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South Cambridgeshire District Council

Housing Futures
Financial Analysis 3rd Draft Report

October 2007

Services for life

Contents

Appendices

1 Introduction

1.1.1 This report presents the outputs of the financial analysis of the Housing Futures project for South Cambridgeshire District Council.

1.1.2 This report concentrates on the financial aspects of each option including the assumptions made in the modelling and the related outputs. It does not provide details of the operational and non financial elements of the options.

1.1.3 A summary of the structure of the report is shown below:

2 Stock Retention Analysis

2.1 Introduction

2.1.1 This chapter will examine the current Housing Revenue Account (HRA) and future financial projections including the stock investment inputs.

2.1.2 The investment analysis is the latest available stock condition data. This is based on the Council's Stock Condition Survey recently undertaken by Savills.

2.1.3 We set out below the Council's financial planning assumptions for 2007.08 and future years and highlight some of the key assumptions which have been used to build the financial model which we have used to assess the viability of the HRA.

2.1.4 The stock has been considered as a whole for the purposes of this analysis. The dwellings which the Council intends to dispose of; mostly on the Windmill Estate, but also some Non Traditionally constructed dwellings, have been assumed to be disposed of in the early years of the plan.

2.1.5 The CLG HRA Business Plan financial model has been used to undertake this analysis.

2.2 Global Assumptions

2.2.1 The initial model analysis has been based on the budgets for 2007.08, and continuing throughout the course of the Plan, except for elements where more detailed information is available. This is shown in the input assumptions below.

2.2.2 Inflation has been assumed at 2.5% throughout in line with the Council's planning assumptions.

2.3 Changes in Stock

2.3.1 Existing stock numbers and future stock profiles have been based on the Council's existing Housing Strategy.

2.3.2 Sales under the Right to Buy legislation have been assumed at 2 leasehold, and 20 freehold per annum. The projected average valuation before discount is £137,000 with the maximum discount of £34,000 applied in each case. The valuation is assumed to increase in line with inflation only; the maximum discount is cash frozen. Administrative costs associated with sale are £2,000 per unit, also increasing for inflation.

2.3.3 The Council is required to pay 75% of its Right to Buy receipts to central Government. It is currently assumed that more than the remaining 25% will be utilised in the years 2007.08 – 2009.10. No use of the receipts is assumed with effect from 2010.11, but a sensitivity test has been applied on this.

2.3.4 Other stock changes have been included in the Plan in line with Council estimates. This includes disposal of dwellings at the Windmill Estate and of non traditional construction, as well sale and re-purchase of dwellings under the "Equity Share" scheme, where applicants buy a proportion of a home. When they are ready to sell, depending on when they purchased, the Council is either required, or entitled, to re-purchase at the appropriate proportion of market rate. It has been assumed for the purposes of the modelling that the impact of this scheme is neutral in income/expenditure terms throughout. There is a net addition of 4 dwellings per annum assumed in 2007.08 – 2011.12, and a net nil each year thereafter. However, If there is a downturn in the market, this may result in fewer sales (possibly at lower values) but is unlikely to alter the scheme numbers and hence the Council's commitment to re-purchase their share. This therefore represents a risk to the Council's HRA, mitigated by the fact that new sales since January 2006 have been made on the basis that the Council is entitled, but not obliged, to re-purchase.

2.3.5 As the model uses unit costs and income data, the output is sensitive to changes in these assumptions.

2.4 Rents

2.4.1 Since the introduction of rent restructuring, the Council has pursued a strategy of increasing rents by reference to the formula ("target") rent for each dwelling, but in the early years increased each rent by less than would be expected by the Office of the Deputy Prime Minister (CLG) under its policy. The intention was to restrict the Council's actual average rent so that it does not exceed the "limit rent" level, beyond which the Council is subject to rent rebate subsidy limitation ("rent capping"). Such limitation would reduce the value of the rent above the limit rent by approximately 40%. The aim of making actual average rent equal to or less than limit rent has been achieved.

2.4.2 In 2006.07 and 2007.08, the government had a policy of requesting Councils to limit their overall rent increase to 5%. The Council complied with this request. In August 2007, the Government issued a consultation paper on the interaction between rent restructuring and HRA subsidy. At worst, this might result in the ongoing cost of applying the 5% overall limit not being reimbursed by the Subsidy system, and at best, it will result in a cashflow cost which will be most dramatic in 2008.09, and will then reduce in later years. We have assumed the best case; if the worst were to arise, it would have a dramatic impact on the HRAs of most Councils in the South of the country.

2.4.3 The Consultation paper also suggests that the target date for rent convergence may be extended for an unspecified period beyond April 2011. On current assumptions, only 10% of the Council's rents would be at target by 2011.12, because of the maximum increase of RPI + 0.5% + £2 per week. Because so many rents are already subject to the maximum increase, it is unlikely to have a dramatic impact on either individual rents or the HRA if implemented.

2.4.4 Voids are included in the modelling at a rate of 2.3% of the rental income, and Bad debts at 0.6% of rental income, throughout the modelling.

2.5 Service Charges

2.5.1 No tenanted service charges have been "unpooled" under rent restructuring arrangements, and none have been assumed for the future. Charges for sheltered, "lifeline" and sewerage are shown separately as other income with real growth of 0.5% per annum.

2.5.2 Sheltered Service charges have been assumed to increase at inflation plus 0.5%

2.5.3 Average leasehold service charges of £2.52 per week for 52 weeks have been included in the modelling and are also assumed by the Council to increase by inflation plus 0.5% per annum.

2.6 Other Income

2.6.1 Charges to the General Fund are anticipated to reduce by more than 10% in real terms in 2008.09, and to then be cash frozen thereafter.

2.6.2 Supporting people income is assumed to be cash frozen in 2008.09, to reduce in the years 2009.10 – 2011.12, and then be cash frozen thereafter.

2.6.3 Other income relating to garages, alarm charges and other minor income is based on the 2007.08 estimates and is projected to increase in line with inflation.

2.7 Subsidy

2.7.1 Management and Maintenance (M&M) allowances have been calculated using the actual figures for 2007.08, an assumed increase in “target” allowances of 0.5% pa to 2011.12, and convergence with targets by 2016.17.

2.7.2 The Major Repairs Allowance (MRA) has been included at the 2007.08 actual, and has been assumed to increase in line with inflation (i.e. no subsequent real increases or decreases) in future years. This is used to calculate the depreciation charge to the operating account.

2.7.3 The guideline (notional) rent is based on the HRA subsidy determination for 2007.08. It has been necessary to take a view on future provision for rent restructuring and subsidy, in the light of the Government’s August 2007 consultation paper on the subject. We have assumed that actual rents converge with target in 2011.12, and that the subsidy system reimburses the cost of the limit on actual rents which prevents this happening. We have also taken account of the cashflow impact of this happening a year in arrears; the greatest impact is in 2008.09.

2.7.4 The Council also currently receive subsidy for other reckonable expenditure relating to the rent for leased properties acquired prior to 1 April 1981 of £8,450; this subsidy allowance is anticipated to continue throughout the modelling.

2.7.5 Subsidy interest on receipts relates to mortgage interest and is equivalent to the interest on mortgages received by the Council.

2.7.6 The Council does not receive any supported capital expenditure allocation.

2.7.7 The Item 8 credit has been based on an opening HRA capital financing requirement of - (negative) £217,000 and investment interest of 5.02% (the assumed LIBID rate for Subsidy purposes in 2007.08) throughout the 30 years.

2.8 Management and Service Expenditure

2.8.1 Management costs, in line with the Council’s estimates, are included in the Plan split just over 85% fixed and just under 15% variable. This means that as the

Council sells or disposes of dwellings, 85% of these costs are assumed not to be reduced. The management costs have been substantially reduced since the 2005 Option Appraisal, and are now assumed to show real increases of 2.04% in 2008.09, 1.8% for each of 2009.10 and 2010.11, and 0.5% per annum thereafter.

2.8.2 Service costs are assumed to be approximately 12% variable with real increases of 1.94% in 2008.09, 1.71% for each of 2009.10 and 2010.11, and 0.57% per annum thereafter

2.9 Other Expenditure

2.9.1 £135,000 pa has been included for costs such as Council Tax on void dwellings. This has been included as a cash frozen amount, assuming that future cost increases are met by improvements in numbers to which they apply.

2.10 Rent Rebates (Housing Benefit)

2.10.1 The ‘limit rent’, which is the limit upon which rent rebate subsidy is payable, is £70.87 for 2007.08. The future limit rents follow the same principles established for the calculation of the guideline rent shown above. No cost to the HRA of Rent Rebates is assumed.

2.11 Maintenance and Investment Expenditure and Resourcing

2.11.1 Costs in 2007.08 have been set in line with the Council’s budgets for the current year.

2.11.2 With effect from 2008.09, the maintenance and investment programme is based on the investment need as identified in the new Stock Condition Survey which the Council commissioned from Savills Commercial Ltd.

2.11.3 Savills’ report contains costings over a 30 year period on the basis of three different standards of maintenance:

- An absolute minimum standard, which meets, and in some respects exceeds, the Decent Homes Standard, but falls below the standard which most Social Landlords work to,
- The “normal” survey standard which is that which most Social Landlords work to, and would be recommended by Savills as the appropriate standard, and;
- An aspirational standard, which is above the standard most Social Landlords work to, but reflects residents’ aspirations as expressed during the 2005 Option Appraisal process.

2.11.4 The decision made by the Council in 2005 to retain the Housing Stock was based on a standard described as Decent Homes plus essential health and safety works.

2.11.5 Fees have been added to Savills’ figures at 8% of the total capital spend; this is in line with the assumptions made in 2005. We have adjusted the capital expenditure recommended by Savills for 2007.08, to take account of the actual capital programme approved by Council, where this refers to works recommended by Savills, and added the shortfall to years 2-5. Savills have categorised as revenue some repairs which the Council categorises as capital. We have therefore made an adjustment to show this as capital for modelling purposes.

2.11.6 Table 2.11.6 compares the capital programmes in years 2007.08 – 2013.14 of the 2005 Decent Homes Only programme, the currently approved capital programme, and the three levels of the Savills Survey. These values are at the assumed outturn prices (that is, they are expressed in the price base of the year in question). The significance of 2013.14 is that this is the year in which the modelling for the 2005 appraisal (Decent Homes only) indicated that a shortfall would first occur.

			Savills		
	2005 Decent Homes Level £000	Current Capital Programme £000	Minimum £000	Recommended £000	Aspirational £000
2007.08	6,450	10,309	10,309	10,309	10,309
2008.09	6,596	10,405	10,345	14,441	15,303
Subtotal to 2008.09	**13,046**	**20,714**	**20,654**	**24,750**	**25,612**
2009.10	7,700		10,583	14,769	15,650
2010.11	7,881		7,425	11,713	12,613
2011.12	8,068		7,600	11,971	12,891
2012.13	8,262		6,377	8,507	9,067
2013.14	8,464		6,514	8,689	9,260
Total to 2013.14	**53,421**	**20,714**	**59,153**	**80,399**	**85,093**

Table 2.11.6: Capital Programmes for Different Survey Standards

2.11.7 The existing capital programme includes the costs of equity share re-purchases. The assumption for the years after 2008.09 is that they will balance sales. This assumes that the Government will apply its proposed changes to the Capital Receipts pooling regulations, to allow this to happen. Should the Government not apply these changes, the position would be significantly worse. Even with this assumption, the current level of Capital programme cannot be sustained in the years beyond 2008.09, and, it can be seen, is inadequate to meet the Savills' recommended standard.

2.11.8 We have assumed real increases in revenue repairs costs of 0.5% throughout, but for investment activity, we have applied the somewhat optimistic assumption of inflationary increases only. This will be difficult to achieve in the current climate, and we have undertaken sensitivity testing on this. However, since the recommended standard cannot be afforded given this base assumption, this is not critical.

2.11.9 The results of our modelling of these standards, together with the assumptions about future income and expenditure, are considered later in this chapter.

2.12 Balances

2.12.1 The Council advises us that their policy is that a minimum level of working balance of £1m at current prices is required.

2.13 Modelling Results

2.13.1 The assumptions set out in the preceding paragraphs, including Savills' recommended standard, together make our "Base Assumption". Alternative scenarios are considered below, but the results referred to here are those of this base model.

2.13.2 Our modelling suggests that the Operating (Revenue) 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 30m (including interest on the notional overdrawn balances) of £33m.

2.13.3 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; deficits commence in 2008.09, and total £219m over a 30 year period (at outturn prices).

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

2.14 Sensitivity Analysis

2.14.1 The modelling described above is based on one set of assumptions. However, it is best practice to consider alternative assumptions. The alternatives considered, and the results of the modelling, are explained in the succeeding paragraphs

2.14.2 **Sensitivity A: Savills' Minimum Standard**. This model includes the minimum standard, as explained .above. As would be expected, the capital shortfall is lower, at £120m over the 30 year period. The year of first shortfall does not occur until year 3 (2009.10). There is no change to the Operating Account position, although in practice, the impact on demand for revenue repairs may be higher than described for the base position.

2.14.3 **Sensitivity B: Aspirational Standard:** This model includes the aspirational standard, as described above. As would be expected, this increases the capital shortfall, to £241m over 30 years, with no impact on the operating account.

2.14.4 **Sensitivity C: Useable Right to Buy Receipts from 2010.11 used for HRA:** The base model assumes that from 2010.11, usable right to buy receipts would not be available for the HRA. (It is assumed that shared equity receipts would be needed to fund shared equity re-purchases). This sensitivity shows that making 100% of usable receipts available to the HRA has a minimal impact; the year of first shortfall remains 2008.09, and the 30 year shortfall reduces to £194m.

2.14.5 **Sensitivity D: Planned Repairs Costs Increase at 1% per annum in Real terms, years 2-6:** This model shows the impact of a more prudent assumption on planned repairs costs in future years. As would be expected, the shortfall worsens, to £236m over 30 years.

2.14.6 **Sensitivity E: Responsive Repairs as Per Survey Charged to Revenue Account:** As explained above, the base modelling adds the excess of responsive repairs over the current budget to capital. This sensitivity shows the impact of charging the whole amount to revenue. The year that savings would first be essential remains as 2009.10, but they would need to be more substantial, and there would now be a deficit much earlier; in 2010.11, without such savings. The year of first capital deficit would be extended to 2010.11, and the capital deficit would be £208m over 30 years, with the Operating Account deficit rising to £56m at year 30.

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

3 Alternative Options

3.1 Introduction

3.1.1 This chapter considers the alternatives which existed at the time of the 2005 option Appraisal, and updates the position on them. It also briefly considers whether other options will be available on the timescale which the Council requires.

3.2 Arms Length Management Organisation (ALMO)

3.2.1 This is an option in which the Council retains ownership of the Housing Stock, and gives a management contract to an organisation which it wholly owns. The benefit of the arrangement was that the Government were prepared to make additional funding available to Councils with ALMOs, subject to their achieving 2 stars at inspection.

3.2.2 The option is no longer available as a source of additional finance. The final round of bids for ALMO resources closed in 2006.

3.3 Private Finance Initiative (PFI)

3.3.1 The HRA-PFI process would involve entering into a long-term contract for up to 30 years with a private sector service provider to renovate and manage part of the stock in return for a management fee for the contract period. At the end of the contract period the stock would revert to management by the Council.

3.3.2 These schemes lend themselves to smaller groups of stock than the Council's whole stock. They have continued to prove complex and time consuming to implement, and for this reason, this does not appear to be a viable alternative for the Council.

3.4 "Self Financing" HRA

3.4.1 The July 2007 Housing Green Paper "Homes for the Future: More affordable, more sustainable" makes reference to the work being undertaken by the Government, with six modelling authorities, on the "Self Financing" option. The paper makes it clear that the option needs to be neutral for the Exchequer (each authority would either pay a commuted sum in lieu of the "negative subsidy" to be paid over 30 years, or receive one in lieu of positive subsidy). Councils such as South Cambridgeshire, who pay "negative subsidy" would make a payment, which would be funded from debt. Councils who receive subsidy would reduce their debt. In either case, the HRA would remain in balance through higher or lower debt charges, balanced by the removal of the HRA Subsidy payment or receipt.

3.4.2 The work on this to date has taken over twelve months. The Green Paper states that the next steps, if any, will be a pilot stage. This would appear unlikely to be an option for South Cambridgeshire on the required timescale. If it were, competition is likely to be fierce, and if successful, if the aim of making the arrangement self financing for the Exchequer is achieved, this implies it would also be neutral for South Cambridgeshire.

3.5 Large Scale Voluntary Transfer (LSVT)

3.5.1 This is an established model, which remains available, and which we consider in more detail in the next chapter.

4 Stock Transfer – Financial Analysis

4.1 Introduction

4.1.1 Of the strategic housing options pursued by local authorities, the most comprehensive but also the most far reaching alternative is a large scale voluntary transfer (LSVT).

4.2 Partial or Full Stock Transfer

4.2.1 The Council could choose (with the support of tenants, and the formal approval of the Secretary of State) to transfer all of its dwellings (Full transfer) or only some (partial transfer). The Council has already made decisions regarding some high investment stock, notably at the Windmill Estate, and our brief was to consider a whole stock option (excluding the dwellings for which plans are already made)

4.3 Transfer Valuation

4.3.1 The rest of this Chapter considers the likely LSVT valuation, based on the base stock condition data. The following areas are specifically covered:

- Government rules;
- valuation;
- application of receipt;
- impact on General Fund.

4.3.2 There have been over 250 large scale voluntary transfers to date involving the transfer of over one million housing properties, most of which have been to new sponsored housing associations, or local housing companies set up specifically for the transfer. By definition, recipient landlords are not for profit organisations, and in recent years, they have almost always been charitable.

4.4 Department for Communities and Local Government (CLG) Rules

4.4.1 Stock transfers are subject to CLG consent and their regulations and guidelines, which are issued periodically. If the Council wished to proceed with full-scale transfer it would need to liaise with the CLG and the Government Office for the East, and comply with their instructions for making formal application.

4.4.2 Places on the disposals programme allow the transfer to take place within a two financial year time frame. There is an optimistic expectation that transfers will happen within six months of a successful ballot; transfers beyond twelve months give rise to fears about how representative of today's tenants the ballot can be assumed to be.

4.4.3 Although it has removed the previous 12,000 limit on the number of dwellings which it allowed to be transferred to a single landlord, the CLG guidance still states that there is a presumption against creating large "monolithic" landlords. A stock of the size owned by the Council should not give rise to any objection.

4.4.4 The 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.

4.4.5 As well as applying for admission to the programme, work would need to be undertaken to select a partner Housing Association (or decide on a stand alone landlord), set up the new structure (if appropriate) and prepare for consultation with tenants on the proposals, prior to going to ballot.

4.5 Valuation Assumptions

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

4.5.2 This is based on discounting all future expenditure and income cashflows over the next 30 years at a discount rate in the range 6% - 8%. In practice a new landlord should be able to achieve a lower "real" interest rate on the current market, although conventionally funders have expected Business Plans to be based on a repayment period of 30 years or less. We have used a 6.5% discount rate, which reflects the rate used for recently completed transfers. A sensitivity test (number 1) shows the impact of assuming 6.75%.

4.5.3 This basis of valuation means that the value derived is based on the assumptions used for future income and expenditure, and therefore allows for commitments to be given on maintenance programmes and rent restructuring. Given that these are built into the expenditure profile the new landlord can borrow to finance the net expenditure.

4.5.4 The valuation basis produces a much lower unit valuation than the "Open Market Value" which is reflected in the local Housing market for Owner Occupied dwellings. This is because Open Market Value is for vacant possession, with no restrictions on the purchaser. By contrast, the conditions attached to the Tenanted Market Value are:

- The new landlord must be a Registered Social Landlord, by definition a not for profit organisation;
- All current tenants transfer;
- The homes must be maintained as social housing, with a nominations agreement with the Council for void dwellings as they arise;
- Rents are subject to the Government's rent policy;
- The new landlord must undertake all repairs & improvements identified in the Council's "offer" to its tenants;
- The new landlord must fulfil other promises (e.g. on rents) in the Council's "offer" to its tenants.

4.5.5 In this context, it will be understood that the value to the new landlord of the dwellings is therefore no more than any excess of projected income over expenditure.

4.5.6 The valuation is based on estimated stock as at 1 April 2007. It is subject to any changes in the number of dwellings to that estimated for that time, such as future Right to Buy sales, and to changes to price base and other assumptions

4.5.7 We have analysed the various items of expenditure and income in order to calculate the indicative valuation. It should be stressed that the valuations are very much dependent on the assumptions and therefore sensitivity tests have also been completed to show the effect of changing some key assumptions. These assumptions are in line with those used to model the projections for stock retention. Variations to these assumptions are detailed below.

4.6 Investment Requirements

4.6.1 The investment programme is in accordance with the Savills survey (recommended standard). This corresponds to the base model used for the analysis of stock retention earlier in this report. We have assumed that the Council's DLO would transfer, with the staff covered by TUPE arrangements, so that part of the responsive repair costs would be employee related and not attract VAT.

4.6.2 We have assumed that all of the survey's costs would increase by 1% per annum in real terms in years 2-6. This is a more prudent assumption than that made for the base HRA model and reflects funders' requirements

4.6.3 A sensitivity test has been undertaken with the aspirational survey standard (test 2).

4.7 Voids and Bad Debts

4.7.1 Voids and Bad Debt rates have been based on the projected position of the Council, uprated slightly from 2.9% to 3%.

4.8 Sales of Dwellings, Garages, Land etc Post Transfer

4.8.1 It is established practice to exclude Right to Buy sales receipts from the base valuation, as some of the early stock transfers met with difficulties achieving the effective sales targets imposed.

4.8.2 Instead a sharing agreement is usually negotiated, based on a formula that splits any future sales receipts between the new landlord and the Council. The new landlord retains sufficient receipt to compensate it for the net rental loss and cost of sales, with the remainder (or a negotiated share) being paid over to the Council. This would provide the Council with an ongoing annual stream of additional capital receipts from future RTB sales post transfer. This revenue stream is not subject to receipts pooling, and as such, it is likely that the usable proportion of sales made after a transfer would exceed that of sales made by the Council itself.

4.8.3 Councils often withhold obvious development sites, including those with garages currently on them, from transfer. For assets which do transfer, there is typically an agreement which allows the Council to recover profits from such sales, especially if they are on a commercial basis. At present, the Valuation assumes that all income earning garages transfer.

4.9 Management and Service Costs

4.9.1 A key determinant affecting expected management costs would be the size and structure of the new landlord. As a stand alone organisation, it is expected that costs will be higher, and there will also be some irrecoverable VAT, and we have therefore assumed an increase of 20% on existing costs, with 0.5% pa real increases. It may be possible to minimise this increase, perhaps through transfer to an existing organisation; we have therefore tested the possibility of transfer using an uplift of 15% on existing costs (test 3).

4.10 Rents and Service Charges

4.10.1 The indicative valuation is based on modelling of rents to year 11, by which time rents will not, on average, have converged with target. We have then assumed that rents have the same real increase as calculated for year 11 each year until convergence is achieved. This is an area where a more detailed model for all years to convergence would be recommended if the Council decides to pursue transfer. We have tested the impact of all rents increasing by 0.5% only from year 11 (test 4).

4.10.2 Service Charges for leaseholders are assumed to increase at 0.5% above inflation. Supporting People income is assumed to be cash frozen, in line with the HRA modelling.

4.11 Sewerage Plant

4.11.1 The indicative valuation includes the continuation of income from sewerage charges, at the current level of £36,000. RSLs and their funders are often nervous about the liability which sewerage plant owned by them can represent. If the Council decides to pursue transfer, early legal advice on the options for this would be recommended.

4.12 Other Income

4.12.1 The Valuation is currently assumed to include all garages.

4.12.2 Analysis of other items included in the HRA Business Plan analysis has been undertaken to assess whether these would remain following transfer.

4.13 Indicative Valuation

4.13.1 The resulting gross indicative valuation arising out of the above assumptions is £54.5m (a unit valuation of £9,800). There are a number of costs to be met from this, outlined later in this chapter.

4.14 Sensitivity Testing

4.14.1 We indicate below the impact on the valuation of changing some of the key assumptions as outlined in the foregoing analysis. It can be seen that changes to the assumptions can have a significant impact on the valuation.

4.14.2 The impact on the Council's General Fund is addressed later in this Chapter. Any change to the valuation will impact on the indicative implications.

INDICATIVE VALUATION & SENSITIVITY TESTS			
TESTS	**DESCRIPTION**	**IMPACT ON BASE (£M)**	**REVISED VALUATION (£M)**
	BASE INDICATIVE VALUATION		54.542
TEST 1	6.75% Discount Rate	-1.854	52.688
TEST 2	Tenants Aspirational Programme	-9.330	45.212
TEST 3	15% Uplift to Council Management costs	+3.437	57.979
TEST 4	Transfer Rents +0.5% real pa; year 11 onwards	-1.113	53.429

Table 4.14.2

4.14.3 The sensitivities show that the value of the stock for transfer purposes can vary significantly as a result of changes to the assumptions made. The above illustrates a range of valuations within which negotiation between the Council and a new partner landlord may be expected to take place.

4.14.4 Whilst test 2 shows the impact of the aspirational programme costed in the Stock Condition Survey, it may be that the Council will wish to consider other aspirations expressed by tenants during the current process, and, if it proceeds with investigating further, the informal consultation phase. Examples might include enhanced levels of service. It should be stressed that, as sensitivity 2 illustrates, promises which add to the new landlord's cost have a valuation impact. Nonetheless, the Council will doubtless wish to ensure that the offer it makes to its tenants is one which meets their aspirations, with the implications for the valuation that this may have.

4.15 Application of Receipt

4.15.1 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.

4.16 Pensions Fund Deficit

4.16.1 The CLG allows the cost of the pension fund deficit for transferring staff to be transferred to the new landlord, and to be taken into account in the valuation. As will be seen in the succeeding paragraphs, there is a benefit to the Council of dealing with the deficit in this manner, as the CLG effectively meets 20% of the cost through reduced levy.

4.16.2 The Council has provided a current estimate of the cost of the deficit of £5m.

4.17 Setting up Costs

4.17.1 The setting up costs associated with transfer would be paid by the Council from the capital receipt from the transfer, and the Council would also be required to pay a levy to CLG (explained in more detail to below).

4.17.2 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.

4.17.3 There are also various pre ballot costs that will be incurred by the local authority. Those costs that are incurred specifically in carrying out the consultation of tenants are, in the opinion of the CLG, chargeable to the HRA. Ultimately it is for the Council to take its view on those items, which are attributable to the HRA, in consultation with its external auditor. Other administrative costs of and incidental to a housing transfer are chargeable to the General Fund. These abortive costs will be chargeable to the Council if there is a negative ballot or for any other reason the transfer does not take place.

4.17.4 A summary of the likely costs is provided in the table below, 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. The actual input from staff and the additional resources required would need to become more formalised if a decision is taken to pursue transfer, and the post ballot costs reviewed again following a successful ballot.

4.17.5 Recent guidance provided by the CLG has indicated that they would expect authorities to place increasingly greater emphasis on developing the proposals as part of the informal consultation process. In some cases this may lead to additional costs being incurred at risk (pre-ballot) but with compensating savings post ballot.

	Pre Ballot	Post Ballot	Total
	£000	**£000**	**£000-**
Council			
Lead Consultants	80	80	160
Non Trad Survey		40	40
Refresh Stock Condition Survey		15	15
Independent advisers to Tenants	90	-	90
Conveyancing Costs	-	80	80
Legal Advisers	40	75	115
PR Adviser	50	-	50
Electoral Reform Society	15	-	15
Publicity (newsletters etc)	70	-	70
Market research	10	-	10
Offer Document and video	60	-	60
Home visits	40	-	40
VAT Shelter Scheme Advice	-	20	20
Environmental survey	-	30	30
Seconded Staff and Support Admin.	60	60	120
Sundry Costs/Contingency	20	100	120
Sub-total	535	500	1,035
New Landlord			
Lead Consultants	25	150	175
Legal Advisers	20	170	190
Public Relations	-	25	25
Tenant Information & Handbook	-	40	40
Board Training	15	15	30
Employee survey (change management)	15	-	15
Pre transfer procurement advice	-	50	50
VAT Shelter Scheme advice	-	30	30
DLO Health Check	-	30	30
Valuation Report	-	25	25
Audit report	-	20	20
Funding Advisors	-	50	50
Funders' Lawyers	-	85	85
Arrangement Fees (assuming peak debt of £79m @ 1.25%)	-	988	975
Land Registry Fees		25	25
Start Up costs (incl. Salaries, indemnities & office costs)		450	450
IT Advisors	-	45	45
NHF Affiliation Fee	-	20	20
Sundry Costs/Contingency	20	120	140
Non Recoverable VAT	13	179	192
Sub-total	108	2,517	2,625
TOTAL	**643**	**3,017**	**3,660**

Table 4.17.5: Indicative Set up Costs

4.17.6 It should be noted that current CLG guidance indicates that many of the landlord side costs, including the substantial arrangement fee, should be met by the landlord, and not from the Council's receipt as hitherto. However, as the landlord is assumed to be a new organisation, they will only be able to meet these costs if there is an equivalent reduction in the valuation, so that the net effect would be the same. We have therefore left the costs within set up costs for ease of reference.

4.18 CLG Levy

4.18.1 The CLG charges a Levy on transfer receipts. This levy is currently 20% of the residual capital receipt after taking into account outstanding debt, non leviable assets and set up costs.

	Dwellings £000	Non Leviable £000	Total £000
Gross receipt	52,500	2,000	54,500
Set Up Costs	3,526	134	3,660
Pensions	5,000		5,000
Sub Total	43,974	1,866	45,840
Levy	8,795		8,795
Net Receipt	35,179	1,866	37,045

Table 4.18.1: Calculation of Indicative Net Receipt

4.19 General Fund Effect

4.19.1 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.

4.20 HRA Mortgages

4.20.1 If stock transfer took place and the HRA was closed, the mortgage interest currently credited to the HRA could be transferred into the General Fund. The interest currently applied to the retention model projections has therefore been included

4.21 Working Balance

4.21.1 Following the closure of the HRA any remaining balance is transferred to the General Fund. We have assumed this as £900,000. A later transfer would potentially result in a lower balance.

4.22 VAT Exemption

4.22.1 At present, the Council is able to recover input VAT paid on certain supplies acquired for exempt "business" activities, which are not normally recoverable. Local authorities benefit from this concession if the VAT on these supplies does not exceed 5% of all VAT paid on purchases.

4.22.2 Following a stock transfer, and the consequent reduction in the Council's overall value of annual purchases, it is possible that the 5% proportion could be exceeded. In these circumstances none of the input VAT on supplies for exempt "business" activities is recoverable for the whole Council and there would be a need to finance the full purchase price. We are advised that It is not anticipated at this stage that this will impact on the Council.

4.23 Residual Corporate Costs

4.23.1 In the event of a stock 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. In addition, there would be throughout the Council's central departments, staff who spend a proportion of their time on HRA work, but less than the 50% necessary to trigger the Transfer of Undertakings Protection of Employment Regulations (TUPE).

4.23.2 As well as creating a lack of an account to which to charge staff time, the transfer will also result (at least in theory) in a reduction in the work undertaken by the staff in question. Following a transfer, Councils have tended to take a mixture of approaches to the issue of this excess working capacity. The employment protocol which Councils invariably enter into with the new landlord usually allows for staff that spend part, but less than 50%, of their time to apply for employment with the new landlord within a "ring fence". This reflects the fact that the work which is not undertaken by the staff referred to, will nonetheless still be required by the new landlord. Beyond this process, Councils have tended to undertake a mixture of immediate restructuring, with the loss of employment this may entail, and restructuring as staff leave through "natural wastage". In any event, with the pressure to make "Gershon" efficiency savings, the Council would be seeking to minimalise these costs.

4.23.3 We have assumed that there would be an initial residual cost of £1.2m, reducing by £100,000 per annum in years 2-4, and remaining at £900,000 per annum thereafter.

4.23.4 If the Council were to pursue transfer, it would be necessary to undertake detailed work on this during the pre ballot period so as to have a more firmly based estimate when formally agreeing to proceed to ballot.

4.24 Impact on the General Fund

4.24.1 The net impact on the General Fund of the above assumptions is illustrated in the table below:

	Year 1	Year 2	Year 3	Year 4	Year 5
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Residual Corporate Costs	1,200	1,100	1,000	900	900
Income					
Interest on receipts	(1,663)	(1,663)	(1,663)	(1,663)	(1,663)
Mortgage Interest	(5)	(4)	(3)	(2)	(1)
HRA Balances	-	(900)		-	-
Total Cost/(Saving)	(468)	(1,467)	(666)	(765)	(764)
Cumulative Cost/(Saving)	(468)	(1,936)	(2,602)	(3,367)	(4,132)

Table 4.24.1: Indicative Net Impact on the General Fund

4.24.2 The above table highlights the potential implications of transfer, assuming the receipts are invested and earn 5% per annum. These are indicative only and should be treated with caution.

4.24.3 The table excludes any income from Right to Buy Sales or the VAT Shelter, which are considered below.

4.25 Proceeds from Future RTB Sales and Interest on Receipts

4.25.1 Under current guidelines the stock valuation excludes any assumed benefit from future Right to Buy (RTB) sales. In reality there would be future sales and there would also be a contractual arrangement between the Council and the new landlord to ensure that the Council obtained a share of the financial benefit from these future sales.

4.25.2 The value of RTBs to the Council will be subject to this negotiated agreement. For illustration purposes, however, it has been assumed that the Council would benefit from all of the receipts based on the discounted sale price of the property, less the net cost of sale to the transfer organisation’s Business Plan and an administration fee. This has a significant implication as under current arrangements, where the Council retain the stock only 25% of any future sales proceeds will be available to the Council, the remainder being paid to the Government. Following a transfer situation receipts pooling does not apply, and the whole of the Council’s receipt is available to it to spend.

4.26 Proceeds from Sales under the Shared Equity Scheme

4.26.1 We have assumed that the new landlord would retain all of these receipts, as they would be required to re-purchase share equity dwellings. The fact that some tenants would be able to require the landlord to buy their dwellings, with no guarantee of new sales to meet the cost would be a risk factor for the new landlord. We anticipate that the risk would need to be addressed through the ability to make limited sales, subject to strict rules.

4.27 Proceeds from the VAT Shelter Scheme

4.27.1 A substantial cost, which RSLs have to meet, is the cost of VAT on the goods and services they buy, especially repairs. A scheme has been devised, which allows much of the VAT on major repairs and improvements in the first ten years to be saved. The scheme has approval from Customs and Excise, and from the CLG. The transfer RSL needs to be charitable to allow the scheme to be worthwhile (as otherwise a Corporation Tax liability arises). It is normal for savings to be shared between the Council and RSL in proportions to be negotiated.

4.27.2 It should be stressed that were the Council to pursue the transfer option, more detailed work would have to be undertaken on the VAT shelter to establish its value. We have calculated for indicative purposes that such a scheme could be worth up to £15m. The Council's share would be received during the ten years following the transfer, not as a lump sum upon transfer. The sum cited should be regarded as indicative pending specialist advice.

5 Conclusions

5.1 Stock Retention

5.1.1 Our 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.

5.2 Other Options

5.2.1 The Arms Length Management Organisation option which was available in 2005 is no longer available as a source of additional funding.

5.2.2 The Private Finance Initiative is complex, does not lend itself to whole stock solutions, and is not recommended as a solution for the Council

5.2.3 The Housing Green Paper issued in July 2007 does not offer any alternative solutions.

5.3 Stock Transfer

5.3.1 Our indicative valuation for the Council's stock, at the recommended survey standard is £54.5m. However, we have demonstrated how sensitive to the assumptions made the valuation is.

5.3.2 The key benefit of transfer is that the works identified in the survey would all be funded, in contrast to the situation for stock retention. This is because the new landlord would not be subject to the HRA Subsidy System.

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

Appendix A – HRA Base Model Outputs

South Cambridgeshire District Council
Business Plan Assumptions
Operating Account
(expressed in money terms) **YEAR END BALANCE BELOW MINIMUM** **CASHFLOW SURPLUS/DEFICIT DIFFERS**

		Income					Expenditure																	
Year	Year	Net rent Income	Other income	Misc Income	HRA Subsidy Receivable	Total Income	Managt.	Depreciation	Maint.	Cost of Capital	Other Revenue spend	HRA Cost of Rent Rebates	Misc expenses	Surplus to be redistrib.	Total expenses	Adjusting transfer from AMRA	**Net Operating (Expenditure)**	Provision for repayment of external loans	Transfer from / (to) MRR	RCCO	**Surplus (Deficit) for the Year**	**Surplus (Deficit) b/fwd**	**Interest**	**Surplus (Deficit) c/fwd**
		£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	£,000	**£,000**	£,000	£,000	£,000	**£,000**	**£,000**	**£,000**	**£,000**
1	2007.08	19,352	824	1,269	0	21,445	(4,847)	(3,244)	(2,936)	0	(135)	0	0	(10,100)	(21,262)	(24)	**159**	0	0	0	**159**	**2,785**	**129**	**3,073**
2	2008.09	20,769	801	1,270	0	22,841	(5,059)	(3,290)	(3,030)	0	(135)	0	0	(12,873)	(24,386)	(24)	**(1,569)**	0	0	0	**(1,569)**	**3,073**	**103**	**1,607**
3	2009.10	22,237	816	1,247	0	24,299	(5,268)	(3,342)	(3,099)	0	(135)	0	0	(13,170)	(25,013)	(25)	**(738)**	0	0	0	**(738)**	**1,607**	**56**	**925**
4	2010.11	23,816	830	1,228	0	25,874	(5,487)	(3,396)	(3,174)	0	(135)	0	0	(14,216)	(26,408)	(25)	**(559)**	0	0	0	**(559)**	**925**	**29**	**395**
5	2011.12	25,516	846	1,214	0	27,575	(5,654)	(3,449)	(3,259)	0	(135)	0	0	(15,292)	(27,788)	(26)	**(239)**	0	0	0	**(239)**	**395**	**12**	**168**
6	2012.13	26,200	862	1,217	0	28,279	(5,825)	(3,522)	(3,344)	0	(135)	0	0	(14,651)	(27,478)	(27)	**775**	0	0	0	**775**	**168**	**25**	**968**
7	2013.14	26,877	878	1,221	0	28,976	(6,002)	(3,598)	(3,431)	0	(135)	0	0	(15,088)	(28,254)	(27)	**695**	0	0	0	**695**	**968**	**59**	**1,722**
8	2014.15	27,571	895	1,225	0	29,691	(6,184)	(3,673)	(3,519)	0	(135)	0	0	(15,527)	(29,038)	(28)	**625**	0	0	0	**625**	**1,722**	**92**	**2,439**
9	2015.16	28,283	912	1,229	0	30,424	(6,371)	(3,749)	(3,610)	0	(135)	0	0	(16,013)	(29,878)	(29)	**517**	0	0	0	**517**	**2,439**	**121**	**3,077**
10	2016.17	29,012	930	1,233	0	31,175	(6,564)	(3,827)	(3,703)	0	(135)	0	0	(16,285)	(30,515)	(29)	**631**	0	0	0	**631**	**3,077**	**153**	**3,861**
11	2017.18	29,760	948	1,237	0	31,945	(6,763)	(3,906)	(3,799)	0	(135)	0	0	(17,493)	(32,095)	(30)	**(181)**	0	0	0	**(181)**	**3,861**	**170**	**3,850**
12	2018.19	30,526	967	1,242	0	32,735	(6,968)	(3,987)	(3,896)	0	(135)	0	0	(18,008)	(32,994)	(31)	**(290)**	0	0	0	**(290)**	**3,850**	**167**	**3,726**
13	2019.20	31,312	986	1,246	0	33,544	(7,179)	(4,070)	(3,997)	0	(135)	0	0	(18,537)	(33,918)	(32)	**(405)**	0	0	0	**(405)**	**3,726**	**159**	**3,479**
14	2020.21	32,117	1,006	1,250	0	34,374	(7,397)	(4,154)	(4,100)	0	(135)	0	0	(19,081)	(34,866)	(33)	**(525)**	0	0	0	**(525)**	**3,479**	**145**	**3,100**
15	2021.22	32,943	1,027	1,255	0	35,225	(7,621)	(4,239)	(4,205)	0	(135)	0	0	(19,640)	(35,840)	(33)	**(649)**	0	0	0	**(649)**	**3,100**	**125**	**2,575**
16	2022.23	33,789	1,048	1,260	0	36,097	(7,851)	(4,327)	(4,313)	0	(135)	0	0	(20,215)	(36,841)	(34)	**(779)**	0	0	0	**(779)**	**2,575**	**98**	**1,894**
17	2023.24	34,656	1,070	1,264	0	36,990	(8,089)	(4,416)	(4,424)	0	(135)	0	0	(20,806)	(37,870)	(35)	**(914)**	0	0	0	**(914)**	**1,894**	**65**	**1,045**
18	2024.25	35,545	1,093	1,269	0	37,907	(8,334)	(4,507)	(4,537)	0	(135)	0	0	(21,412)	(38,926)	(36)	**(1,055)**	0	0	0	**(1,055)**	**1,045**	**23**	**13**
19	2025.26	36,456	1,116	1,274	0	38,846	(8,587)	(4,600)	(4,653)	0	(135)	0	0	(22,036)	(40,011)	(37)	**(1,202)**	0	0	0	**(1,202)**	**13**	**(26)**	**(1,215)**
20	2026.27	37,389	1,140	1,280	0	39,809	(8,847)	(4,694)	(4,772)	0	(135)	0	0	(22,677)	(41,125)	(38)	**(1,355)**	0	0	0	**(1,355)**	**(1,215)**	**(85)**	**(2,655)**
21	2027.28	38,346	1,164	1,285	0	40,795	(9,115)	(4,791)	(4,895)	0	(135)	0	0	(23,335)	(42,270)	(39)	**(1,514)**	0	0	0	**(1,514)**	**(2,655)**	**(154)**	**(4,322)**
22	2028.29	39,327	1,190	1,290	0	41,807	(9,391)	(4,889)	(5,020)	0	(135)	0	0	(24,011)	(43,446)	(40)	**(1,679)**	0	0	0	**(1,679)**	**(4,322)**	**(232)**	**(6,233)**
23	2029.30	40,332	1,216	1,296	0	42,843	(9,676)	(4,989)	(5,148)	0	(135)	0	0	(24,706)	(44,654)	(41)	**(1,851)**	0	0	0	**(1,851)**	**(6,233)**	**(322)**	**(8,406)**
24	2030.31	41,362	1,243	1,302	0	43,906	(9,969)	(5,091)	(5,280)	0	(135)	0	0	(25,419)	(45,894)	(42)	**(2,030)**	0	0	0	**(2,030)**	**(8,406)**	**(424)**	**(10,861)**
25	2031.32	42,417	1,270	1,308	0	44,995	(10,271)	(5,195)	(5,414)	0	(135)	0	0	(26,153)	(47,168)	(43)	**(2,216)**	0	0	0	**(2,216)**	**(10,861)**	**(539)**	**(13,615)**
26	2032.33	43,498	1,299	1,314	0	46,111	(10,582)	(5,302)	(5,552)	0	(135)	0	0	(26,906)	(48,477)	(44)	**(2,410)**	0	0	0	**(2,410)**	**(13,615)**	**(667)**	**(16,692)**
27	2033.34	44,606	1,328	1,320	0	47,254	(10,902)	(5,410)	(5,694)	0	(135)	0	0	(27,679)	(49,820)	(45)	**(2,611)**	0	0	0	**(2,611)**	**(16,692)**	**(810)**	**(20,113)**
28	2034.35	45,742	1,359	1,326	0	48,426	(11,233)	(5,520)	(5,839)	0	(135)	0	0	(28,474)	(51,201)	(46)	**(2,820)**	0	0	0	**(2,820)**	**(20,113)**	**(969)**	**(23,902)**
29	2035.36	46,905	1,390	1,333	0	49,627	(11,573)	(5,633)	(5,987)	0	(135)	0	0	(29,290)	(52,618)	(47)	**(3,038)**	0	0	0	**(3,038)**	**(23,902)**	**(1,144)**	**(28,084)**
30	2036.37	48,097	1,422	1,339	0	50,858	(11,924)	(5,747)	(6,139)	0	(135)	0	0	(30,128)	(54,073)	(48)	**(3,264)**	0	0	0	**(3,264)**	**(28,084)**	**(1,337)**	**(32,684)**

South Cambridgeshire District Council
Business Plan Assumptions
Major Repairs and Improvements Financing
(expressed in money terms)

INPUT ERROR - REDUCE 'EXPENDITURE' UNTIL 'CHECK TOTAL' IS ZERO FOR ALL YEARS

Year	Year	Expenditure: Catch up Repairs £,000	Expenditure: Planned Maint £,000	Expenditure: Improvements £,000	Expenditure: Other £,000	Expenditure: Total Expenditure £,000	Financing: Borrowing £,000	Financing: RTB Receipts £,000	Financing: Other £,000	Financing: MRR £,000	Financing: RCCO £,000	Financing: Total Financing £,000	**Check Total £,000**
1	2007.08	157	5,881	321	3,950	10,309	0	0	7,065	3,244	0	10,309	**0**
2	2008.09	0	8,511	1,298	4,632	14,441	0	0	7,205	3,290	0	10,495	**3,946**
3	2009.10	0	8,696	1,326	4,748	14,769	0	0	4,979	3,342	0	8,321	**6,449**
4	2010.11	0	8,884	1,355	1,474	11,713	0	0	0	3,396	0	3,396	**8,317**
5	2011.12	0	9,076	1,384	1,511	11,971	0	0	0	3,449	0	3,449	**8,522**
6	2012.13	0	7,483	0	1,024	8,507	0	0	0	3,522	0	3,522	**4,985**
7	2013.14	0	7,639	0	1,049	8,689	0	0	0	3,598	0	3,598	**5,091**
8	2014.15	0	7,799	0	1,076	8,874	0	0	0	3,673	0	3,673	**5,201**
9	2015.16	0	7,961	0	1,103	9,064	0	0	0	3,749	0	3,749	**5,315**
10	2016.17	0	8,127	0	1,130	9,257	0	0	0	3,827	0	3,827	**5,430**
11	2017.18	0	8,733	227	750	9,710	0	0	0	3,906	0	3,906	**5,804**
12	2018.19	0	8,914	231	769	9,915	0	0	0	3,987	0	3,987	**5,928**
13	2019.20	0	9,099	236	788	10,124	0	0	0	4,070	0	4,070	**6,054**
14	2020.21	0	9,288	241	808	10,337	0	0	0	4,154	0	4,154	**6,183**
15	2021.22	0	9,481	246	828	10,555	0	0	0	4,239	0	4,239	**6,315**
16	2022.23	0	9,923	95	767	10,785	0	0	0	4,327	0	4,327	**6,458**
17	2023.24	0	10,128	97	786	11,011	0	0	0	4,416	0	4,416	**6,595**
18	2024.25	0	10,337	99	806	11,242	0	0	0	4,507	0	4,507	**6,735**
19	2025.26	0	10,551	101	826	11,478	0	0	0	4,600	0	4,600	**6,878**
20	2026.27	0	10,768	103	846	11,718	0	0	0	4,694	0	4,694	**7,024**
21	2027.28	0	12,807	278	1,007	14,092	0	0	0	4,791	0	4,791	**9,301**
22	2028.29	0	13,071	284	1,032	14,386	0	0	0	4,889	0	4,889	**9,497**
23	2029.30	0	13,340	290	1,057	14,687	0	0	0	4,989	0	4,989	**9,698**
24	2030.31	0	13,614	296	1,084	14,994	0	0	0	5,091	0	5,091	**9,902**
25	2031.32	0	13,894	302	1,111	15,306	0	0	0	5,195	0	5,195	**10,111**
26	2032.33	0	14,441	0	1,142	15,583	0	0	0	5,302	0	5,302	**10,282**
27	2033.34	0	14,737	0	1,171	15,908	0	0	0	5,410	0	5,410	**10,498**
28	2034.35	0	15,039	0	1,200	16,239	0	0	0	5,520	0	5,520	**10,719**
29	2035.36	0	15,347	0	1,230	16,576	0	0	0	5,633	0	5,633	**10,944**
30	2036.37	0	15,660	0	1,261	16,921	0	0	0	5,747	0	5,747	**11,174**

Appendix B – Valuation Assumptions and Cashflow

South Cambs DC
VALUATION AND BUSINESS PLAN ASSUMPTIONS

30 YEAR VALUATION PRICE	**£'000**	**56,164**
(Unit valuation)	**£**	**9,991**

Initial Year Tranfer Date **01-Apr-2007**
Base Year **2007.08**
If Partial Year to be used in Valuation enter Y **N**

Retail Price Inflation Do Not Apply In Valuation Mode

Years				
2	to	**5**		**2.50%**
6	to	**10**		**2.50%**
11	to	41		**2.50%**

A) STOCK LEVEL

Opening Stock				Transfer	Voids Category (A or B)
	Type 1	**Bedsits**	- subject to RTB	**58**	**A**
	Type 2	**1 Bed**	- subject to RTB	**1,061**	**A**
	Type 3	**2 Bed**	- subject to RTB	**2,365**	**A**
	Type 4	**3 bed**	- subject to RTB	**2,000**	**A**
	Type 5	**4 Bed**	- not subject to RTB	**62**	**A**
	Type 6	**5+ Bed**	- not subject to RTB	**3**	**A**
Total				**5,549**	

B) RATE OF NEW LETTINGS
Relet Rates

			Initial Rate	Years of Step Changes: **5**	**10**
				Step Incr / (Decr) in Rate	
Type 1	Bedsits	- subject to RTB	**8.62%**	**0.00%**	**0.00%**
Type 2	1 Bed	- subject to RTB	**8.86%**	**0.00%**	**0.00%**
Type 3	2 Bed	- subject to RTB	**3.34%**	**0.00%**	**0.00%**
Type 4	3 bed	- subject to RTB	**2.15%**	**0.00%**	**0.00%**
Type 5	4 Bed	- not subject to RTB	**1.50%**	**0.00%**	**0.00%**
Type 6	5+ Bed	- not subject to RTB	**1.50%**	**0.00%**	**0.00%**

C) RENTAL INCOME

First Year			Rents Transfer £ pw	Relet Rent Uplift %	Rents Relet £ pw
Type 1	Bedsits	- subject to RTB	**£49.43**	**15.10%**	**£56.89**
Type 2	1 Bed	- subject to RTB	**£58.70**	**20.18%**	**£70.54**
Type 3	2 Bed	- subject to RTB	**£67.39**	**22.79%**	**£82.75**
Type 4	3 bed	- subject to RTB	**£73.31**	**20.14%**	**£88.08**
Type 5	4 Bed	- not subject to RTB	**£81.61**	**26.28%**	**£103.06**
Type 6	5+ Bed	- not subject to RTB	**£89.10**	**26.92%**	**£113.09**
	Average Rent		**£67.85**		**£82.31**

Number of Rent Weeks **52**

Real Increases / (Decreases) <<< **Rents Transfer** >>>

Years			Bedsits	1 Bed	2 Bed	3 bed	4 Bed	5+ Bed
2	to	**2**	**3.51%**	**3.60%**	**3.35%**	**3.20%**	**2.95%**	**2.76%**
3	to	**3**	**3.38%**	**3.44%**	**3.20%**	**3.06%**	**2.82%**	**2.65%**
4	to	**4**	**3.27%**	**3.29%**	**3.06%**	**2.92%**	**2.70%**	**2.54%**
5	to	**5**	**3.16%**	**3.15%**	**2.93%**	**2.80%**	**2.60%**	**2.44%**
6	to	**6**	**1.42%**	**2.29%**	**2.54%**	**2.54%**	**2.46%**	**2.35%**
7	to	**7**	**1.10%**	**1.70%**	**2.35%**	**2.04%**	**2.37%**	**2.26%**
8	to	**8**	**0.70%**	**1.33%**	**2.10%**	**1.80%**	**2.22%**	**2.18%**
9	to	**9**	**0.65%**	**1.05%**	**1.67%**	**1.56%**	**1.98%**	**2.11%**
10	to	**10**	**0.62%**	**0.76%**	**1.31%**	**1.33%**	**1.89%**	**2.04%**
11	to	**11**	**0.59%**	**0.61%**	**0.99%**	**1.14%**	**1.79%**	**1.97%**
12	to	**12**	**0.59%**	**0.61%**	**0.99%**	**1.14%**	**1.79%**	**1.97%**
13	to	**13**	**0.59%**	**0.61%**	**0.99%**	**1.14%**	**1.79%**	**1.97%**
14	to	**14**	**0.59%**	**0.61%**	**0.99%**	**1.14%**	**1.79%**	**1.97%**
15	to	**15**	**0.59%**	**0.61%**	**0.99%**	**0.50%**	**1.79%**	**1.97%**
16	to	**16**	**0.59%**	**0.61%**	**0.99%**	**0.50%**	**1.79%**	**1.97%**
17	to	**17**	**0.59%**	**0.61%**	**0.99%**	**0.50%**	**0.50%**	**0.50%**
18	to	**18**	**0.59%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
19	to	**19**	**0.59%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
20	to	**20**	**0.59%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
21	to	**21**	**0.59%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
22	to	**22**	**0.59%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
23	to	**23**	**0.59%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
24	to	**24**	**0.59%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
25	to	**25**	**0.59%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
26	to	**26**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
27	to	**27**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
28	to	**28**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
29	to	**29**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
30	to	**30**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
31	to	**31**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
32	to	**32**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
33	to	**33**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
34	to	**34**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
35	to	**35**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
36	to	**36**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
37	to	**37**	**0.50%**	**0.61%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
38	to	**38**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
39	to	**39**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
40	to	**40**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
41	to	41	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**

* Only until Transfer Tenants rents equals the level of Relet Tenants rents

Real Increases / (Decreases) <<< **Rents Relet** >>>

Years			Bedsits	1 Bed	2 Bed	3 bed	4 Bed	5+ Bed
2	to	**6**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
7	to	**11**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
12	to	**16**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
17	to	**21**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**
22	to	41	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**	**0.50%**

Convergence of Transfer Tenants and Relet Tenants rents

			Year	Year
Type 1	Bedsits	- subject to RTB	25	2031.32
Type 2	1 Bed	- subject to RTB	37	2043.44
Type 3	2 Bed	- subject to RTB	17	2023.24
Type 4	3 bed	- subject to RTB	14	2020.21
Type 5	4 Bed	- not subject to RTB	16	2022.23
Type 6	5+ Bed	- not subject to RTB	16	2022.23

South Cambs DC
VALUATION AND BUSINESS PLAN ASSUMPTIONS

D) VOIDS AND BAD DEBTS

Voids and Bad Debts as a Percentage of Gross Rents

				Category A	Category B
Years	1	to	5	3.00%	3.00%
	6	to	41	3.00%	3.00%

E) TENANTED SERVICE CHARGES - Nil

F) OTHER INCOME SOURCES

Year on Year Other Income:

	£ pa
Shared Ownership	
Garages	300,000
Other	
Sewerage Charges	36,000
Sheltered SC (includes equity share)	432,000
Alarm Charges	122,000
Ground Rents & Wayleaves	25,000

One Off Other Income:

	Yr	£
Supporting People (Assume Cash Frozen)	1	795,000
Supporting People (Assume Cash Frozen)	2	771,845
Supporting People (Assume Cash Frozen)	3	723,914
Supporting People (Assume Cash Frozen)	4	682,696
Supporting People (Assume Cash Frozen)	5	646,819
Supporting People (Assume Cash Frozen)	6	627,979
Supporting People (Assume Cash Frozen)	7	609,689
Supporting People (Assume Cash Frozen)	8	591,931
Supporting People (Assume Cash Frozen)	9	574,690
Supporting People (Assume Cash Frozen)	10	557,951
Supporting People (Assume Cash Frozen)	11	541,700
Supporting People (Assume Cash Frozen)	12	525,923
Supporting People (Assume Cash Frozen)	13	510,605
Supporting People (Assume Cash Frozen)	14	495,733
Supporting People (Assume Cash Frozen)	15	481,294
Supporting People (Assume Cash Frozen)	16	467,275
Supporting People (Assume Cash Frozen)	17	453,666
Supporting People (Assume Cash Frozen)	18	440,452
Supporting People (Assume Cash Frozen)	19	427,623
Supporting People (Assume Cash Frozen)	20	415,168
Supporting People (Assume Cash Frozen)	21	403,076
Supporting People (Assume Cash Frozen)	22	391,336
Supporting People (Assume Cash Frozen)	23	379,938
Supporting People (Assume Cash Frozen)	24	368,872
Supporting People (Assume Cash Frozen)	25	358,128
Supporting People (Assume Cash Frozen)	26	347,697
Supporting People (Assume Cash Frozen)	27	337,570
Supporting People (Assume Cash Frozen)	28	327,738
Supporting People (Assume Cash Frozen)	29	318,192
Supporting People (Assume Cash Frozen)	30	308,924

Real Increases / (Decreases)

				Shared Ownership Income	Garages Income	Other Income
Years	2	to	5	0.5%	0.5%	0.5%
	6	to	10	0.5%	0.5%	0.5%
	11	to	41	0.5%	0.5%	0.5%

G) MANAGEMENT; SERVICE AND REPAIRS ADMIN COSTS

					Housing Managt.	**Services**	**Repairs Admin**
Dwellings					5,549	5,549	5,549
Fixed Costs			£/annum		£2,734,800	£3,081,600	
Variable Costs			£/unit/annum				
Real Increases / (Decreases)							
Years	2	to	5		0.50%	0.50%	0.50%
	6	to	10		0.50%	0.50%	0.50%
	11	to	20		0.50%	0.50%	0.50%
	21	to	41		0.50%	0.50%	0.50%

H) OTHER EXPENDITURE

Year on Year Other Expenditure - Business Plan & Optional for Valuation

Capital

Description	Incl. In Valn. (Y/N)	£

Revenue

Description	Incl. In Valn. (Y/N)	£
Rents Rates Taxes	y	135,100

Real Increases / (Decreases)

				Other Expend. Capital	Other Expend. Revenue
Years	2	to	5	0.50%	0.50%
	6	to	10	0.50%	0.50%
	11	to	41	0.50%	0.50%

South Cambs DC
VALUATION AND BUSINESS PLAN ASSUMPTIONS

I) REPAIRS & MAINTENANCE COSTS (@ 2007.08 prices)

					Responsive / Void	Cyclical
Responsive / Void & Cyclical Costs						
Use Stock Condition Survey results (Y/N)					Y	Y
If N:						
Input cost per unit per annum				£		
If Y:						
SCS weighted average cost per unit per annum				£	£470.60	£195.63
Real Increases / (Decreases)						
Years	2	to	6		1.00%	1.00%
	7	to	10		0.00%	0.00%
	11	to	15		0.00%	0.00%
	16	to	20		0.00%	0.00%
	21	to	41		0.00%	0.00%
Are costs stock sensitive (Y/N)					Y	Y
Revenue / Capital Split (Enter % treated as Revenue)						
	1	to	5		100%	100%
	6	to	10		100%	100%
	11	to	15		100%	100%
	16	to	20		100%	100%
	21	to	41		100%	100%

				Planned Maintenance	
Planned Maintenance					
Use Stock Condition Survey results (Y/N)				Y	
Real Increases / (Decreases)					
Years	2	to	6	1.0%	
	7	to	10	0.0%	
	11	to	41	0.0%	
Are costs stock sensitive (Y/N)				Y	
Revenue / Capital Split (Enter % treated as Revenue)				% Revenue	% Capital
	1	to	5	80%	20.00%
	6	to	10	80%	20.00%
	11	to	15	80%	20.00%
	16	to	20	80%	20.00%
	21	to	41	80%	20.00%

Catch Up Repairs & Disabled Adapts & Improvmnts				Catch Up Repairs	Disabled Adapts	Improvmnts
Use Stock Condition Survey results (Y/N)				Y	Y	Y
If N:						
Input total programme cost			£'000			
Programme duration			Years			
If Y:						
SCS total programme cost			£'000	£851	£25,145	£9,077
Programme duration			Years	5	40	20
Real Increases / (Decreases)						
Years	2	to	6	1.0%	1.0%	1.0%
	7	to	10	0.0%	0.0%	0.0%
	11	to	41	0.0%	0.0%	0.0%
Are costs stock sensitive (Y/N)				N	N	Y
Revenue / Capital Split (Enter % treated as Revenue)						
	1	to	5	80%	10%	10%
	6	to	10	80%	10%	10%
	11	to	15	80%	10%	10%
	16	to	20	80%	10%	10%
	21	to	41	80%	10%	10%

J) DISCOUNT RATE 6.5%

South Cambs DC
STOCK CONDITION SURVEY
ASSUMPTIONS

				Catch Up Repairs	**Future Major Works**	**Exceptional Extensive**	**Contingency**	**Related Assets**	**Disabled Adapts**	**Cyclical Contracts**	**Responsive & Void**	**Improvements**		**Totals**
		Group Code		**CUR**	**PLR**	**PLR**	**PLR**	**PLR**	**EIMP**	**CYC**	**R&V**	**IMP**		
Survey Years														
1	to	**1**	£	**128,678**	**5,324,429**	**1,094,400**	**448,363**	**373,522**	**800,000**	**886,040**	**2,256,665**	**976,206**		**12,288,303**
2	to	**2**	£	**128,678**	**5,324,429**	**1,094,400**	**448,363**	**373,522**	**800,000**	**886,040**	**2,256,665**	**976,206**		**12,288,303**
3	to	**3**	£	**128,678**	**5,324,429**	**1,094,400**	**448,363**	**373,522**	**800,000**	**886,040**	**2,256,665**	**976,206**		**12,288,303**
4	to	**4**	£	**128,678**	**5,324,429**	**1,094,400**	**448,363**	**373,522**	**800,000**	**886,040**	**2,256,665**	**976,206**		**12,288,303**
5	to	**5**	£	**128,678**	**5,324,429**	**1,094,400**	**448,363**	**373,522**	**800,000**	**886,040**	**2,256,665**	**976,206**		**12,288,303**
6	to	**6**	£	**0**	**4,550,138**	**785,400**	**491,526**	**247,837**	**600,000**	**886,040**	**2,256,665**	**0**		**9,817,607**
7	to	**7**	£	**0**	**4,550,138**	**785,400**	**491,526**	**247,837**	**600,000**	**886,040**	**2,256,665**	**0**		**9,817,607**
8	to	**8**	£	**0**	**4,550,138**	**785,400**	**491,526**	**247,837**	**600,000**	**886,040**	**2,256,665**	**0**		**9,817,607**
9	to	**9**	£	**0**	**4,550,138**	**785,400**	**491,526**	**247,837**	**600,000**	**886,040**	**2,256,665**	**0**		**9,817,607**
10	to	**10**	£	**0**	**4,550,138**	**785,400**	**491,526**	**247,837**	**600,000**	**886,040**	**2,256,665**	**0**		**9,817,607**
11	to	**15**	£	**0**	**27,511,714**	**965,000**	**2,261,248**	**749,910**	**2,000,000**	**4,430,200**	**11,283,326**	**831,200**		**50,032,598**
16	to	**20**	£	**0**	**28,404,479**	**1,140,000**	**2,006,613**	**498,664**	**2,000,000**	**4,430,200**	**11,283,326**	**314,900**		**50,078,182**
21	to	**25**	£	**0**	**33,722,137**	**1,060,000**	**2,196,600**	**874,982**	**2,000,000**	**4,430,200**	**11,283,326**	**831,200**		**56,398,445**
26	to	30	£	**0**	**34,933,718**	**885,000**	**1,868,478**	**882,913**	**2,000,000**	**4,430,200**	**11,283,326**	**0**		**56,283,635**
Total				**643,389**	**173,944,883**	**13,449,000**	**13,032,388**	**6,113,263**	**15,000,000**	**26,581,200**	**67,699,956**	**6,858,330**	**0**	**323,322,409**
Total per unit				**116**	**31,341**	**2,423**	**2,348**	**1,101**	**2,703**	**4,789**	**12,198**	**1,236**	**0**	**58,256**

Total stock for survey purposes	**5,550**
Total initial stock for Valuation / Business Plan	**5,549**

Adjust costs stock sensitive to Valuation / Business Plan Base (Y/N)	**n**	**y**	**n**	**y**	**n**	**n**	**y**	**y**	**n**	**y**

Inflationary Increase from Survey Date to Year 1 **4.29%**

Rollover Adjustment factor											
Use rollover adjustment factor (Y/N)		**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**	**Y**
Initial Year Start Date	**01-Apr-07**										
Annual Rollover Adj Factor	**100.00%**										

South Cambs DC
STOCK CONDITION SURVEY
ASSUMPTIONS

RATES			Responsive / Void	Cyclical	Planned Maintenance	Catch Up Repairs	Disabled Adapts	Improvmnts
Rates for Fess VAT etc								
Prelims								
1	to	**5**						
6	to	**10**						
11	to	41						
Fees								
1	to	**5**			**8.00%**	**8.00%**	**8.00%**	**8.00%**
6	to	**10**			**8.00%**	**8.00%**	**8.00%**	**8.00%**
11	to	41			**8.00%**	**8.00%**	**8.00%**	**8.00%**
VAT								
1	to	**5**	**10.98%**	**17.50%**	**17.50%**	**17.50%**	**17.50%**	**17.50%**
6	to	**10**	**10.98%**	**17.50%**	**17.50%**	**17.50%**	**17.50%**	**17.50%**
11	to	41	**10.98%**	**17.50%**	**17.50%**	**17.50%**	**17.50%**	**17.50%**