SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

REPORT TO:	Housing Futures Working Group	6th November 2007
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FINAL REPORT ON THE FINANCIAL MODELLING OF THE INVESTMENT NEEDS OF COUNCIL HOUSING

Purpose

1. To receive the final report from Tribal Consulting on the financial modelling of the investment needs of the council's housing in the short, medium and longer term.

Executive Summary

2. The modelling suggests that on the basis of the recommended Stock Condition Survey, and the other assumptions set out in the report, the HRA cannot afford the required capital programme now, and needs to make revenue savings no later than 2009/10.

3. In terms of alternative options Arms Length Management Organisation (ALMO) available in 2005 is no longer available as a source of additional funding. The Private Finance Initiative is complex, does not lend itself to whole stock solutions, and is not recommended for the Council.

4. Another of the conclusions of the Tribal report is that the Housing Green Paper issued by the CLG in July 2007 does not offer any alternative solutions.

5. In the event of a successful housing transfer option being pursued the indicative valuation for the Council's housing, at the recommended survey standard is £54.5m. However, it is demonstrated how sensitive to the assumptions made the valuation is.

6. It is suggested that the key benefit of a housing transfer is that the works identified in the survey would all be funded, in contrast to the situation for a housing retention option. This is because the new landlord would not be subject to the HRA Subsidy System.

7. Subject to the final valuation, and the assumptions made about residual costs, transfer affords the possibility of a small (revenue) benefit for the General Fund.

Considerations

8. The report examines the current Housing Revenue Account (HRA) and future financial projections including the housing investment requirements. This is based on the Council's Stock Condition Survey completed in November 2006 by Savills.

9. It sets out the Council's financial planning assumptions for 2007/08 and future years and highlights some of the key assumptions which have been used to build the financial model which has been used to assess the viability of the HRA. The Communities and Local Government (CLG) Department HRA Business Plan financial model has been used to undertake this analysis.

10. The initial model analysis has been based on the council's budgets for 2007/08 except for elements where more detailed information is available. The key assumptions that have been made are in relation to the following:

    - changes in numbers of homes
    - rents
    - service charges
    - other income
    - subsidy
    - management and service expenditure
    - other expenditure
    - housing benefit
    - maintenance and investment expenditure and resourcing
    - balances

11. The assumptions as set out in the report, including Savills' recommended standard, together make the "Base Assumption". Alternative scenarios are considered within a sensitivity analysis.

12. The modelling suggests that the operating account will be running at a deficit with effect from 2008/09, and that savings would be needed from 2009/10 in order to avoid the working balance falling below the minimum required level. The modelling suggests that the operating account would eventually go into overall deficit (2025/26). This would be unlawful, and the Council would have to prevent this by increasing its income or reducing its expenditure. Notwithstanding this, the model projects a deficit at year 30 (including interest on the notional overdrawn balances) of £33m.

13. The Major Repairs and Improvements Financing Report (MRIF) shows the expenditure and resourcing of the investment programme. This shows that Savills' recommended level of expenditure cannot be afforded in any year with deficits from next year (2008/09).

14. It is probable that the failure to undertake necessary planned works would result in additional responsive repairs becoming necessary, but the impact of this has not been calculated.

15. The absolute minimum standard is that which meets, and in some respects exceeds, the Decent Homes Standard, but falls below the standard most Social Landlords work to. As would be expected, when this standard is modelled the capital shortfall is

lower, at £118m over the 30 year period. The year of first shortfall does not occur until year 4 (2010/11). There is no change to the operating account position, however, which will still require savings from 2009/10, although in practice, the impact on demand for revenue repairs may be higher than described for the base position.

16. Overall, the sensitivity analysis demonstrates that changing the key assumptions highlighted makes little difference to the overall position outlined on the HRA.

17. The report then goes on to consider the potential alternative options and looks in more detail at the most comprehensive but also the most far reaching alternative which is a large scale voluntary transfer (LSVT).

18. Any new landlord would have to be a 'Registered Social Landlord' (RSL) as defined by the Housing Corporation. If the Council wished to set up a new stand alone RSL it would need to be registered before transfer (but not the ballot) could take place.

19. The methodology for determining the tenanted market valuation (TMV) or purchase price of the housing is laid down by the CLG in its guidelines.

20. An indicative valuation arising out of the assumptions made in the report is £54.5m (a unit valuation of £9,800).

21. However the sensitivity analysis shows that the value of the housing for transfer purposes can vary significantly as a result of changes to the assumptions made.

22. The CLG also stipulates rules on the application of any capital receipt arising from transfer. The key items to be considered are as follows:

    - Pensions Fund Deficit
    - setting up costs
    - CLG Levy
    - set aside receipts
    - usable receipt.

23. A significant proportion of the setting up costs (especially post ballot) would be incurred by the new landlord. These may vary depending on whether the new landlord is linked to or part of an established association or whether alternatively it is a stand-alone organisation. The Council is able to make a loan to the new landlord under Section 25 of the Local Government Act 1988, which can be offset against the receipt should transfer take place. If transfer does not take place the loan is usually written off to the General Fund.

24. A summary of the likely costs is provided in the report, although it is stressed that these are only indicative costs and assuming a transfer to a new landlord structure. The amount and type of input required from staff will vary during the process, but it will involve considerable commitment from staff at all levels, both from housing and support services. Housing staff, with some additional resources, will be required to make a significant input during the consultation period.

25. The main items to consider with regard to the impact on the General Fund are as follows:

- HRA mortgages
- HRA working balance
- VAT exemption
- Residual corporate costs
- Future RTB sales and interest on the capital receipt.

26. In the event of a housing transfer, some costs currently charged to the Housing Revenue Account could not be saved, and, in the absence of the HRA would fall on the General Fund. This would include some costs, such as the Corporate and Democratic Core, whose costs would be entirely unaltered by a transfer.

Consultations

27. The headline results from the financial modelling has been made available to staff, members and tenant representatives through briefing sessions held during September and October.

Effect on Project Objectives

28.

Investment needs of the housing and the resources available to meet those needs	
The viability of the Housing Revenue Account	
Tenants' views on the current housing service and their priorities	Type here
Sustainable Community Strategy (and LAA) implications	The financial modelling will inform how far each of the options for the future ownership and management of council housing in South Cambridgeshire could contribute to delivering the wider housing and related objectives within the Sustainable Community Strategy.
Staff are well informed and involved in the Housing Futures process	The financial position will impact on staff within the housing service in terms of both retention and transfer options and, therefore, staff have been fully briefed on this work and provided with opportunities to discuss the potential implications.

A sound and robust evaluation based on the above objectives, and relevant government guidance	The financial model used by Tribal Consulting is the one made available by and promoted by the government. It can be used to carry out sensitivity testing around any of the key assumptions made. The financial modeling work is underpinned by a robust and up to date housing condition survey that takes into account all relevant government guidance including that on options appraisal and 'Collecting, managing and using housing stock information' – published by the Office of the Deputy Prime Minister (now Communities and Local Government) in August 2000.

Actions Required

29. To note the content of the report and potential implications for each of the possible options for the future ownership and management of council housing in South Cambridgeshire.

Background Papers: the following background papers were used in the preparation of this report:

Housing Futures Draft Financial Analysis Report

Tribal Consulting October 2007

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