

1. Differences between English and Scottish Social Housing systems

1.1 The structure and risk profile of the social housing sector in Scotland differs in a number of important respects from that in England. The key differences are set out below. Areas where special provisions exist for the Wheatley Group, compared to those likely to exist for English registered providers (“RPs”), are also highlighted.

2. Constitutional context

2.1 Housing, including social housing, has been a matter devolved to the Scottish Government since 1999. Reflecting the political make-up of the Scottish Parliament, which is left-of-centre, social housing has consistently been a high political priority, and one which has spanned successive administrations, regardless of the parties involved.

2.2 One of the most important powers devolved to the Scottish Government is the ability to direct the continued payment of housing benefit from the Department of Work and Pensions to housing associations. This is an option all tenants on Universal Credit have in Scotland that does not exist in England. This means Scottish housing associations have a significant risk mitigation not available to their English counterparts.

2.3 In terms of the possibility of another independence referendum in future, it is a constitutional requirement that the UK Government would need to agree to this being held. The UK Government has indicated that it would not be prepared to make such an agreement.

3. Significant policy divergence

3.1 In Scotland there is a high level of political and policy support for social housing. UK Government decisions affecting English RPs generally do not affect Scottish housing associations. There are no government-imposed rent cuts and the Right-to-Buy has been abolished in Scotland. The key differences are summarised below:

	England	Scotland
Rent cut	1% rent cut imposed by central Government.	No rent cuts in Scotland – housing associations are free to set rents with no central government rent controls or caps and Scottish Ministers have confirmed that this will continue to be the case.
Right To Buy	Being extended to housing associations.	Abolished in Scotland.
Universal Credit	Being rolled out and will include housing benefit. Introduces risk of individuals paying their rent for the first time and consequent risk of increase in arrears and bad debts.	“Scottish flexibilities” in place which allow Universal Credit claimants to continue payment of housing benefit straight to social landlords – mitigating the risk of rent arrears.
Grant support for new build	Low levels of grant funding being re-introduced but mainly post 2022.	New build grant levels significantly higher than England (benchmark £72,000 per unit) – with ongoing cross-party support for new affordable housing, e.g., SNP policy commitment to 50,000 new affordable homes 2016-21.
Bedroom tax	Applies in full – reduces housing benefit entitlement and increases payment/income risks to housing associations.	Bedroom tax effectively abolished in Scotland through Scottish Government subsidy.
Regulatory context	Social Housing Regulator with risk-based regulation and in-depth assessments on selected providers.	A different regulator – the Scottish Housing Regulator, which is close to the smaller number of HAs and “has demonstrated a track record of intervening to support failing housing associations, whether through supervision, mergers, or arranging for additional grant” (S&P, June 2015).
Diversification model	Move to higher risk business areas such as build for sale housing and other property development activity.	More traditional, low risk business model based on social housing. No build for sale.

3.2 These differences are leading to some credit rating differential emerging, with Wheatley’s credit rating of A+ from Standard & Poor’s not being affected by downgrades due to sales risk.

3.3 Social housing is more prevalent in Scotland than England, comprising almost 23% of all Scottish housing stock¹, compared to 17% in England.² Scotland

¹ <http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/HSfS/KeyInfoTables> 23% of housing stock in Scotland is socially rented. Of this 10.8% are rented by Registered Social Landlords and 12.2% by Local Authorities.

has a lower rate of owner-occupation than England, just over 58% compared to 63%.

- 3.4 This has been reflected in the nature of Scottish Government legislation on the issue, which has increasingly diverged from England in recent years. The Housing (Scotland) Act 2014, for example, abolished the Right to Buy in Scotland, at a time when it is being increasingly emphasised in England. Social Housing Providers continue to be legally identified as “Registered Social Landlords” (RSLs), rather than “Registered Providers”, and Private Registered Providers are not legally permitted in Scotland as they are in England.
- 3.5 Scottish legislation has sought to mitigate the impact of UK Government welfare reforms on the RSL sector. The Scottish Government has allocated funding in recent years to cover the entire effect of the reduction in housing benefit for tenants judged to have spare bedrooms (sometimes referred to as the “bedroom tax”).
- 3.6 With respect to new supply, the Scottish Government is funding 50,000 affordable homes over the period to 2021. This differs markedly from the English policy approach, where Government grant support is proportionately much lower.
- 3.7 As a result of the divergent policy approach in Scotland, grant levels are significantly higher than in England. Whereas in England grant rates were typically less than £20,000 per unit, in Scotland the rates for social rented housing have been increased to £72,000 per unit on average.
- 3.8 In Scotland, there is some policy focus on provision of “mid-market rent” housing, which is similar to the English affordable rent regime. Under mid-market rental, subsidy rates are lower and rents can be higher than social rent level, on a case by case basis dependent on local markets. However, this form of tenure is limited to no more than 30% of the Scottish Government’s 50,000 homes target.
- 3.9 In Scotland RSLs are not permitted to issue Private Rented Tenancy agreements so market rent and mid-market rent activities are carried out by a separate commercial vehicle.

² https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/541104/LT_104.xls

4. Less emphasis on commercial activity to compensate for reducing grant levels

- 4.1 As a consequence of continuing and significantly higher grant levels for new supply, Scottish RSLs do not face the same pressures as English RPs in relation to diversification of income sources. Private sale or rental housing represents a minimal part of RSL activity in Scotland. Wheatley has no current or planned build for sale activities.

5. Significantly greater revenue flexibility – no rent regulation, no rent cut

- 5.1 Unlike England, there is no system of rent regulation in Scotland. RSLs are free to set rents as they wish, qualified only by obligations in the scope of the Scottish Social Housing Charter and Housing Act (Scotland) 2001 which require RSLs to consult tenants and have regard to their views when setting rents and service charges. The 1% rent cut being applied in England over four years does not apply in Scotland.

6. Regulatory framework for resolution of situations of landlord financial distress

- 6.1 The regulatory framework has significant powers in making interventions to RSLs who are experiencing financial distress. It is one of the functions of the Scottish Housing Regulator (SHR), an independent body established in 2011, to make early regulatory interventions, where appropriate, relating to the financial and governance performance of RSLs. The Regulator has substantial powers of enforcement which, despite its short history, it has a track record of using. These powers range from the requirement for landlords under scrutiny to produce an improvement plan to the appointment of a manager to manage financial or other affairs.
- 6.2 The Office of National Statistics (“ONS”) decision to reclassify housing associations as part of the private sector following revised legislation has been applied similarly in Scotland and England. The changes to the regulatory system in Scotland have substantially mirrored those in England.

7. Fire safety

- 7.1 Building regulations were changed in Scotland in 2005 making it mandatory for builders to ensure any external cladding inhibits fire spreading. A Scottish Ministerial Working Group, at which Wheatley is represented, considers whether there are specific areas in which regulations could be further

strengthened. This has led to, for example, a revised standard for smoke and fire alarms in housing of all tenures.

8. Strategic Housing Investment Plans

8.1 A Strategic Housing Investment Plan or SHIP is a plan which all 32 Scottish local authorities are required to submit annually to the Scottish Government. The key purpose of the SHIP is to:

- Set out key investment priorities for affordable housing
- Demonstrate how the priorities will be delivered
- Identify the resources required for delivery
- Enable the involvement of key partners.

9. Homeless Legislation

9.1 The Homelessness (Scotland) Act 2003 established the target for all unintentionally homeless people in Scotland to have the right to a permanent home. RSLs play an important role in meeting that target, both through work to prevent homelessness and in housing homeless households. Section 5 of the Act gave housing associations a duty to accept homelessness referrals from local authorities in particular circumstances.

10. Care Regulation

10.1 The Care Inspectorate is the independent regulator of social care and social work services across Scotland. The Care Inspectorate regulates a range of care services, undertakes strategic inspections of local authorities social work departments and is also responsible for the scrutiny of children service as set out in the Public Services Reform (Scotland) Act 2010. It inspects and grades care services with respect to the quality of care, environment, staffing, management and leadership.

10.2 The Care Inspectorate's regulatory and scrutiny functions ensure that:

- Vulnerable people are safe
- The quality of these services improves
- People know the standards they have a right to expect
- They can report publicly on the quality of these services across Scotland
- They can support and encourage the development of better ways of delivering these services.

- 10.3 In discharging its regulatory and scrutiny functions the Care Inspectorate works in partnership with various stakeholders such as Education Scotland, COSLA, Scottish Care, and the Scottish Social Services Council (SSSC) for example.

11. Wheatley-specific factors

- 11.1 GHA pension liabilities are subject to a Glasgow City Council guarantee. As part of the transfer of social housing from Glasgow City Council to GHA in 2003, the City Council provided a guarantee over all future GHA pension liabilities to the Strathclyde Pension Fund (part of the Local Government Pension Scheme).
- 11.2 GHA has a role as an “equal partner” in public policy delivery. Glasgow's Community Planning partners such as the Council and NHS Board have in effect contracted with the Scottish Government to plan, resource and deliver services together with local communities.

12. Relationships with Glasgow City Council and City of Edinburgh Council

- 12.1 Wheatley has strong bilateral relationships with both of the largest local authorities in Scotland. GHA is identified in GCC's SHIP as a key partner in relation to new build affordable housing and urban renewal through the Transformational Regeneration Programme. In Edinburgh, the same situation exists in relation to our subsidiary Dunedin Canmore.
- 12.2 Glasgow and Edinburgh Councils administer grant funding for new build to RSLs through an arrangement known as “Transfer of the Management of Development Funding” (TMDF) from Scottish Government. This arrangement only exists in Glasgow and Edinburgh council areas, but gives these councils discretion to manage funding allocations to RSLs within certain parameters. Outwith Glasgow and Edinburgh, new build grant is administered directly by the Scottish Government in conjunction with local authorities.