SOUTH CAMBRIDGESHIRE DISTRICT COUNCIL

OPTION APPRAISAL

ADDENDUM TO FINAL REPORT

JULY 2005

1. Introduction

1.1 Tribal HCH's final amended report for the Council's Housing Stock Options Appraisal was prepared in June 2005.

1.2 Since the final report was completed, two key issues have come to light, both of which will have an impact on the appraisal. Firstly, the Council now believes that the Capital Finance Regulations as written will catch the capital receipts from its shared equity scheme for "pooling". Secondly, there has been a significant fall in Right to Buy sales.

1.3 The details of these changes are the subject of officers' reports to Cabinet on 21 July and Council on 28 July. In view of the potential impact on the results of the Option Appraisal, we have been commissioned to revisit the modelling for these changes, and restate our findings on the basis of the assumptions set out in that report. It should be stressed that these assumptions, particularly in the case of right to buy sales, are difficult to set with accuracy. We have not revisited any other aspect of the modelling at this stage.

1.4 This brief report is intended as an addendum to our report of June 2005, and should be read in conjunction with it.

2 Impact for Stock Retention Analysis

2.1 Our report highlighted three possible of investment in the stock:

- Decent Homes
- Base Model
- Tenants' Aspirations

2.2 For each level of investment, we set out the investment gap to 2010 (the year by which the Decent Homes Standard is to be achieved), and over the 30 year modelling period.

2.3 The impact of the application of receipt pooling to equity share capital receipts is to reduce the level of receipts available to finance capital and hence to increase the investment gap.

2.4 The impact of the reduction in Right to Buy Sales exemplified is more complex. It will:

- Slightly reduce the savings needed to be made on the Operating (Revenue) Account (because there will be a reduction in the effect of losing all income, but only some expenditure for each sale);
- Increase the requirement for capital investment (as there will be more homes to be maintained);
- Reduce the level of receipts available to finance capital

2.5 The results of the modelling are set out below:

	Investment Gap to 2010	**Investment Gap (30 year)**	**Revenue Saving Required from 2006/7**
	£m	£m	£000
Decent Homes	0.1	86.5	306
Base Model	15.2	145.2	283
Tenants' Aspirations	23.8	190.3	301

2.6 It will be noted that:

- There is a deficit (albeit small) even in the Decent Homes scenario on the revised basis
- As expected, the investment gaps increase in all cases, whilst the revenue savings required fall.

3. Impact for Stock Transfer Analysis

3.1 Our report explained that the basis of the stock transfer valuation is an assumption that there will be no reduction in the number of dwellings. There is then an agreement between the Council and the new landlord, to share the proceeds of right to buy sales, on the basis that the new landlord retains that portion needed to ensure a net nil impact on its business plan.

3.2 Receipts pooling applies to Councils only, so that the pooling of equity share receipts will not have any impact on a Registered Social Landlord (RSL)

3.3 It follows that there will be no impact on the transfer valuation. However, our assessment of the likely impact on the General Fund did assume the Council's receipts under the right to buy sharing agreement, in line with the assumptions then in use.

Post Transfer General Fund Cost/(Saving)					
	Year	Year	Year	Year	Year
	1	2	3	4	5
	2006/07	2007/08	2008/09	2009/10	2010/11
	£'000	£'000	£'000	£'000	£'000
Expenditure					
Residual Corporate Costs	1,750	1,704	1,659	1,615	1,573
Income					
Interest on all receipts	(2,116)	(2,567)	(2,929)	(3,027)	(3,128)
Mortgage Interest	(7)	(7)	(7)	(7)	(7)
HRA Balances	-	(1,010)		-	-
Total Cost/(Saving)	**(373)**	**(1,880)**	**(1,277)**	**(1,419)**	**(1,562)**
Cumulative Cost/(Saving)	**(373)**	**(2,253)**	**(3,530)**	**(4,949)**	**(6,511)**

3.4 As in the main report, this table assumes that all receipts are invested, and none are spent. The assumed net revenue benefit is £925,000 less than with the previous assumptions, but is nonetheless substantial.

4. Conclusions

4.1 The impact of the revised assumptions on pooling of equity share receipts and numbers of Right to Buy sales has been highlighted in this brief addendum report.

4.2 For stock retention, the assumed deficit on capital increases, and in the case of the Decent Homes scenario, a small deficit arises where we had previously envisaged that the expenditure could be achieved. Conversely, the annually recurring savings to be found reduce by approximately £127,000 per annum in each scenario.

4.3 For stock transfer, the valuation is unaltered, but there is a reduction in the assumed benefit to the General Fund, to £6.5m over the first 5 years following transfer.