South Cambridgeshire Landlord Choice - Assessment of financial criteria

Financial criteria	Explanation	Group Option	Stand alone option
Funding	The current economic climate has affected Housing Association funding as much as any other part of the economy. There is currently a difficulty in gaining loans for both new and established Associations and there is no evidence that one is likely to be more successful than the other. The overall position is expected to change over the next 12 months and no transfer has yet failed to be funded.	Previously, it was our expectation that the Group would be able to gain better terms for loans than a new stand alone but this seems to be no longer the case. Costs of borrowing and interest rates will be higher than previously envisaged and some Associations would find it more difficult than others to raise additional finance because of their current loan position	It is expected that funding for stand alone Associations will continue but the market is much smaller and costs are increasing substantially. Both these costs will need to be factored into the Business Plan and the valuation
Central Services	The Council currently provides central services to the Housing Department, e.g. financial services, Human Resources, Legal Services, Information Technology, etc. In a Group, the services are likely to be provided in a similar way to the Council, by the Group parent, with the charges being negotiated between the parent and the subsidiary. In a stand alone position, it is likely that the Association would initially purchase some of these	It would be important for the Group to provide the services from the Group parent, to help it achieve the economies of sale that it needs to gain from growth. Although this can be identified as part of the negotiations and taken into account for the valuation, any future arrangements would be negotiated between the parent and the subsidiary. There is unlikely to be any choice for the Association to buy them elsewhere but in the first	Most stand alone Associations make arrangements with the Council for the provision of services directly after transfer, given the amount of work involved in setting up new arrangements. This can last for around a year (longer in some instances). After that, it is for the Association to decide how to provide its services, whether to have in house staff, or to provide from elsewhere. The advantage is that the control is with the Association, the

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	services, if not all, from the Council before setting up its own in-house team or buy the services from elsewhere. In some circumstances there may be secondary TUPE obligations after a service is bought from the Council	instance they may purchase some from the Council, such as IT. It would be expected that the Group should be able to provide services at a competitive cost and potentially would be able to afford more specialist staff, or to recruit and retain higher calibre individuals than would be the case for stand alone (this depends on the size of the Group)	disadvantage is that it may not gain from the economies of scale.
Long term sustainability	It is difficult at time of transfer to effectively consider all the potential risks for which there is a difference between the two options in terms of mitigation. The Business Plan for both options would be put together on the basis of a sustainable organisation, with the necessary stress testing and sensitivities carried out.	The key benefit of being in a Group is that should problems emerge from the Business Plan, then the financial strength of the Group should be able to assist. However, should the problem be one that is effecting all subsidiaries, then the extent of this support cannot be guaranteed. In a Group situation there is some potential for an internal market for services between member companies; this saves the VAT element of any charges	The Business Plan for the stand alone option would be risk assessed to ensure that it is robust. This would be a requirement of funders. It is likely that a greater amount of contingency would be included and a more prudent approach would be adopted, than would be the case for a new subsidiary, which could result in a lower valuation. The stand alone could seek to sell its services to another RSL, or purchase services.
Procurement gains	Stock Condition surveys include sums of money for the costs of	The Group Structure may mean that there is experience of partnering or	The subsidiary would need to invest time (and possibly get external

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	goods, fitting, etc and are based on single purchases, e.g. kitchens at £3,500. Given the extent of the purchasing necessary, savings should be made through smart procurement	other forms of procurement that can assist the subsidiary in getting the right deal. The Group may also have procurement deals which the subsidiary can join, but this may reduce local choice	advice) on procurement to ensure that it can make the necessary gains. Given that it will want to start the works programme as soon as possible after transfer, this may reduce the overall gain that could be made. However, it may be easier to involve tenants in the selection if there are no existing deals.
Pre ballot assistance	In certain circumstances, where a Group Structure is envisaged then the Association contributes to the pre and post ballot costs of the Council. They can also provide other forms of assistance, e.g. staffing resources, expertise, etc.	As part of the bidding process, it is normal for bidding Associations to agree to meet some of the Council's costs for the pre-ballot period. This can be in the region of £200K - £300K. They often also provide expertise in terms of communications skills, etc or staff to back up the Council's team	The Council would meet the pre-ballot costs although provided the transfer takes place, then this can be set against the capital receipt
Post ballot costs	For a stand alone the post ballot costs are shared between the Council and the Association (in the form of a loan) whereas the parent is expected to meet the post ballot costs for the subsidiary. Costs can easily be in the region of £2m - £3m once the costs of borrowing are taken into account.	All the post ballot costs are met by the parent or the subsidiary. In reality this normally means that the costs are factored into the Business Plan of the subsidiary. They are not factored into the valuation.	Here the Council will make a loan to the Association for its set up costs, some of which will be repayable. The Association will need to build the repayable elements into its Business Plan. The Council's post ballot costs can be set against the capital receipt.

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VAT shelter/RTB sharing	It is likely that the Council and the Association will enter into a VAT shelter to allow the Association to reclaim VAT on the works required at the outset. The benefits will be shared between the two parties. There will also be an agreement to share the future receipts from RTB sales	The subsidiary will enter into the two arrangements which will be negotiated outside of the valuations. This is the same as for a stand alone.	The subsidiary will enter into the two arrangements which will be negotiated outside of the valuations. This is the same as for a Group Structure