, based on sound financial information and robust assumptions.

- 3.16 In the following sections – four and five – we highlight landlord performance issues relating to service and stock quality. The themes are relevant for all social landlords – RSLs and local authorities.

4. Landlord services

Tenant focus - involvement, participation and responsiveness

- 4.1 We expect landlords to be responsive to their tenants. The best, responsive landlords are good at finding out what is important to their customers, they build this into their services and investment decisions, deliver and monitor against customer and service standards, communicate well and report back to tenants and other customers, treat tenants with respect, and give tenants real ways to get redress when things go wrong.
- 4.2 We also expect landlords to make sure tenants have opportunities to be involved in the way their houses are managed and in decisions that affect their services – and they must meet their statutory participation duties. When tenants and other service users are involved in decisions that affect them it can improve the way things are done and avoid costly longer term mistakes or suboptimal investments. From a landlord's perspective, greater involvement can improve the way tenants view their landlord and raise satisfaction levels, building more positive lasting relationships.
- 4.3 Most tenants value participation and think it should be encouraged. But, in terms of priorities, most tenants tell us it is less important than getting a decent home in a safe neighbourhood with good services. Tenants generally say they want good quality accommodation; speedy day-to-day repairs done right first time; antisocial behaviour and nuisance neighbours dealt with effectively; safety and security (e.g. buildings and entrances secure); modernisation work carried out to improve their homes; good customer care; affordable and transparent rents; to be listened to and have their priorities met; and redress when things go wrong.
- 4.4 Landlords need to understand what matters most to their tenants, and be realistic about the extent to which tenants are likely to want to be involved on an ongoing and sustained basis in formal decision-making structures. Many tenants would like to be involved in ways that take less time and effort than attending meetings or joining formal organisations. Some providers pay too little attention to this issue and others may be making costly efforts that have little payoff. Landlords need to have a more evidenced case of how different forms of participation and community control affect the quality and costs of the service outcomes they provide.

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- 4.5 These are the main areas for improvement in the way social landlords currently involve tenants:
- a) Just as with the promotion of equalities, an important driver for securing tenant involvement and participation lies in strong leadership from elected members, governing bodies and senior staff. Commitment needs to come from the top, with a willingness to make resources available. Levels of commitment and tenant participation vary greatly across landlords.
 - b) It is important that landlords give tenants opportunities to influence the delivery of services and participate in decision-making. So, formal participation groups, such as registered tenants' organisations, matter. There are 668 registered tenants' organisations in Scotland – 394 in local authorities and 274 in RSLs. But we have sometimes found an over-reliance on formal participation structures at the expense of a more systematic understanding of, and responsiveness to, the priorities of the broader tenant base. And we have often seen these structures used for consultative purposes, rather than to engender any real shift in power or decision-making opportunities. Local authorities tend to have more developed formal tenant participation structures than RSLs, in part reflecting the difference in scale and a history of working in this way. However, there is evidence to suggest that RSL tenants are more satisfied with opportunities to participate in their landlord's decision-making. The Scottish Government and RSL sector need to ensure RSL tenants do not lose out on opportunities to become engaged at regional and national levels because of the lower level of formal participation "feeder" structures.
 - c) Some RSLs rely almost exclusively on having tenants on their governing body as the main way to involve tenants. While it is important that tenants have an opportunity to become governing body members, this cannot supplant broader engagement with tenants. We discuss tenant members further in the section on RSL governance.
 - d) During inspections we ask tenant organisations how they have influenced things. They often find it hard to give us specific examples. Some landlords are not good at giving tenants feedback about the way their views have influenced decisions or how their views have been taken into account.

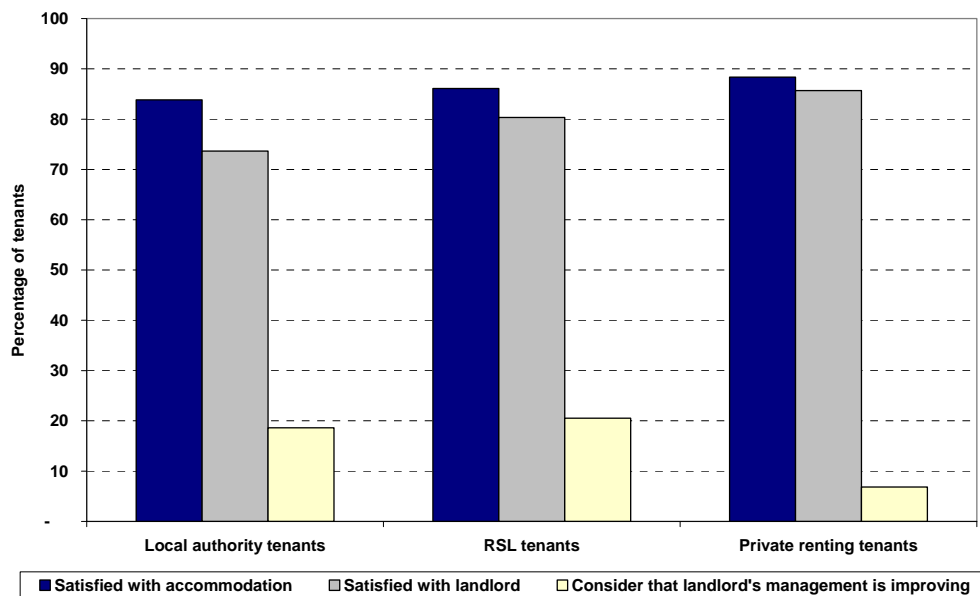
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e) Tenants who get involved are often older and retired. They clearly have a valuable role to play. But landlords need to work harder to engage a broader mix of tenants and equalities groups.

4.6 Many landlords have become better at reflecting tenants' views in service planning and delivery. We have seen some good examples of involvement in investment planning and specifications for particular programmes of work and home improvements. But this is not universal and more needs to be done to get a broader involvement of tenants and service users. Landlords have further scope to offer tenants real choice over things that matter to them.

4.7 Most landlords have developed ways of understanding customer expectations and how satisfied their tenants are with the services they provide that go beyond traditional cyclical and large scale surveys and standardised tenant satisfaction indicators. Social tenants are often satisfied with their home (figure 4), although many tenants say they are "fairly" satisfied, which is quite different from "very" satisfied. But they are increasingly less happy with their surroundings, with nearly one in six saying they are dissatisfied with their neighbourhood (with younger tenants being particularly dissatisfied).

Figure 4: Tenants' satisfaction rates by tenure



Source: Scottish House Condition Survey, 2007

4.8 Landlords need a variety of approaches to assessing views and satisfaction because we know that simple tenant satisfaction indicators do not always provide a sufficiently textured picture. For example, good landlords can get

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poorer than expected satisfaction ratings because they have raised tenant expectations about a service or because it sometimes takes time for improvements to kick in and for people to think differently about a service. Dissatisfaction with wider issues in their neighbourhood, and with crime and noise nuisance, make simple satisfaction feedback harder to interpret and is even harder to resolve. We have also seen that the age and profile of a landlord's tenant base, and whether a person has had direct experience of using a service, can make a big difference to satisfaction levels.

- 4.9 We have found that few landlords have embedded a range of methods for eliciting customer views across the full range of their services. Fewer again are good at improvement planning and changing services in response to this feedback. Landlords could consider setting aside specific budgets for customer research and joining up with others to resource and manage such research and build relevant expertise. On a more routine basis, individual landlords could make much more systematic use of information readily available to them, such as the outcome of complaints or feedback from frontline staff, to help identify potential improvements to services.
- 4.10 We do not always see explicit standards being set with or for tenants. Local authorities are more likely than RSLs to have established published standards. This is an important way for tenants to understand what they should expect from their landlord and to provide a benchmark for reporting performance and improvement activity.
- 4.11 Our inspectors have seen at first hand a mixed bag of performance in customer care across the sector. We have witnessed excellent customer care and service at times, but sometimes the technical quality of the information and advice given to tenants is quite poor. Too few landlords are scrutinising their own frontline services to really understand how people experience them.
- 4.12 Dealing with complaints and providing effective redress are vital for tenants and other service users. As the Scottish Public Services Ombudsman (SPSO) said in her 07/08 report:

“Housing services relate closely to the quality of our lives because they concern our immediate environment and our daily interaction with neighbours

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and communities. A multilayered web of connections and relationships builds up around our homes – and so when something goes wrong, it can have a deeply felt impact on the individuals concerned. Tenants and other users of housing services need to be assured that their concerns will be listened to, and that, if appropriate, changes will be implemented to ensure that mistakes are not repeated.”

- 4.13 Last year the SPSO received 243 enquiries and 618 complaints about social landlords, a high number compared with other public services. By far the greatest number of complaints was about repairs and maintenance, followed by policy administration, allocations and neighbour disputes/antisocial behaviour. The social housing sector generates the highest number of premature complaints compared with other sectors – these are complaints that had not completed the service provider’s complaint process. We also receive a fairly large number of complaints from tenants and owners, many of which have not gone through the landlord’s own complaints process. We have found that social landlords have got better at telling tenants how to complain. But landlords should improve their complaints handling, or the way they guide particular complainants through the process, to address the issue of premature complaints. We agree with a joint report from the Chartered Institute of Housing and the SPSO that landlords need to do more to train and empower frontline staff to handle complaints; record complaints properly; and use complaints information to drive improvement. These conclusions have equal relevance for RSLs and local authority landlords.

Equal opportunities

- 4.14 We have conducted two thematic studies to promote equalities. And we assess a landlord’s commitment to respecting diversity and promoting equal opportunities in our inspections. Landlords told us that our assessment framework is one of their top drivers for improvement in equalities, although our overall assessment is that, with some notable exceptions, the sector as a whole has been relatively slow to improve equalities practices. While most landlords now have much more clearly published material setting out their approach, leadership on equalities work often falls to a passionate enthusiast and needs to broaden out. Social landlords could do more to understand community needs across all equalities strands (including in relation to sexual orientation; and religion and belief) and to set targets with local partners to

Access to houses

- 4.15 Almost all local authorities and RSLs have housing lists that are open to all people over the age of fifteen. Many now seek to maximise access to housing by participating in common housing registers, although the development of these has often been difficult and lengthy.
- 4.16 The legislative framework for the allocation of social housing is largely permissive, and most landlords make most of their lets to people in housing need. We base our assessments of landlords' approaches to allocations on the legislation, statutory guidance, and published good practice. We have found areas for improvement emerging fairly frequently in inspections – although, not all of them are found in every landlord. The key areas in which landlords could improve are:
- a) understanding statutory requirements, particularly around reasonable preference and what factors landlords can take into account when letting houses;
 - b) improving the quality of housing options advice and information for applicants;
 - c) articulating the rationale for the focus of allocation policies and letting plans, in a way that connects with the landlord's strategic objectives and is underpinned by an analysis of need and demand. Landlords should understand the outcomes for people who apply for housing and have intelligence about who is being housed;
 - d) assessing the use of suspensions and cancellations, and better management of the use of suspensions (for example, advice to the applicant, opportunity for review or appeal, time limit on the suspension); and
 - e) enhancing transparency in letting decisions (particularly when applicants are bypassed) and improving the limited quality assurance of decisions throughout the allocation process.

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The Scottish Government is currently considering the need for further guidance on allocations.

- 4.17 A growing number of landlords are adopting choice based systems for allocating their houses. These are systems where properties are often advertised and people actively choose the property they want. This is a positive development as these approaches can offer a more obvious level of choice for applicants. Within the stock available, people can feel more empowered and in control of their house selection. The challenge for landlords is to use these systems in a way that continues to meet housing need, helps people navigate their way through the system, and picks up the needs of more vulnerable applicants.

Sustaining tenancies

- 4.18 We have found pockets of good practice in helping tenants sustain tenancies. But across the sector landlords need to give more focus to preventative work, particularly in the early stages of new tenancies, and develop better indicators to assess where to target their efforts in tenancy sustainment.

Evictions

- 4.19 Most social landlords in Scotland use eviction as a measure of last resort. In 2007/08, local authorities and RSLs ended 1,421 tenancies with eviction and a further 2,152 tenants abandoned their homes after their landlord had got an order for recovery of possession. This equates in total to 0.6% of all social housing tenancies. Almost all of these tenancies were terminated because the tenant owed rent.
- 4.20 We have often found confusion over how landlords can and should manage residents' continued occupation of houses after the court ends their tenancy by granting the landlord a decree for the recovery of vacant possession.

Rents

- 4.21 Rent levels and structures show little coherence across landlords and even within a landlord. And there is little relationship between the rents tenants pay and the quality of the home, service or location they get. There is no national policy on rents in the social housing sector. Price is a key signal that regulates the level of service offered in most sectors in the economy. Its absence in managing social housing in Scotland partly explains our interest as a regulator in the implications of a landlord's rent policy on its current and future tenants. Rents are not simply an important part of recovering the cost of housing, but they shape the choices that households make, for instance, in selecting the type, size and location of dwellings.
- 4.22 Average rents for RSL tenants are about 13% higher than local authority rents. In 2007/08 RSL tenants paid an average of £54.74 per week compared to the average local authority rent of £48.35. RSL rents have increased slightly faster than local authority rents over the past two years. In general, rents in both sectors are affordable for a working tenant without housing benefit, although the sector will need to keep a close eye on the effects of the current economic climate and recent rent increases on working tenants. Housing benefit meets between 60-70% of the total rent due to social landlords. We discuss RSL rents in more detail in Chapter 6 on RSL finances.

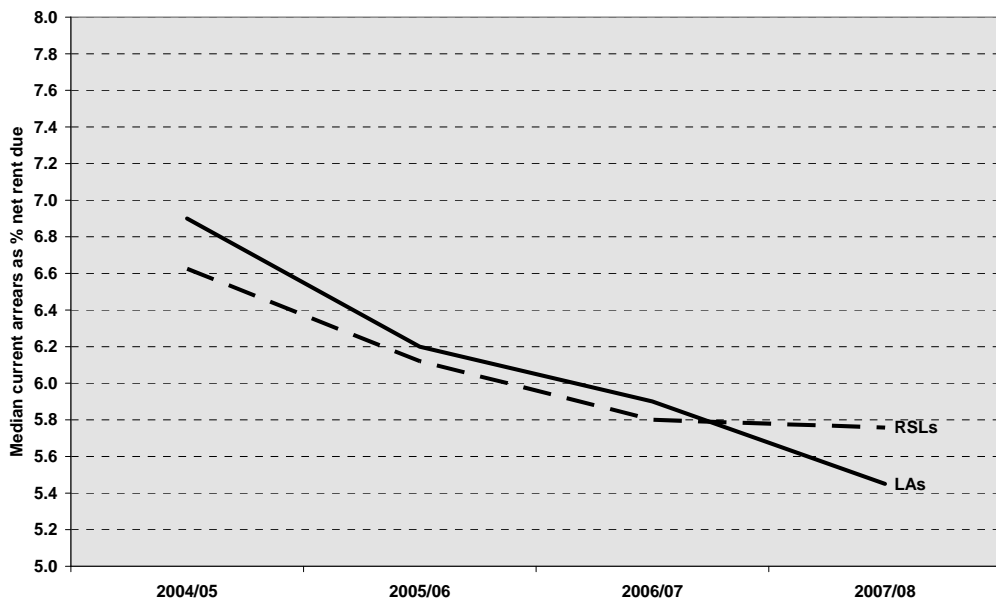
Housing management performance indicators

- 4.23 In this section we highlight performance against key housing management indicators. These are indicators that can be easily quantified. They do not present a full picture of the quality of housing management services or outcomes for service users. But they do provide useful can openers for further exploration when set alongside a mixture of other measures and performance information. We have always been clear that a broad set of indicators – quantitative and qualitative – should inform management systems. This should ensure that actions to achieve simple measures (e.g. reduced rent arrears) do not lead to undesirable social outcomes (e.g. more evictions).

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4.24 Current tenants' rent arrears show broadly similar trends over recent years in the RSL and local authority sectors. Figure 5 shows arrears are reducing steadily for local authorities. RSLs have also shown some improvement but not in the most recent years. In the three years to March 2008, around half of all RSLs have shown improvement, while just over a third have deteriorated. Among Scottish local authorities, around three-quarters improved their arrears performance and 15% did not change. Overall, however, there is significant scope for improvement when compared with English local authorities, where, on a broadly comparable measure, the median rent arrears figure for 07/08 was 2.2%.

Figure 5: Median current tenants' arrears as % net rental income for LAs & RSLs



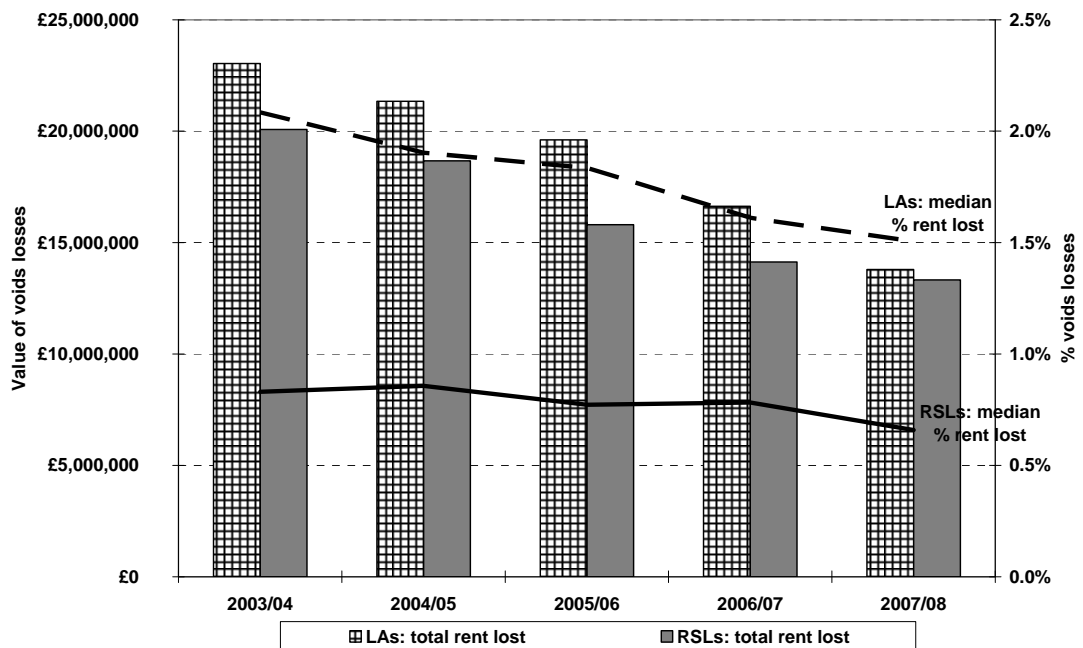
Source: APSRs 2004/05 – 2007/08 and Audit Scotland

4.25 Rent owed by former tenants has decreased. This is not necessarily a sign that landlords are improving their performance in tackling these arrears. For example, RSLs have written off a third of their former tenants' arrears each year for the past two years. And considerable 'new' former tenants' arrears are being created every year. The proportion of tenants leaving with arrears is over 40%, and the average debt owed by these tenants is equivalent to just over nine weeks' rent.

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4.26 As figure 6 shows, the amount of income lost due to empty houses (voids) has improved significantly over the last five years. This is in large part because tenancy turnover has been falling – in other words, fewer houses have become empty. Median percentage void losses for RSLs are lower than for local authorities, but are not showing as much improvement over time. Indeed, over the last three years of the data shown, 28% of RSLs showed a worsening performance, with a further 13% reporting little or no change.

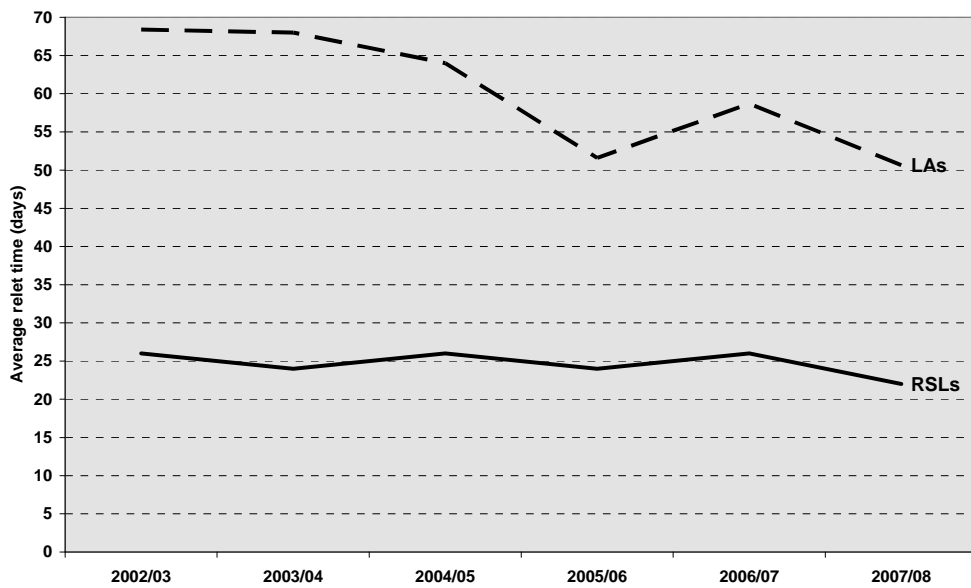
Figure 6: Void losses for RSLs and local authorities: in total and median % rental income lost



Source: APSRs 2003/04 - 2007/08 and Audit Scotland

4.27 Despite the falling levels of tenancy turnover in the sector over recent years, RSLs' average relet times only improved in 2007/08 for the first time after several years of almost no change. Indeed, in the three years before this 28% of RSLs reduced their average void turnaround times for all lets, while 19% of RSLs got worse. Local authorities' relet times have shown more improvement, but, as figure 7 shows, the median relet time of 51 days was still 29 days longer than in the RSL sector in 2007/08. And this compares poorly with an equivalent English local authority figure of 31 days. The median figure for English RSLs with over 1,000 units is 37 days.

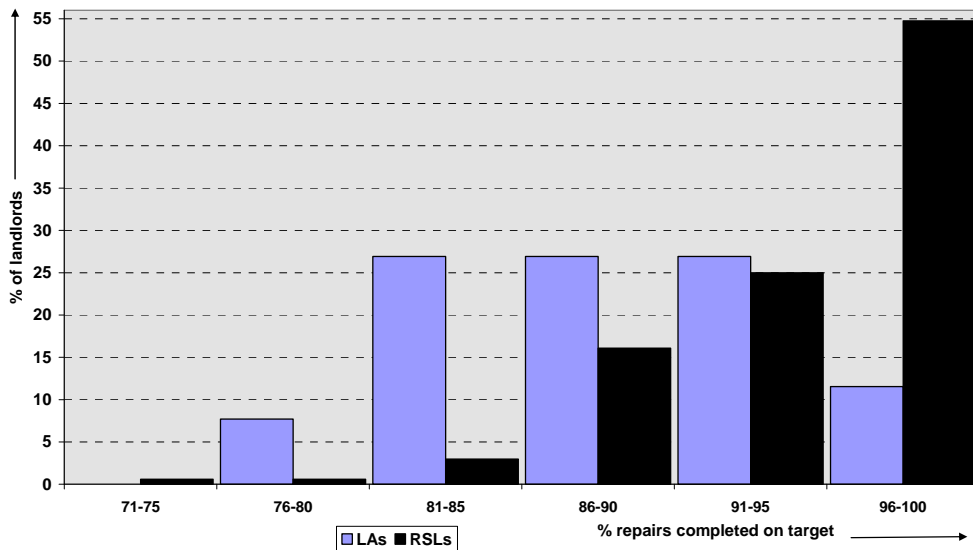
Figure 7: Median relet times for RSLs and LAs



Source: APSRs 2002/03 – 2007/08 and Audit Scotland

4.28 RSLs are doing an increasing number of reactive repairs to their properties; the ratio of dwellings to repairs increased from 1:2 to 1:3 over the past six years. Most RSLs complete more than 90% of repairs within the target time they have set. Analysis of trends over the last three years shows that just over half of RSLs reported improvements in the completion of urgent and routine priority repairs. However, around 44% and 37% showed deteriorating completion times for routine and urgent repairs respectively. In the Scottish local authority sector, the number of reactive repairs per dwelling has also been rising over recent years, and stood at 1:4 in 2007/08. Figure 8 shows that RSLs report better repairs completion rates within target timescales than local authorities: over half of all RSLs completed 96–100% of repairs on target in 2007/08, while most local authorities reported 81-95% of their repairs completed on time. Landlords set their own target timescales for response repairs. The better completion performance of RSLs should also be set in the context of generally more challenging targets for completing repairs compared with local authorities.

Figure 8: Comparison of RSL and LA repairs completion rates, 2007/08



Source: APSR 2007/08 and Audit Scotland

- 4.29 Our inspections have found improving performance indicators for compliance with gas safety regulations. But we still find significant pockets of poor performance. It is important to the health and wellbeing of tenants that landlords ensure that all the gas appliances and flues they provide for their tenants are safe for use.
- 4.30 Organisations we have inspected have shown a faster rate of improvement across housing management performance indicators than organisations we have not selected for inspection. This year we will test whether our risk based approach in RSLs has resulted in improvements in particular organisations and in areas of service or management we highlighted for improvement.
- 4.31 The housing management indicators we have outlined should be relatively easy to measure. Our inspections show that landlords do not always measure them accurately. This is particularly true of completion times for repairs and often these measurement weaknesses significantly compromise the reliability of reported performance. We carried out a small number of verification visits last year to check how RSLs are recording their housing management performance figures. In general, we found performance monitoring was given a low priority and we found several cases where RSLs did not keep good enough records to support the information they supply to us. In some cases we had to ask organisations to bring these weaknesses to

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the attention of their governing body and to report back to us on a plan of action to address them. In light of these findings, we plan to continue verification visits this year. It is important that landlords get the basics right on these indicators. But landlords could also do more to capture better qualitative information about things like void standards and the condition of estates.

4.32 Indicators of housing management costs per unit vary widely across the sector, and the data is muddled by the different accounting and classification approaches. But the overall pattern is of costs increasing significantly and well ahead of rates of inflation in both RSLs and local authorities. Housing professionals offer a range of reasons for cost growth:

- the loss of good and easier to manage stock and tenancies through right to buy – leaving fewer houses to spread their overheads against and stock that is more resource intensive to manage – and it is hard to reduce staff numbers when stock reduces in a piecemeal way;
- staff salaries running ahead of inflation in what is a labour intensive sector and when higher paid staff need to be recruited to deal with more strategic tasks;
- staffing increases to respond to new duties and expectations imposed by care, charity and housing regulators and central government policy and strategy requirements (e.g. homelessness, antisocial behaviour), alongside the need for greater health and safety and legal compliance checks (e.g. energy certificates, gas servicing etc);
- they believe that local authorities may be charging an increasing share of homelessness and other non-landlord costs to the housing revenue account (and helping to reduce council tax pressures);
- the higher levels of intensive management needed to help more vulnerable tenants sustain their tenancies or to deal with a more difficult client base; and
- housing managers are having to deal with more functions than before while meeting higher expectations among tenants for improved services.

4.33 While these observations are useful, we know that social landlords are not always good at managing costs or introducing greater business discipline into housing service delivery. A number of landlords do not demonstrate that they are focused on value for money, cost control or securing efficiencies. The

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onus must be on social landlords to understand their cost drivers better and put measures in place to cut costs and deliver better value in the round because the current trends are not sustainable in the longer term.

5. Stock quality and management

Asset management

- 5.1 Asset management is about planning to have houses of the right kind in the right place that meet the needs and standards required now and in the future. It is integral to effective business planning and good financial performance, and is important in maintaining the value of the asset for future borrowing. It provides the context for investment decisions. Asset management should also incorporate or complement development, procurement and neighbourhood management strategies. And, in all of this, it is about remembering that these assets are also tenants' homes and that the views and involvement of tenants are essential components of effective asset management.
- 5.2 Most Scottish social landlords have started to develop longer term planning for the management of their housing assets, but fewer have yet to firmly bed this into the way they operate. Some of the challenges for landlords in delivering good asset management are:
- a) getting a strategic approach to managing their assets that is right for their organisation – there is not a “one size fits all” model;
 - b) managing their investment programmes in mixed tenure estates and stock – we have not always seen good engagement of owners and a tendency to leave these more difficult cases to the end of investment programmes, particularly for the Scottish Housing Quality Standard;
 - c) getting and maintaining good quality and comprehensive information on house condition, costs, demand and need – we have found weak information being used uncritically to underpin strategic management and investment decisions; and
 - d) getting the most out of a strategic approach to procurement and management of supply chains – some landlords have started to use modern procurement approaches, but this is not yet well established in the sector in Scotland . We have also seen a reliance on more traditional approaches to procurement. This can be the best approach for some procurement exercises and for some landlords; however, we are less likely to see decisions to use these approaches taken following a strategic appraisal of different options for procurement.

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- 5.3 Some landlords have reported new opportunities to increase their asset base in recent months as a result of lower property and land values but, more commonly, there are clearly significant asset management issues facing landlords during the current economic downturn and liquidity crisis - for example, reduced sales income, falling stock value and what this means for private lending covenants in RSLs, and landlords' relationship with contractors and their exposure in the current climate. Asset management becomes even more critical in less benign times. It forces hard decisions about what sort of business landlords want or can afford to be in, and what an organisation's focus should be in terms of investment, development, rationalisation, and regeneration.

Scottish Housing Quality Standard (SHQS)

- 5.4 More than four out of five households in Scotland's social rented sector live in houses that are more than 25 years old. So, landlords' management of, and investment in, existing houses will often have a greater impact on their customers than building new houses. The Scottish Government expects local authority landlords and RSLs to achieve the Scottish Housing Quality Standard (SHQS) by 2015.
- 5.5 The SHQS was introduced in 2004, and all organisations that we have inspected are making some progress toward achieving the SHQS, with some making excellent progress. A small number of landlords are at significant risk of not achieving the SHQS for some of their houses, but the issues we identify above around asset management and reliability of stock condition information mean a larger number may be at risk. In total, RSLs have indicated that it will cost over £600m (at today's values) to comply with the SHQS. Over 80% have told us they will use internally generated resources to meet these costs. But some have estimated that they will need to borrow additional private finance, amounting to around £215m, with the balance being met from internally generated resources.
- 5.6 We have published on our website a separate report on the progress landlords are making towards meeting the SHQS and we will continue to monitor progress by individual landlords as part of our ongoing regulatory engagement.

6. RSL finances

- 6.1 Given the financial climate, we have increased our focus on the financial position of RSLs. We remain of the view that the sector overall is relatively stable financially, and that many RSLs continue to represent good investment opportunities for lenders, and good investment partners for public funders. We have also made it clear that, particularly in response to the current environment, we expect RSLs to be reviewing their financial forecasts; assessing any exposure to the prevailing housing and financial markets, managing short term liquidity; and monitoring compliance with financial covenants.
- 6.2 We review the audited accounts of RSLs and publish key financial ratios on our website. This section of our report highlights the key financial trends emerging from that review and the financial survey we conducted in January 2009. The aggregate information presented here will mask significant variations in the financial performance of particular types of organisations.

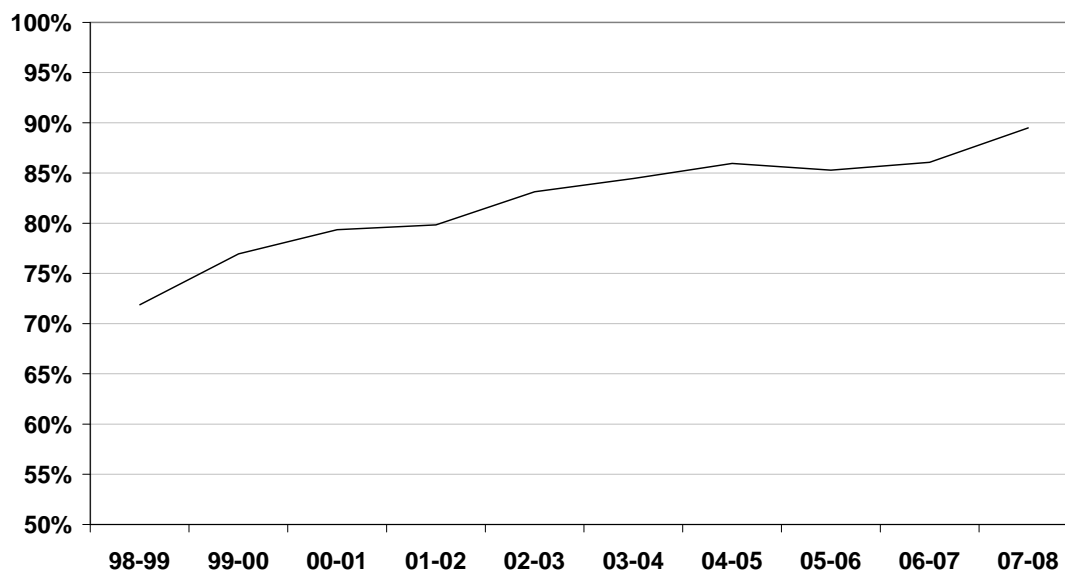
Key statistics

- 6.3 These figures provide a summary picture of the finances of the sector at the end of March 2008:
- turnover stood at £1,012 million, increasing by 9% on the previous year;
 - operating costs were £899 million – nearly 90% of turnover and an increase of 12% from last year;
 - salary costs are the single largest item of operating expenditure, at £307 million or 34% of operating costs;
 - the sector's gross surplus of £112 million is equivalent to £407 per unit;
 - operating surplus was around 11% of turnover, with the net surplus around 6%;
 - the total cash balance was just over £300 million; and
 - the interest cover ratio on a sector-wide basis fell slightly to 138% as private borrowings increased, but is still comfortably above the industry benchmark of 110%.

Turnover, Operating Costs and Interest Costs²

- 6.4 In 1998/99 aggregate operating costs represented approximately 72% of aggregate turnover. By 2007/08 this had risen to almost 90% (see Figure 9 below).

Figure 9: Operating Costs as % of Turnover



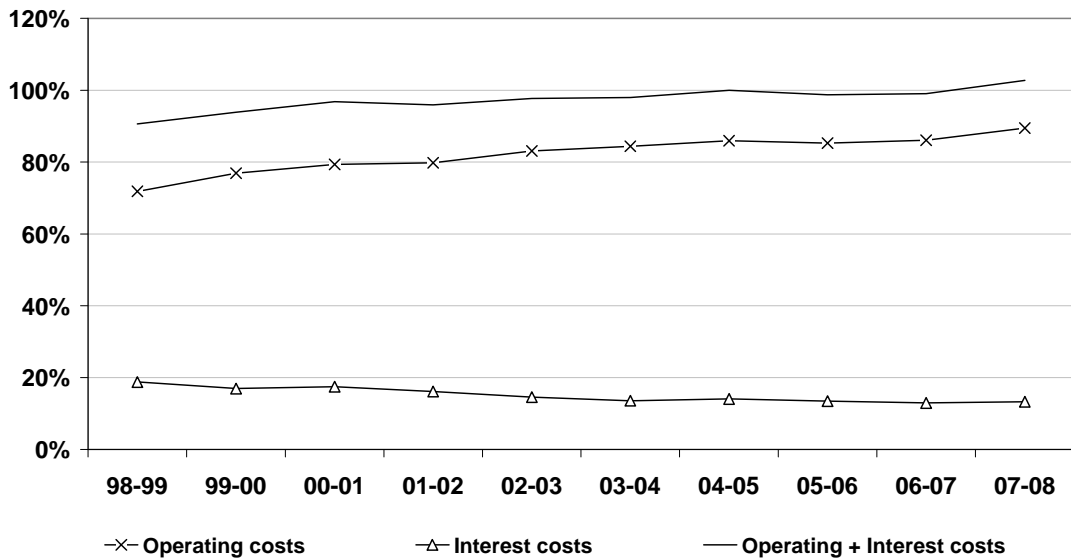
Note: Excludes the Glasgow Housing Association

Source: Accounts Consolidation System, Scottish Housing Regulator

- 6.5 Figure 9 shows that, although the rate of increase has not been uniform, there is a clear emerging trend that is not sustainable over the next ten years. We are exploring the factors that underpin this trend.
- 6.6 Apart from operating costs, RSLs have to service the debt that has been used to finance their activities. Figure 10 (below) illustrates the relationship between turnover and total costs. The graph shows that in 2007/08 total costs (operating costs plus interest costs) amounted to more than 100% of aggregate turnover.

² Figures in this section exclude the Glasgow Housing Association

Figures 10: Operating and Debt Servicing Costs as % of Turnover



Note: Excludes the Glasgow Housing Association

Source: Accounts Consolidation System, Scottish Housing Regulator

6.7 This analysis is based on the aggregate turnover and aggregate costs over the whole sector. This means that while some RSLs may have a satisfactory ratio of operating costs to turnover, others will not. We will work closely with organisations that have less satisfactory financial positions, but we expect all RSLs to give greater attention to managing their cost base. The ability to maintain a sustainable ratio between cost and turnover will be an important factor in determining how we engage with each RSL. We have identified around twenty RSLs where total costs, plus interest charges, have exceeded turnover in each of the three years to 31 March 2008 and thirteen where operating costs alone exceeded turnover in 2007/08, the last year for which we have fully audited accounts. We are currently considering the implications of this and, in particular, we will examine the extent to which the current financial position is consistent with their underlying business planning.

Rent Levels

6.8 After allowing for the effect of inflation the average rent paid per unit has risen by less than 0.5% per annum in real terms during the period under review. This is illustrated in Figure 11. We have presented figures that take account of the impact of Glasgow Housing Association (GHA).

Figure 11: Average rent per unit in real terms

	1998/99	2007/08	
		Ex GHA	Inc GHA
Total Rent (real terms)	£340m	£563m	£758m
Units in management	131,975	209,074	274,310
Average rent per unit	£2,580	£2,690	2,765

Source: Accounts Consolidation System, Scottish Housing Regulator.

- 6.9 The table illustrates that the average rent paid in non-GHA managed units in 2007/08 was, in real terms, £110 per unit more than in 1998/99. When we surveyed the sector early in 2009 we found that a significant number of RSLs are now seeking to increase rents substantially, at a time when general inflation is falling. More than one third of those surveyed are seeking to increase rents by at least RPI+2%. For some this translates into a rental increase of 7% for 2009/10 at a time when RPI is actually falling and tenants may be facing straitened financial circumstances or the threat of redundancy.
- 6.10 Given the modest increase in average rent per unit in the last ten years, there is a risk that the current attempt to raise rent levels in the recession may not grow gross revenues if it also triggers a rise in arrears or bad debts. If there is also a growing risk that the cost of debt is likely to rise as lenders seek to re-price business, there is an urgent need for the sector to manage its cost base in order to secure a financially sustainable future, to deliver improved services, and to contribute to broader objectives.
- 6.11 Our experience through inspection suggests that the sector does not have a sufficient focus on delivering core business efficiencies to secure continued viability should the economic downturn prove more protracted. We rarely find an explicit focus on value for money in all areas of the business. We have outlined above our view that there is greater scope for modern methods of procurement in asset management, and we believe there are also efficiencies to be gained in a range of back-office functions, for example, through sharing services and reconfiguring service delivery.

Non-rental income

6.12 RSLs³ have been generating substantially more income from non-rental sources. In 1998/99 rents accounted for around 80% of total turnover but by 2007/08 this had fallen to around 70%. Figure 12 below sets out the most significant types of non-rental income within the sector.

Figure 12 – Non-rental income in 2007/08

Source	%	£000
Support activities	31.8%	47,798
Care activities	20.8%	31,236
Profit on sale of fixed assets	17.2%	25,814
Interest receivable	12.0%	18,018
Development for sale to other than RSL	9.5%	14,260
Wider role	8.8%	13,270
	100	150,396

Note: Excludes the Glasgow Housing Association
Source: Accounts Consolidation System, Scottish Housing Regulator.

6.13 Substantial and lucrative assets sales have been possible in a growing and buoyant property market. The downturn in the housing sector, alongside the likely pressure on other income streams, will constrain the sector's ability to secure substantial non-rental incomes from such sources in the coming months and years.

Private finance⁴

6.14 RSLs have been hugely successful in securing large amounts of private finance to deliver the growth in social housing that has taken place since 1998-99. In the 10-year period, total long-term debt (excluding GHA) has more than doubled, up from £755 million to £1.7 billion, a rise of over 8% per annum. On average, this means Scotland's RSLs have increased their total debt from around £4 million in 1998/99 to £10 million in 2007/08 while, on a per unit basis, debt has risen from £5,725 to £8,025, a rise of over 3% per annum.

6.15 The cost of borrowing has fallen markedly over this time and our recent survey returns show that RSLs have benefited from these lower debt costs.

³ Excluding the Glasgow Housing Association

⁴ Figures in 6.13 and 6.14 exclude the Glasgow Housing Association

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The average lending margin in 2006/07 reached a ten-year low at around 0.3%. This compares to a sector average of around 0.75% for debt that is more than ten years old, more than double the rate in 2006/07. Such lower debt costs have substantially eased the ability of RSLs to service the sizeable increase in debt obligations that are now in place. The overall effect of this is again illustrated in Figure 10 (above). While operating costs have risen over the decade from around 70% to approximately 90% of turnover the proportion of turnover required to service debt has actually fallen from just under 20% to approximately 15%. Moreover, this has taken place at a time of rapidly increasing debt levels.

- 6.16 We know that while debt pricing is increasing it is, in part as a consequence of our regulation, still significantly cheaper than the deals being secured by commercial and unregulated sectors. However, as debt costs start to rise and increases to turnover become more constrained, the ability of some RSLs to finance further increases in debt finance now looks limited. The Scottish Government has just completed its consultation on proposals for investment reform. Just over one third of RSLs told us their development ambitions are constrained as a result of the current economic climate, although one fifth told us that opportunities are beginning to present themselves – primarily through private developers offering them unsold stock that was initially meant for the private sales market, and through more land becoming available at cheaper prices.
- 6.17 Our survey showed that around four fifths of all units owned by RSLs are currently used as collateral to secure debt. There is, therefore, a limited asset pool available to secure further increases in debt levels. And while some RSLs are more exposed to falls in valuations of their stock (with clear implications for some RSLs seeking new debt for development purposes), around 30% of RSL housing stock was valued more than five years ago, and, therefore, is less vulnerable than stock valued at the height of the market.
- 6.18 At the end of March 2008, RSLs in Scotland had agreed borrowing facilities of £3.3 billion, including new facilities of £333 million. Around £1.3 billion of committed funding had not been drawn down and was available to RSLs to support their plans. GHA accounts for a significant portion of the sector's agreed borrowing facility and undrawn funding (£725 million and £673.5 million respectively). As figure 13 from our survey shows, at the end of last

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year, five lenders accounted for almost three quarters of the market. If Lloyds TSB and Halifax Bank of Scotland integrate more fully, and now that Nationwide has taken over the Dunfermline Building Society portfolio, over 70% of the RSL market will be in the hands of just three lending institutions. Despite the risks that relate to a less competitive lending environment, at the start of 2009, the majority of RSLs (84%) told us they have had no difficulty renewing, refinancing or drawing down existing lending facilities.

Figure 13 – Top Five Lenders to Scottish RSL sector at 31 December 2008

Lender	Drawn Down %	Undrawn %	Total Facility %	Cumulative % of Total Facility
Royal B of Scotland	27	23	26	26
Dunfermline BS*	23	21	22	48
Lloyds TSB	12	21	14	62
Halifax B of Scotland	8	3	6	68
Nationwide BS	5	5	5	73

*The Dunfermline BS portfolio has since been taken over by the Nationwide BS

Source: Survey on private lending and the impact of the credit crunch, Scottish Housing Regulator, Jan 09.

- 6.19 The position on accessing new lending is rather different. Some 56 RSLs (38%) said they were having some or significant difficulty in accessing new finance, primarily due to increased margins and fees. Eleven RSLs had been refused funding. It is clear that all RSLs need to manage carefully their private finance at a time when the market is tightening around the number of financial institutions willing and able to lend to the sector, and the terms at which they are now able to offer.
- 6.20 In recent times RSLs have had ready access to finance at relatively favourable rates. However, the tightening of the market means the sector should now explore other sources of debt funding or more strategic approaches to procuring finance if it is to secure adequate amounts of competitively priced loans. There may be merit in considering alternatives. The Scottish Government is currently actively looking at options such as bond financing; considering lenders who currently have a limited presence in the Scottish RSL market (for example, the European Investment Bank which operates in England and Northern Ireland); or exploring whether the bulk

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procurement of finance can be made to work just like the bulk procurement of utilities. We would emphasise the importance of governance in financing decisions, particularly where an organisation is proposing a new direction. It is also essential that proper impartial, professional advice is taken and that decisions are made on an informed basis, in accordance with the organisation's risk appetite.

- 6.21 We have consistently emphasised the importance of monitoring covenant compliance and discussing any possible breaches with lenders at the earliest opportunity. Our survey revealed that over half of RSLs had not included financial covenant compliance in their risk register within the three months prior to the survey.

Business planning

- 6.22 We have been clear that now more than ever RSLs should be reviewing and updating their financial forecasts, business plan and financial assumptions on a regular and realistic basis, building in robust stress-testing and scenario planning, particularly as previous financial assumptions may need to be reviewed in the light of greater economic uncertainty. The sector cannot simply project forward on previous assumptions.
- 6.23 In terms of planning for the overall effect of the current economic and financial climate 63 RSLs (43%) told us they faced no serious financial pressures, explaining that they were in good shape because they had sound cash reserves and cashflows; were maximising rental income; had stock that was already, or would easily be, SHQS compliant; or had secured favourable banking arrangements before the recent downturn. A further 50 RSLs (34%) told us they believed they needed, or were planning, to take significant steps to minimise the potential for severe financial pressures arising. Most of these RSLs told us about a combination of measures they planned to take: exploring more collaborative practices with other RSLs; securing greater cost efficiencies through reviewing processes and staff structures and costs; reviewing banking agreements; exploring business growth and diversification to increase income; reviewing rents; putting development plans on hold; and better long term planning.
- 6.24 In our survey around 45% RSLs told us they had last updated the assumptions and financial elements of their business plans over six months

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prior to the survey. Around 70% were planning an update in the three months following the survey. As part of our risk assessment work and the implementation of the Regulation Plans we have published for certain RSLs, we recently conducted a review of a sample of RSL business plans across a broad cross-section of RSLs in terms of profile, past performance, size and location. We examined the business plans against seven components that we consider to be essential:

- a concise set of strategic objectives;
- the key risks that may prevent the RSLs from achieving its objectives
- Operational targets that convert the strategic direction into something measureable;
- key influences – an understanding of the local housing system and the RSL's place in it, alongside internal strengths and weaknesses. We have possibly emphasised this aspect of planning less in our dealings with the sector, but understanding an organisation's role within a broader local housing system, in relation to other providers, and in terms of its overall capacity will become more important in future;
- stock plans – investment, SHQS delivery, new development;
- financial forecasts and sensitivities – reconsidering inflation assumptions, the cost of debt, exposure to housing market trends etc; and
- scenario planning to stress-test financial forecasts and consider alternative strategies if necessary.

6.25 We found a wide spectrum in terms of the quality and quantity of business planning information. We know that the sophistication of business planning will and should vary across the sector because different organisations will have different profiles and requirements. But the weaknesses we found in business planning, in terms of articulating key risks, integrating investment decisions and financial forecasts into business planning and the lack of sensitivity analysis, mean we believe there is an urgent need for improvement across the sector – a need that is heightened by the current economic and financial climate and the requirement to focus on direction, stewardship and financial viability.

6.26 Our inspections and engagement with particular RSLs show that often only a finance officer or, in some cases, an external adviser, has a full grasp of the financial model being used. Senior officers and the governing body must

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understand the underpinning assumptions and what changes in those assumptions might mean for their organisation. We are particularly concerned about the state of business planning in some RSLs that are developing new houses through millions of pounds of public subsidy and by raising private finance. We will be providing more information about our work on business plans and guidance for the sector in the coming months.

7. RSL Governance

Governance expectations

- 7.1 More than 2,000 volunteers currently serve on the governing bodies of RSLs and around 45% of these are tenants. Individually they often commit a huge amount of time to their duties and, in many cases, to the additional responsibilities placed on them as charitable trustees. We promote good governance through our Regulatory Code of Governance, summarised in box 1 below. The vital ingredients for successful governing bodies can be summarised as having a good chairperson, a solid understanding of the role of the governing body, enough of a grasp of the business to focus on the strategic and longer term issues, and independent thinkers who are willing to constructively challenge and act as a critical friend with senior officers.

Box 1: Good governance means:

- focusing on the RSL's purpose and outcomes for tenants and service users;
- governing body and senior officers work together effectively in clearly defined functions and roles;
- promoting good values and demonstrating them through behaviours;
- taking informed transparent decisions and managing risk;
- developing capacity and capabilities; and
- working with stakeholders and being accountable.

Regulatory Code of Governance 2006

Governance performance

- 7.2 The quality of governance in the sector is variable. Some governing bodies are excellent, with a clear understanding of what their role is and how this differs and complements that of their senior officers. However, other governing bodies have only a basic grasp of their role or become embroiled in low level operational issues, leaving their organisations to be led by their senior officers. If an RSL has a good governing body it will often be a good organisation. We also know that an RSL with a poor governing body can still deliver good services for tenants, if staff perform well. But a poor governing body puts an RSL at much greater risk of being unable to cope effectively

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with significant problems, during times of change or over the longer term. When things go wrong, when times are more challenging, or when difficult decisions need to be made, poor governance becomes more obvious.

- 7.3 RSLs are facing tougher times and will need to make decisions about their purpose, what sort of business they want or can afford to be in, and what impact they are aiming to have on an area or community. Governing bodies will need to think beyond themselves and their organisations for the greater good of the tenants and communities they serve, particularly to ask whether their RSL is achieving as much as it could or should in its current structure and with the resources it is likely to have in future. This will be very challenging for some who have performed well and delivered for tenants in the past. But it matters for discussions about costs, rationalisation and a more strategic view of how to organise housing management in particular local areas. The people serving on governing bodies will need to understand enough to keep pace, and to govern within the context of their organisation's changing risk and business profile. Depending on how the sector develops over the next few years, some of the current governance arrangements may become strained and some organisations are going to have to think again about the sort of governance they need.
- 7.4 These are our observations about current performance and future challenges in governance:
- a) Governing bodies do not always spend enough time asking whether their organisation is getting the basics right for existing tenants. Often governing bodies (and senior staff) spend more time on pursuing a small number of new developments rather than improving the quality of services to hundreds and thousands of existing tenants.
 - b) Governance centres around people. When governance works well it is because people make it work. In our experience some of our statutory interventions have been the result of personality clashes, poor behaviours, power struggles, dominant chief executives, and confused roles within governing bodies or between committees and staff. These dysfunctional situations mean governing bodies struggle to carry out their normal business effectively and can be hugely time-consuming to sort out. Procedures, codes and processes matter when things go wrong (as does

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getting good, independent advice), but they are not sufficient in themselves to secure good governance.

- c) Governing bodies generally have a rather light-weight approach to risk management that often relies on management assurance, rather than a true understanding of the risks facing their organisation. It is now more important than ever that governing bodies see risk management as an explicit part of their duties – and not just overseeing risks that have been defined for them by staff, but knowing enough about the business they are governing to actively help define risk.
- d) In a number of organisations governing bodies are not providing sufficient challenge to management. Often staff are seen as the experts and it is difficult for volunteer governing body members to get beyond this. In our experience, the key ingredient in this regard is independent thinking – to ask questions, to get the right information and advice, and to step back and make their own decisions in light of this. But governing bodies are not always good at insisting on the provision of proper information to fulfil their responsibilities. And they need to know when they have been given an inadequate answer.
- e) Many governing bodies (and some senior officers) are struggling to understand the financial risks their organisations are facing.

7.5 The regulatory, development funding and policy frameworks in Scotland have encouraged tenant membership of governing bodies. Around 45% of governing body members are currently tenants. As we have said earlier, we expect RSLs to give tenants an opportunity to become governing body members. Governing body membership can offer tenants in some communities an opportunity to gain some control over their environment, build their personal capacity, and ensure the RSL has a strong community focus. And many tenants have exactly the skills and experience governing bodies need. But tenants have different interests and roles – as consumers, participants, and governors – and these can become confused. Some RSLs need to consider whether a governing body made up primarily or solely of tenants will deliver the sort of governance they need in more challenging times. It is equally true that governing bodies with high-profile, professional people do not, in themselves, guarantee good governance if, for example, they are not using their skills and experience effectively or if they are too close to staff. The challenge for some RSLs will be how to retain and balance

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the passion and commitment of people within their local communities with the broader set of skills and experience they may need to run an effective organisation and set a strategic direction.

Profile of governing body members

7.6 We have seen a sharp drop over the last decade in the proportion of governing body members in work. Private sector backgrounds have become less common. Governing body membership, by and large, is fairly stable, with a degree of flux around the edges. More than half are recruited through personal approaches by other members or staff. Some other key statistics are outlined in box 2.

Box 2: Vital Statistics of Governing Bodies:

- 2,072 volunteers work on RSL governing bodies; 45% are tenants;
- 52% women; 48% men;
- 1.7% are from black and minority ethnic backgrounds;
- two-thirds are aged over 55;
- one in five have long standing illness or disability;
- 31% are in employment;
- 53% were recruited by personal contact; 8% through advert; and
- tenants joined with a clear community focus and 47% of tenants joined to gain skills and experience.

Baseline survey 2005

7.7 When we surveyed the sector four years ago, nearly half of RSLs told us they had difficulties recruiting new governing body members and 35% of chief executives felt members lacked a broad enough range of skills or experience (only 18% of members felt the same). This is fairly typical of other voluntary or charitable sectors. Determining the right blend of governing body membership will depend on the type of RSL in question and what it is trying to do. What matters is that the governing body is appropriate for the organisation it governs and the issues it is facing. For some organisations the right people are simply not round the table. The sector could be doing more to generate different networks and encourage a more diverse pool of potential governing body members for the future.

Accountability

- 7.8 Most RSLs are non-profit distributing membership bodies, with members paying a nominal amount for their share. In profit-distributing companies shareholders have a real economic stake in the way an organisation is run and the profits they make. For RSL shareholders, these motives do not apply. Many RSLs work hard to encourage and manage their shareholding membership. We have promoted this model of constitution and the pursuit of broad membership strategies by RSLs over many years as a regulator, and continue to believe the model has many strengths. But sometimes membership can be disparate and uninterested in holding governing bodies to account. So, there are genuine questions about what the shareholding membership is there to do, and how RSLs can be accountable not only to shareholding members, but to wider stakeholders. These questions have relevance in terms of the Scottish Government's current consultation and the prospect of differently constituted bodies operating in social housing.

Mergers and future structures

- 7.9 We have identified that one of the biggest challenges for governing bodies is to think beyond themselves and their organisations for the greater good of the tenants and communities they serve. This may mean considering what an organisation is good at and stepping back from, or securing support from elsewhere for, activities it is not good at. Or it may mean working jointly with other organisations to secure better outcomes. Mergers happen where two organisations think they will be better working as one.
- 7.10 In our experience, governing bodies sometimes consider a merger when they face a change in leadership – often the impending retirement of the chief executive – or in response to poor performance or financial difficulties (often highlighted through our inspections). The principal drive for merger is very rarely to secure improvement in services, regenerate areas, protect or invest in the stock, make efficiency savings, or exploit better value and synergies. These strategic benefits are sometimes articulated retrospectively, but they seldom drive mergers. But these are exactly the sort of issues governing bodies should be considering in thinking about the impacts and outcomes for current and future tenants, and the communities they serve, that exist beyond the organisational limits and interests of the RSL itself.

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7.11 We have seen potential mergers fail because of culture clashes, disagreements about the composition of the executive management team and the governing body, personal and power conflicts, fears about a loss of identity, and an inability to agree a name for the new organisation. We know that mergers are not always easy, they are not always the best solution, and they can destroy value that has been built up over many years if not done carefully. We also know that measuring and articulating the value deriving from a merger is not straightforward. But, given the economic and financial change the sector faces, the administrative cost of managing houses in certain areas, and the need for more coherent neighbourhood management and service improvement, the benefits of proactive mergers should be part of the discussion about shaping the RSL sector for the future.

8. Other clients and service users

Homeless households

- 8.1 The number of people applying to local authorities for assistance each year under the homelessness legislation remained between 40,000 and 45,000 per year in the mid to late 1990s. But this increased rapidly from 2000/01 to a high of around 60,500 in 2006/07. These increases correspond to the changes in duties to provide temporary accommodation to all those assessed as homeless and the expectation that local authorities should assess a higher proportion of people applying as priority need to meet the 2012 commitment. The most recent figures show that, for Scotland as a whole, numbers applying for assistance levelled out in 2006/07 and have begun to fall.
- 8.2 In 2007/08, over 56,600 households applied to local authorities for assistance as homeless, a 5% decrease on 2006/07. The majority of these (60%) were single-person households, mainly men. Single parents, predominantly women, were the next largest group at 24%. Local authorities assessed nearly 40,300 (71%) of these households as homeless or potentially homeless, and then assessed 32,111 (80%) of these as priority, up 1.2% on the level in 2005/06.
- 8.3 The number of households for whom local authorities secured permanent accommodation increased markedly from just under 12,000 in 2002/03 to around 17,500 in 2006/07. This fell to around 16,300 in 2007/08, reflecting the reduction in the total number of homeless households whose cases local authorities resolved in 2007/08.
- 8.4 When we have inspected local authority homeless services, they generally achieve lower grades than the grades we have awarded to housing services. Seven (25%) of the 28 inspected local authorities were awarded D grades in their homelessness functions, with 61% receiving a “fair” or C graded assessment. Only four (14%) of the 28 local authorities received a good or excellent grade.
- 8.5 Over the last five years we have found that local authorities are becoming more focused on preventing homelessness, which is important in achieving the 2012 target (see para 8.6 below). And we have seen improved partnership working to provide a better range of support and advice services

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for homeless people. Where we have found poorer performance, these are the recurring themes that underpin our inspection findings:

- b) a lack of clear corporate leadership;
- c) weaknesses in basic assessments;
- d) a heavy reliance on bed and breakfast temporary accommodation, and breaches of the Unsuitable Accommodation (Scotland) Order;
- e) limited service user involvement; and
- f) poor monitoring of the quality of outcomes for homeless people.

8.6 Scottish Ministers have set a target to reduce by 50% the number of applicants given non priority decisions by 2009, and to abolish the priority need category by 2012. At that time, all homeless people will have the right to “settled” accommodation. Local authorities we have inspected have generally worked hard to try to meet this target. Many authorities have recognised the importance of having a strong emphasis on preventing homelessness in the first place and preventing its recurrence. We have seen a number of innovative approaches and projects focused on helping previously homeless people to sustain their accommodation, particularly in services for young people. But there are challenges for a number of local authorities in achieving the 2012 target. Some local authorities that operate in pressured housing markets are reaching a level of social lets to homeless people beyond which it may not be sustainable to go.

8.7 One way for local authorities to try to manage some of this pressure is to work with RSLs to house more homeless people. As a result of the Housing (Scotland) Act 2001, RSLs are legally obliged to comply with requests from local authorities to accommodate homeless households assessed as being unintentionally homeless and in priority need. There is a strongly held belief amongst RSLs that this obligation has resulted in a huge increase in the proportion of new tenancies granted to homeless applicants, and a corresponding rise in the proportion of tenants with social support needs and antisocial behaviour. And, indeed, a number of RSLs are now housing considerably more homeless people than in the past. However, overall, the proportion of RSL lets going to homeless people referred by local authorities has, in fact, increased only slowly over the last four years and accounted for 21% of all RSL lets in 2007/08.

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- 8.8 At the same time, we have seen a corresponding decline in the proportion of other categories of homeless households getting an RSL let. So, RSLs do not appear to be housing a significantly greater proportion of homeless households overall, but are receiving a growing number of referrals to whom they are legally obliged to offer permanent accommodation within six weeks.
- 8.9 We will soon publish a report on our thematic inspection of RSLs' contribution to the prevention and alleviation of homelessness.

Owners

- 8.10 Around 117 RSLs and most local authorities supply property management services to nearly 92,000 private residential properties (23% of the property management market), in part as a result of the sale of social housing through right to buy. One of our Performance Standards requires RSLs and local authorities to have a factoring service that is fair, efficient and effective. We do not deal with complaints from individual owners. We have included factoring services in our inspections where we are aware of particular problems.
- 8.11 The Office of Fair Trading's study into property managers in Scotland (published in February 09) showed that while the majority of owners receiving factoring services from a social landlord were happy with their property manager, over one third felt they got fairly or very poor value for money. In this regard social landlords are no better or worse than other sorts of factors. But where owners had made a complaint to a social landlord the study found very high levels of dissatisfaction with the way their complaint was handled.
- 8.12 We have found that issues around poor communication; insufficient information, including the lack of itemised billing; the cost and apportionment of work carried out; the quality of work; timescales for carrying out the work; and complaint handling have been persistent areas that need to improve. Landlords often leave liaison and engagement with owners late in the process of agreeing improvement works. We have also seen examples of landlords subsidising elements of work for owners from rental income. The real challenge for social landlords relates not simply to the need to improve services to owners, which is clearly important, but to the impact unresolved owner issues can have on achieving stock quality requirements for tenants and on broader regeneration ambitions. Managing services to, and

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relationships with, existing owners is going to become an increasingly important area of work for social landlords over the next five years.

- 8.13 We will work with the Scottish Government on the proposed development of a voluntary national accreditation scheme, and to define our role with owners during the consultation on proposals in the draft housing bill.

Gypsies/Travellers

- 8.14 Gypsies/Travellers are people who are dedicated to living a travelling existence, or who come from a travelling background. There are around 744 households (over 1,020 people) living on sites and encampments in Scotland – with around 42% living in the 32 sites owned by local authorities and RSLs (compared with 22% on private sites and 36% on unauthorised encampments).
- 8.15 We have conducted two thematic studies of site provision by local authorities. We found that improvement was needed in information about the needs and preferences of Gypsies/Travellers; longer-term and financial planning to improve the quality of sites and their amenities; defined standards and information for site users; performance monitoring; feedback to residents following consultation; and greater attention to affordability and rent setting. Since then the Scottish Government has provided small, three-year site development grants. Our continued role in this area is being considered as part of the Scottish Government's current consultation on reforming regulation.

9. Emerging themes for the future

About the sector

- 9.1 Greater clarity about the outcomes we want social housing to achieve would help shape the debate about what types of organisations we require; and whether some parts of the current social rented sector are structured to best effect to deliver those outcomes for particular neighbourhoods and geographical areas. The types of housing and services available can have a huge impact on the way local housing systems operate for local people and their families. The place and powers of the regulator need to fit within that broader debate.
- 9.2 In the RSL sector, we have seen that in some localities the higher management costs of smaller, community based organisations can lead to better housing management outcomes. We can see this in the indicators for vacancies, lettings and arrears; and in the less tangible evidence of local residents exercising greater control over their neighbourhoods and in wider local benefits. But this is by no means always the case – community based or tenant-led organisations do not, in themselves, always secure good outcomes for tenants. We have also seen larger group structures emerge over the last ten years that benefit from economies of scale, a more strategic geographical canvass, and a more business-like approach to asset management. They have often worked hard to counter the less beneficial effects of larger scale, by developing local area committees and decentralised decision-making structures that bring them closer to local communities and enable tenants to influence decisions that affect them. We have also inspected larger, longer established developing organisations that are insufficiently focused on the needs of their existing tenant base and do not encourage a responsive, participative approach.
- 9.3 The Scottish Government is currently consulting on the sorts of organisations that we should regulate. It is suggesting it may want to have the potential to involve profit-distributing private sector organisations in social housing. A more reflective discussion about the performance, cost and effectiveness of particular organisations in their context matters now more than ever because the financial, policy, investment and institutional landscape has already

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changed and has the potential to change again in ways that will affect the viability and future prospects of the sector.

- 9.4 We have found that while some landlords have a firm, fact-based grasp of the profile of the people they are housing and understand the way this may be changing over time, many do not. This is poor given the importance of a strong customer focus to a landlord's business and future. It is possible there will be more younger single adult households (some with children) and fewer middle aged people (particularly families) in the sector. And older people may form a larger proportion of all tenants, highlighting the need for housing policy and practice to connect with health and care requirements. It is likely that future tenants will have different needs, aspirations and expectations in terms of the services they pay for, the sort of behaviour they are willing to tolerate from other households, their appetite to participate, and the homes and neighbourhoods they live in. Overall, landlords need to know more about the likely changing needs of their existing tenant base if those tenants remain with them and how other changes to their future tenant base might affect their plans and investment decisions. And this needs to be set within a broader discussion about what sort of customers the sector is seeking to serve in the longer term and what role the sector has in the broader housing system.
- 9.5 Financial sustainability is fundamental to the ability of the organisations within the sector to deliver for their customers and other stakeholders. As has already been highlighted, operating costs have risen markedly as a proportion of turnover in the last ten years and, in the RSL sector, this has been partly mitigated by the effects of relatively cheap borrowing. The RSL sector may continue to enjoy the benefits of cheap finance relative to other sectors of the economy if our regulation framework remains fit-for-purpose in a harsher economic climate. But, in any event, borrowing costs are likely to be higher in the future than they have been in the past; the supply of debt is likely to fall as fewer lenders are willing to operate in the sector and lenders' costs rise as their regulatory environment tightens. Both RSLs and local authorities will need to act decisively and make difficult choices in reviewing their financial health.
- 9.6 One of the key challenges for the future will be cost control and reduction – for example, through working collaboratively with others, sharing services, negotiating better deals with suppliers, reviewing staffing structures and

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deployment or mergers. Dealing with the sort of change and uncertainty in the wider environment means that organisations need to be sure they have the right skills in place, particularly around treasury management, investment, asset management, finance and business planning. In less benign times, strong leadership and the ability to drive through tougher business disciplines should be even more important.

About regulation

- 9.7 In response to the themes we are highlighting in this report and to scrutiny reform more generally we anticipate, in the short term:
- a) keeping a strong focus on the priorities of tenants and service users, with their interests and the quality of services at the heart of our work;
 - b) continuing to develop our risk-based approach to regulation;
 - c) stepping up our focus on the financial health and governance of individual RSLs and business planning within the sector, and strengthening our links with lenders and development funders;
 - d) working with landlords on costs and efficiencies, to secure a better information base and share good practice;
 - e) reviewing our information returns and analytical products to ensure they are fit for purpose to support risk based regulation and benchmarking within the sector;
 - f) working with Audit Scotland on shared risk assessment in local government and adjusting our inspection focus and approach as a result; and
 - g) liaising with the Scottish Government on new legislation and standards.
- 9.8 The Scottish Government is currently consulting on new legislation for housing regulation. This overview of performance and identified areas for improvement should pose particular questions about the purpose of the regulator, and, as a result, what powers the regulator should have:
- a) whether the regulator should encourage a mixed economy of providers and greater competition in the development and management of social housing as a way of securing improvement;
 - b) what having a consumer focus really means in terms of the regulator's powers to promote greater consumer choice, voice, influence and redress so that the balance of power shifts between provider and consumer;

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- c) the degree to which protecting the tax-payers' interest should form part of the regulator's remit, recognising it is not always the same as the interest of tenants, but may form an important balance;
- d) the role of the regulator in publishing information that may be important to the proper functioning of the sector, for example on debt costs; and
- e) whether the regulator should have a focus on place-making and local housing system design, shifting the focus from individual organisations to examine social housing outcomes more broadly for local communities.

9.9 Our current purpose is to protect the interest of current and future tenants; ensure the continuing provision of good quality social housing; and maintain the confidence of funders. We will do this by working with consumers, providers, funders, policy makers, other scrutiny bodies, and interest groups. This paper aims to contribute to the debate about the challenges facing the sector and the role of regulation in securing improvement.

Grading Illustrations

Appendix 1

Grade A (excellent) will apply to a service, organisation or part of an organisation characterised by major strengths, that delivers well above minimum requirements, is highly cost-effective and has a record of continuous improvement. It may be fully contributing to the achievement of wider strategic outcomes for communities. We may still find weaknesses, but there will be very few areas for improvement and few, if any, barriers to improvement. In service inspections we will find that these weaknesses do not affect the service user or hinder the ability to improve services.

Grade B (good) will apply to a service, organisation, or part of an organisation with many strengths, which delivers above minimum requirements, is cost-effective, and focuses on continuous improvement. It may be making contributions to wider strategic outcomes for communities. The strengths will outweigh the weaknesses. And the capacity to make improvements is likely to strongly outweigh any barriers to improvement. In service inspections we will find that any weaknesses are not enough, either singly or collectively, to detract from services or hinder the ability to improve services.

Grade C (fair) will apply to a service, organisation, or part of an organisation with some strengths but also some weaknesses, that meets only minimum requirements in key areas. It is not particularly cost-effective or focused on improvement. It may be contributing to a limited extent to wider strategic outcomes for communities. Strengths and weaknesses will be finely balanced. And the capacity for, and barriers to, improvement are also likely to be finely balanced. In service inspections we will find some important weaknesses, which, either individually or collectively, noticeably detract from the service or hinder the ability to improve. A grade C is likely to suggest the need for structured or timely action to put things right. However, in the inspection of a new or restructured organisation, the award of a grade C may reflect its newness and the particular point it has reached in its early development – it may show a relatively good level of achievement in a short space of time.

Grade D (poor) will apply to a service, organisation, or part of an organisation with major weaknesses, which does not deliver minimum requirements, may not be cost-effective, and is not focused on improvement. It may be making little or no contribution to wider outcomes for communities. The weaknesses will outweigh the

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strengths. The barriers to improvement are likely to strongly outweigh the capacity to improve. In service inspections, whatever the strengths, we find that the weaknesses very significantly undermine the service or the management of the service. A grade D suggests the need for immediate remedial action.

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