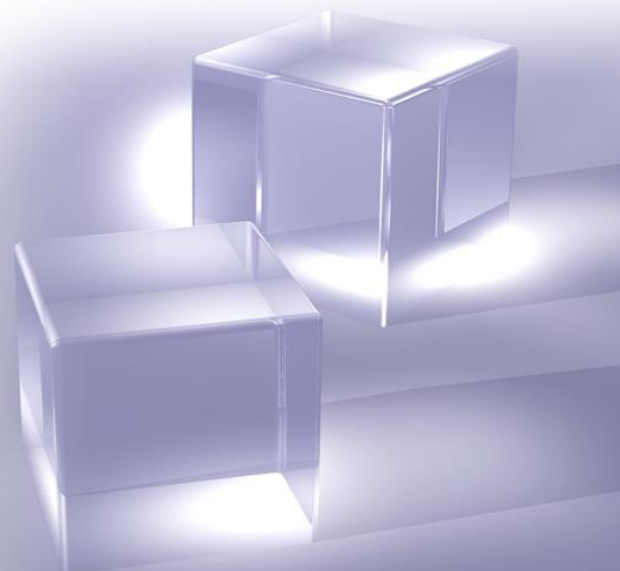


**SOUTH CAMBRIDGESHIRE
DISTRICT COUNCIL**

OPTION APPRAISAL

**FINANCIAL ANALYSIS: AMENDED FINAL
REPORT – EXECUTIVE SUMMARY**

JUNE 2005



1.1 Introduction

- 1.1.1 This report presents the outputs of the financial analysis of options for the future management of the housing stock for South Cambridgeshire District Council. This report concentrates on the financial aspects of each option including the assumptions made in the modelling and the related outputs.

1.2 Stock Retention

- 1.2.1 Our modelling suggests that on the basis of the stock condition database the revenue account (taking account of currently planned savings) will fall into deficit from 2007/8. To avoid this, an annual saving of approximately £410,000 per annum (2005/6 prices) would be necessary from 2006/7 onwards. The Council is unable to fund all of the necessary capital works, after 2008/9. There is thereafter a shortfall of resources, totalling £5.5m by 2010/11, and a cumulative £103.6m at the end of the thirty year modelling.
- 1.2.2 The Council could afford to meet the Capital expenditure necessary to achieve Decent Homes, but an annual revenue saving of approximately £437,000 per annum from 2006/7 would be necessary.
- 1.2.3 As the existing "South Cambridgeshire Standard" for repairs cannot be met, it is clear there will be insufficient resources to meet the additional costs of the tenants' aspirational investment programme.
- 1.2.4 Our modelling of the implications of the 4% increase in target allowances which may result from changes to the rent restructuring regime suggests that, with a saving of approximately £112,000 per annum from 2006/7, the HRA can be balanced by 2010, though at this level of saving the HRA balance falls below the minimum level, and to nil at one point.

1.3 Stock Retention – ALMO

- 1.3.1 As explained above, our modelling indicates that the Council has sufficient capital resources available to meet the Decent Homes Standard. As ALMO funding is intended to supplement the resources of Councils unable to achieve this, the Council would be highly unlikely to be able to successfully apply for this funding.

1.4 Stock Retention – PFI

- 1.4.1 PFI does not currently provide a whole stock solution but recent approvals for new build projects may offer potential for non HRA schemes to complement other management options

1.5 **Stock Transfer**

- 1.5.1 Our indicative valuation for the Council's stock, with 50% of tenants' aspirational works included is £47.606m. However, we have demonstrated how sensitive to the assumptions made the valuation is. For example, if no tenants' aspirational works were included, the valuation is £57.512m. The final valuation would be subject to negotiation around the assumptions made, and the results of a new stock condition survey.
- 1.5.2 Although we have modelled the valuation impact of undertaking Decent Homes only, in our experience it is highly unlikely that tenants would vote for a transfer unless it was providing additional works which the Council is unable to afford, such as reflected in the base valuation.
- 1.5.3 We have considered the impact on the General Fund as a result of transfer and our modelling suggests that at the base valuation, a net benefit of more than £7.4m could be achieved within 5 years of transfer, assuming capital receipts are not spent.
- 1.5.4 Transfer does allow the opportunity to provide additional affordable housing, although the full 300 units per annum identified as necessary is not affordable.

1.6 **Partial Option Analysis**

- 1.6.1 We have undertaken an analysis of the Windmill Estate, considering the two main options (of retention with a PFI contract or transfer) including the impact on the HRA.
- 1.6.2 There would be a requirement for a "PFI Credit" of £3.7m to support a scheme for managing and maintaining the estate.
- 1.6.3 For a partial transfer it is anticipated that a partnering arrangement with a local RSL could generate a receipt of £1.8m (less levy and set up costs) and could provide a future benefit to the HRA of £52,000 per annum.

1.6.4 **Conclusions**

- 1.6.5 The analysis in this report makes a number of assumptions about future resources, subsidy and expenditure. Many of these are based on the existing arrangements and the Council's budgets and strategy, though significantly, investment in the Housing Stock is based on the need to spend as assessed in the Stock Condition Database, rather than current practice.
- 1.6.6 Our modelling suggests that substantial revenue savings, in addition to those in management costs already budgeted, would be necessary to retain the Housing Stock. In this case, although it could afford to meet the Decent Homes Standard, the Council could not afford to undertake all necessary works.
- 1.6.7 Additional support for ALMOs is not available to the Council, on the basis of the analysis undertaken and PFI does not provide a whole stock option.

- 1.6.8 Stock transfer provides an option to fully provide for the investment programme and could also deliver additional resources to the General Fund.
- 1.6.9 In considering a partial option, both PFI and transfer require the agreement of the ODPM (and in the case of transfer, a “yes” vote from tenants) to proceed. In addition “PFI credits” are needed to support the PFI scheme and a recipient landlord, able to raise the necessary funding, is needed for transfer. It is anticipated that the impact on the HRA would be neutral with a PFI scheme and marginally positive with transfer.

