Housing Investment Options

A Discussion Paper

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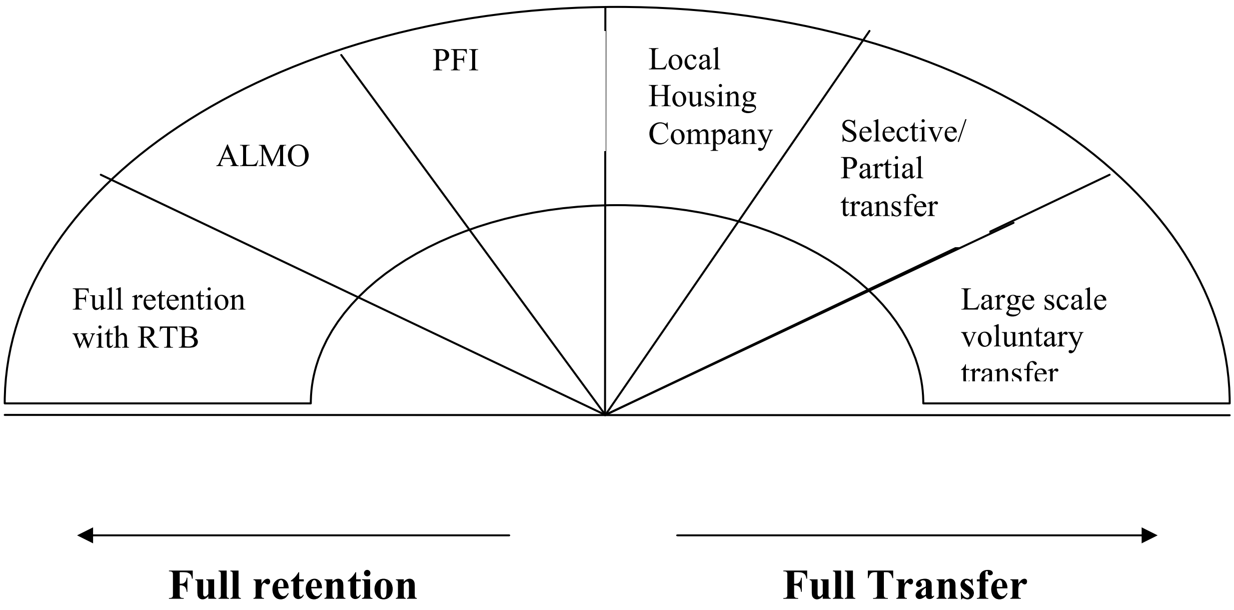
Executive Summary

- The basic question to be addressed in any housing investment options appraisal is how to meet the need for quality homes, in good neighbourhoods where people want to live. In Northampton, much of the Council's retained housing falls well below that standard, for a variety of reasons. Whilst services can and will be improved, the fundamental question is the amount of funding needed to meet that higher standard and how that funding can be secured.

- The following chart can illustrate the range of options available.

The Options Explored



- With the exception of full retention and direct management, all of the other options involve a reduction in control or ownership, in return for additional resources in the form of Government grants (e.g. Almo Decent Homes funding, PFI credits) or private funding (e.g. Local housing Companies, partial transfer or complete transfer).

- A financial review of investment needs and funding available, carried out for the Council by HQN, has identified a funding shortfall of ***between £54 miilion and £73 million (depending on the works carried out)*** over the five years starting April 2009/10.

- Following a desktop review, the only option at this stage which appears to deliver sufficient funds to meet the investment needs of the stock and the needs of all tenants for a Decent Home to a locally agreed standard is complete transfer (otherwise known as Large Scale Voluntary Transfer). This option might also deliver a receipt to the Council, which could be used for regeneration purposes. It is not clear, however, whether the impact of the transfer on the Council and the Council taxpayer would be beneficial. If the Council were minded to develop the full transfer option it would need to review the potential corporate impact of such an option.

- Any prospective receipt from transfer would be subject to a full stock condition survey and other factors which could reduce the amount considerably. Prospective receipts should therefore be considered with caution. It should also be noted that that the transfer valuation is based on catch-up repairs and achieving Decent Homes only and does not necessarily achieve area regeneration, environmental improvement or transformational change.

- At this stage only a desktop review has been undertaken. Apart from the Corporate Impact Assessment, extensive consultation with tenants should take place before the Council could be recommended to pursue the transfer option. This would include development of a modern “Northampton Standard” which sets out the aspirations for the stock of tenants and the Council, which can be costed and included in the developing options appraisal.

- The PFI scheme for four estates and about 1440 homes would be the first major injection of Government supplementary funding for council housing in Northampton for many years. Much of the PFi investment proposed is considerably in excess of the Decent Homes standard and can help to achieve area regeneration. Whilst PFI does not close the investment gap in the early years, a combination of retention of a major part of the stock, coupled with continuing to seek external funding either through government grant or joint funding, could in the long run prove sufficient to meet the funding gap. It is, however, difficult to model the financial effects of a “mixed economy” without detailed proposals for partnership, disposals or bidding for additional external funds on a case by case basis.

- Given uncertainties around the HRA review and possible “Freedoms and Flexibilities”, which could include a change to the current “negative subsidy”, position or the chance to opt out of the HRA system altogether, there is a persuasive case for awaiting the outcome of that review, before deciding the strategic direction.

- Partly as a result of the recession in the building industry and following consultation about implementing parts of the housing and regeneration Act 2008, Councils are being invited to bid for funds for a limited amount of new build council housing. It was previously thought that such opportunities would be restricted to authorities rated as “good” (two stars) by the Audit Commission Housing Inspectorate, but this opportunity is now likely to be available to Northampton Council. It is unlikely to result in more than 20 new build properties in Northampton and won’t make a material difference to meeting local housing needs or to the options appraisal, but schemes for infill development are currently being progressed for submission by 31 July 2009.

- Whilst uncertainties about the HRA review and other freedoms and flexibilities continue, in the meantime the Council could adopt a policy of "Invest and Review", confirming the decision to commit significant local resources to a Decent Homes programme, whilst carrying out local investment reviews and options to meet the investment needs of the stock. This includes about one third of the stock where for considerations of unpopularity, condition or wider area regeneration proposals simply proceeding with a Decent Homes programme would not represent a sound investment. This is the basis of the (consultation draft) Housing Asset Management Strategy, which will be presented to Cabinet in July 2009.

- It should be noted that this is a discussion paper. It has been developed with the Advisory Panel to Cabinet, which was set up by Cabinet on 30 October 2009 and has been able to consider these issues in depth.

1. Background

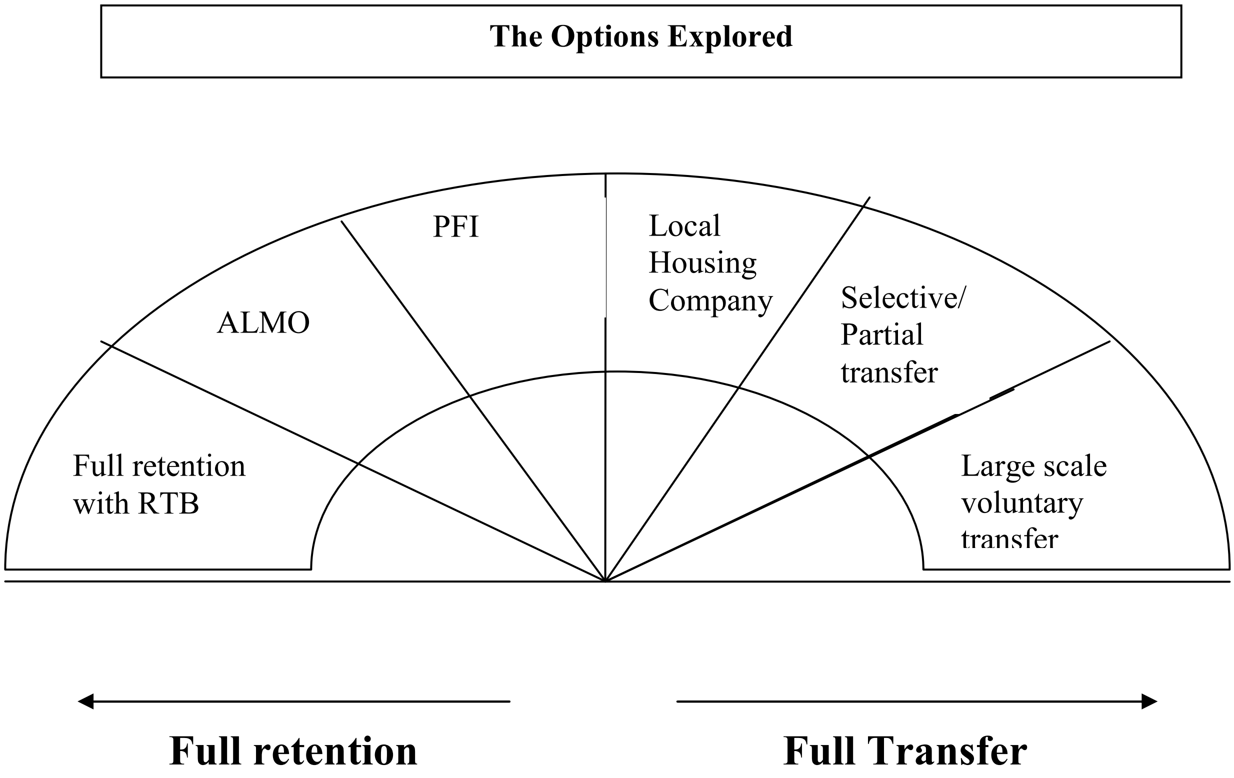
1.1 The Council last reviewed its options at a full Council meeting on 27 June 2005 and the motion it carried is set out at appendix A. In summary the decision was to retain the stock and carry out further work to establish how a better standard of improvements than the basic Decent Homes Standard could be achieved. For a variety of reasons that work was not carried out and in the meantime the investment gap has widened, between what is needed to provide quality homes in good neighbourhoods where people want to live and what funding is currently available.. On 30 October 2008 the Cabinet decided to set up an "Advisory Panel to Cabinet" to review the options in the light of changes to law and options available and an update of the financial position. That decision is repeated in full at appendix A.

1.2 The Advisory Panel to Cabinet has met six times since that meeting and considered presentations on; a financial update on the advice given to Council in 2005; on changes to the law, in particular the Housing and Regeneration Act 2008; on how PFI works: and, on the options now available or potentially available to Councils. This report summarises the issues discussed.

1.3 The options appraisal reported to Council in 2005 was the culmination of 18 months of work, with Tribal Consultants being appointed as financial advisors in September 2003 following a procurement exercise. It was part of a national programme requiring all Councils to complete an options appraisal according to Government Guidelines.

1.4 Clearly the Advisory Panel to Cabinet could not replicate that exercise over a six-month period. What the panel could do, however, was to review; the evolving housing asset management strategy; the financial report on options; the impact of the PFI bid if successful; and, changes to the options available in legal terms and their relative attractiveness. The recommendations in this report follow their review of presentations and reports to them on the options appraisal by financial advisors Housing Quality Network (HQN), legal advisors Trowers and Hamlins and by council officers. Reports on the emerging Housing Asset Management Strategy and on the options review will be presented to Cabinet on 15th July 2009.

2. The options



2.1 Full retention

2.1.1 Retention entails the Council retaining the bulk of the existing housing stock and investing within its means or attracting additional resources to close the investment gap. Apart from the projected capital shortfall, the Council is projected to go into deficit on the HRA within 8 years unless major savings on revenue expenditure are implemented. This projection will be affected by the HRA review about to be announced by Government. Within this option, some disposals and transfers will be inevitable for housing stock with investment needs beyond the Council's means. Under this option the Council may be capable of reaching the Decent Homes target by 2015/16, but this would be to the lowest standard and would not include environmental works. As previously stated it remains questionable whether the best treatment of some council housing is demolition and replacement, rather than decent homes works, but this would be beyond the Council's means.

2.1.2 In the event of transfer of some stock, this will bring forward the need to make annual revenue savings within the HRA of between £1.4 million (300 disposals) or £2.9 million (500 disposals) (see appendix c, paragraph 3.11). Whilst some of those costs will reduce as stock no longer needs to be managed, there is a large fixed overhead which would need to be managed down.

2.2 Arms Length management Organisation (ALMO)

2.2.1 This is a variation of the retention option whereby the Council sponsors a new company set up to manage and maintain the housing stock under contract to the Council. Tenants remain tenants of the Council. The government initially encouraged these by offering funds to assist in meeting the Decent Homes target by 2010, but no additional funds are currently available. A key qualifying criteria for the extra funds was to have achieved a "good" (two star) rating from the Audit Commission Housing Inspectorate, which is Northampton's aim for 2010. This the option is not currently available, Northampton does not currently qualify and we will not know until after the next Comprehensive Spending Review is complete next year, whether further rounds of ALMO funding will be available

2.3 Private Finance Initiative (PFI)

2.3.1 This again is a variation on the retention option and tenants remain tenants of the Council. Management and maintenance is provided by a private consortium under contract to the Council. The Government has encouraged bids for PFI funding, which covers the capital costs of initial woks and their lifetime replacements over a thirty year period. As the Government's PFI credits are paid in cash to the Council, there is in effect no capital borrowing required, but the revenue consequences would need to be managed carefully. Critics have been concerned with the high cost of PFI, but these costs are borne mainly by Government. In essence, PFI credits work in just the same way as its predecessors like the Single Regeneration Budget (SRB) or Estate Action, in that the Government provides a fund against which Councils can bid to improve their housing stock.

2.4 Local housing Company

2.4.1 This option is moving into partial transfer territory. Whilst there are a range of models, the Barking and Dagenham example being quoted widely involves the Council decanting and vacating a large estate, transferring the cleared land to a joint venture owned by the Council and a private developer. Its principal attraction is that the Council retains equity in the joint venture company and therefore gets a return on the land invested. Tenants of the joint venture are not council tenants.

2.5 Selective or Partial transfer

2.5.1 This option can take many forms. It has been used by many councils to set up new arrangements for sheltered housing, for example, in order to fund the modernisation of older people's homes.. Particular estates with major investment needs might also be considered and the arrangements made could be a key driver to the transformation of an area. What might be best for the particular estate or type of property can have implications for the rest of the stock. Any partial or selective transfer, including a local housing company, will reduce the critical mass of the retained stock and could accelerate the need for revenue savings by more expenditure cuts.. Each such proposition would therefore need to be considered from both perspectives, but the overriding consideration for all of the options is what is in the best interests of the tenants.

2.6 Large Scale Voluntary Transfer

2.6.1 Under this option Northampton Council ceases to be a housing landlord. The stock is transferred to an independent body which would be a Registered Social Landlord (RSL). Tenants would cease to be tenants of the Council and would become tenants of the RSL. Northampton would remain a Strategic housing Authority and retain its duties towards homeless people and people in housing needs, but it would not house them directly.

2.6.2 Since the first transfers took place in late 1987, a total of more than 1.6 million council homes have transferred ownership from Councils to Registered Social Landlords, to attract additional funding. 92 local housing authorities have ceased to be landlords through large scale voluntary transfer.

3. Issues

3.1 Appendix B is a report from Trowers and Hamlins on legal aspects of the options. A report from Housing Quality Network (HQN) on financial aspects is at Appendix C .

3.2 In summary the legal position regarding a full stock transfer has not changed significantly. A ballot of all tenants is required and the Council would need to show that a majority of tenants voting in that ballot supported it. Usually it involves setting up a "shadow" board to oversee the development of a full scale transfer option and it is their job to promote transfer if they consider it is in the best interests of tenants and residents. It is the Council's role to negotiate the potential terms of such a transfer and to conduct a ballot of tenants' opinion. The costs of working a transfer proposal up to the point where tenants clearly understand the options can exceed £250,000 and the process could take up to 18 months or more.

3.3 Any project involving a partial transfer, for example of a particular estate or type of property, would have a similar development period, depending on the variety of options pursued. A ballot is not required if the properties are transferred with vacant possession, although Northampton chose to ballot the residents of Beaumont and Claire Courts in Spring Boroughs before the transfer to Leicester Housing Association in 2003.

3.4 Financially, the valuation of a whole stock transfer of Northampton's council housing has changed significantly. In 2005, Tribal estimated the net value of a whole stock transfer at between £9.2m (base) and £nil (if all properties were improved to the "Northampton Standard"). HQN estimated the value at £15.8m. rising to £18.8m. if the PFI bid was successful*.* The HQN calculations used a proxy for the "Northampton Standard" since there has not been an opportunity to consult tenants on what that standard might look like in 2009. Such a consultation would clearly need to happen if the Council were minded to consult tenants on a whole stock transfer. The two calculations are shown below:

TRIBAL		
TABLE 5.3 CALCULATION OF NET CAPITAL RECEIPT[1]		
	Base Indicative Valuation (£m)	**Northampton Standard Indicative Valuation (£m)**
Total Receipt	24.4	7.2
Setting up Costs	(2.2)	(2.2)
ODPM Levy	(2.3)	Nil
HRA Debt	(10.7)	(10.7)
Net Receipt	9.2	Nil

HQN Calculation
(see paragraph 6.5 appendix C)

	Whole Stock	**Stock less PFI**
Total valuation	£13.4m	£17.1m
Outstanding debt as per CLG inc. premiums	£15.5m	£13.7m
Net receipt	-£2.1m	£3.4m
Set up costs	£3.5m	£3.5m
Net Receipt	-£5.6m	-£0.1m
CLG Levy at 20%	£0m	£0m
Difference between actual debt and as per CLG	£21.4m	£18.9m
Actual Receipt	£15.8m	£18.8m
Possible VAT Shelter	£25.0m	£22.0m

(NB-the difference between actual debt and CLG assumptions is the subject of paragraph 6.6 appendix C)

3.5 The HQN calculation has the additional feature of a "VAT shelter" not mentioned in the Tribal report, which provides an additional value of £25m if the PFI does not proceed, reducing to £22m if the PFI went ahead. The "VAT shelter" relates to the Council's ability to claim back VAT on improvements, which it would covenant to deliver as part of the stock transfer. The potential benefit to the Council could therefore be in excess of £40 million, whether the PFI project proceeded or not. All figures have to be treated with caution, as they are desktop analyses not based, for example, on an up to date full stock survey. The Tribal and the HQN figures are, however, comparable.

[1] Tribal report March 2005 table 5.3

3.6 Two elements are not included in the tables above. They are; a potential pensions deficit, which would have to made good in the event of transfer; and, any available balances or reserves at the time of transfer.

Staff Pensions

3.6 It is usual at the time of transfer for all existing staff transferring to move to an organisation, which is, or could become, an admitted body into the county pension scheme. This protects the rights of transferring staff, but a pre-condition to becoming an admitted body is the requirement to make good any deficit on the scheme in respect of those staff. In the case of a small "Large Scale Voluntary Transfer" of all of a council's housing stock that deficit amounted to over £3 million. For Northampton, this would have to be assessed, but on a pro rata basis could be as much as £10 million and could in effect wipe out any prospective net receipt.

Reserves and balances

3.7 Reserves and balances at the time of transfer, depending on decisions to use those funds in the intervening period, could add up to a substantial amount in excess of £10 million, if not committed in the meantime to improving the quality of tenants' homes and neighbourhoods. Some of that investment would work through to an improved transfer valuation.

3.8 Both of the pensions and the reserves and balances calculations would have to be properly assessed in a "corporate Impact assessment" which should be undertaken before any decision is made to pursue transfer.

3.10 The Council has previously been advised of a significant investment gap if the decision was to retain all of the stock and carry out necessary Decent Homes works, from £65m over the next five years to nearly £340m over the next 30 years (see Appendix C). PFI does not reduce the short-term deficit, but reduces the 10-year deficit by £29m and the 30-year gap by £58m. This is shown in the table below.

	Year 1 - 5 2013.14	Yrs 1 - 10 2018.19	Yrs 1 - 20 2028.29	Yrs 1- 30 2038.39
Resources	51,337	94,619	200,226	337,487
Investment	119,218	216,585	421,416	759,649
PFI Set Up Costs	8,056	8,056	8,056	8,056
Surplus / (Deficit)	-75,937	-130,022	-229,246	-430,218

3.11 In summary, retention without some forms of additional external funding is not a viable long-term option. Homes and Communities Agency (HCA) officials have advised that further rounds of PFI are uncertain because of changes to accounting regulations. Other options within an overall retention strategy involve some form of transfer of ownership.

3.12 It appears at this stage that only Large Scale Voluntary Transfer (LSVT) has the funding potential to deliver all of the required works which meet tenants' and the council's aspirations for their homes and neighbourhoods, but there are new developments and uncertainties which need to be considered. It is also not clear that LSVT can deliver area regeneration or transformational change.

3.13 The Housing and Regeneration Act 2008 held out two potentially attractive developments, which would be relevant to Northampton. Firstly, the potential to move out of the existing Housing Revenue Account (HRA) subsidy system. Under the present system the Council has no control over rent levels and makes a "negative subsidy" payment to the Government, which in net terms (after offsetting Major Repairs Allowances) will exceed £9m next year (2009/10) and is likely to rise each year. As the HQN report at Appendix C shows however, it is by no means certain at this stage that buying out will be beneficial to Northampton. It all depends on the cost of buying-out. This is not likely to be clear until mid 2010 at the earliest. The second element is the prospect of "Freedoms and Flexibilities" which might allow the Council to use its land assets in joint ventures to create additional affordable homes. Both the HRA buy-out and "Freedoms and Flexibilities" originally appeared to be restricted to well performing authorities with at least two stars, which Northampton Housing Services aims to achieve by 2010. It now seems possible that funding a small amount of new council house building is a possibility for any authority that can prove their scheme is value for money and officers are preparing a bid for Northampton to become involved in the first round. It should be noted that new Council housing provided in this way would be inside the HRA but outside of the HRA subsidy system. This means that the Council would not receive a management or maintenance allowance, or the Major Repairs Allowance, but it would be able to keep all of the rent income to fund such purposes.

3.14 The key questions which the Council will need to consider are

- How can the Council achieve quality homes in neighbourhoods where people want to live, for all of its tenants?
- Is the option of voluntary transfer of the whole stock worth further development?
- If the Expression of Interest in PFI for Northampton East is successful, is that worth further development?
- What is the impact of each option on the Council as a whole?
- What is the capacity of housing to deliver two stars by 2010, and the PFI project and whole stock transfer, all over the same time period?

3.15 The problems are that:

- Housing PFI is a long drawn out process, is quite time consuming and expensive to develop and has a number of approval hurdles to cross even if the initial "Expression of Interest" is successful;
- The implications of the 2008 Act won't be clear until later in 2009 at the earliest;
- The review of the Housing Review Account may not take effect for up to two years and may or may not be beneficial to Northampton,
- Two stars for the Housing service is by no means certain 2010.
- A successful ballot for transfer, whether partial or large scale, is a major challenge.

The sequencing of these issues is summarised in a timeline chart at appendix D

4. Choices (Options)

4.1 These matters have been debated at length within the Advisory Panel, which has had cross party representation. In considering the options, the questions must be by what criteria should they be judged? What may be in the best interests of tenants may not be in the best interests of the Council, its staff or other services, but the options appraisal must return to the first principle; which is how can quality homes in neighbourhoods where people want to live be provided.. At this stage only a "desktop" analysis has been undertaken. All of the options would be subject to additional surveys to confirm stock condition information, consultation on the "Northampton Standard" and additional consultation before any preferred option could be put to the Council for adoption and development. This would take until early 2010.

4.2 The options set out below (and more fully described at Appendix B) are assessed against the following criteria:

- The quality of services to tenants
- Timing-how quickly will each option deliver benefits to tenants?
- The ability to transform or regenerate areas
- Financial implications
- The corporate impact
- The corporate capacity to deliver

Option	Description	Criteria
Full retention	1) Retain all of the housing stock using known resources and maintain a balanced Housing Revenue Account 2) Work towards becoming a "good" (2 star) or "excellent" (3 star) housing organisation able to exploit the freedoms and flexibilities from the Housing and Regeneration act 2008 3) Review "problematic stock" to consider options for investment	**Service quality** **Timing** **Regeneration** **Finance** **Corporate impact** **Capacity**
Part retention (the "mixed" option)	1) Keep a strategic housing stock of between 6,000-8,000 that the Council can afford to manage	**Service quality** **Timing**

Option	Description	Criteria
	and maintain but seek other solutions for the remainder 2) Set up a number of surveys and reviews of stock that is expensive to maintain or needs to be renewed, beyond the funds available to the Council. 3) Review the options for investment to include selective transfer, local housing companies, transfers to RSLs, and joint ventures with the Council retaining a degree of ownership	**Regeneration** **Finance** **Corporate impact** **Capacity**
Transfer	1) Transfer all of the existing housing stock to a Registered Social Landlord, to **<u>either: -</u>** a) A fully independent new body, **<u>or</u>** b) As part of an group structure	**. Service quality** **Timing** **Regeneration** **Finance** **Corporate impact** **Capacity**
Delay decision	1) Retain most of the stock 2) Review problematic stock 3) Wait until the HRA review is complete 4) Clarity about "Freedoms and flexibilities"	**Service quality** **Timing** **Regeneration** **Finance** **Corporate impact** **Capacity**

4.3 The additional option is to delay any decision at this point. As appendix D shows, a decision on the PFI Expression of interest will be given by HCA in July 2009. It will, however, be late 2010 before the full implications of HRA reform and the freedoms and flexibilities of the Housing and Regeneration Act 2008 become clear. A question that those opposed to transfer will pose is "Why transfer now with so many uncertainties about the future, which should be resolved within the period that transfer could be delivered. Why not wait?" This is a powerful argument. Many housing authorities, having carried out the baseline review, have resolved to re-visit their options appraisal every two years or when any significant changes of circumstances arise. There is the further consideration that the present economic climate makes funding for large transfers at least uncertain and potentially also likely to have onerous conditions attached.

4.4 A proposal therefore would be to extend the work of the advisory panel to consider these matters in more depth. The panel would carry out a Corporate Impact Assessment, to clarify the pensions and reserves points, to keep the matter under review as it becomes clearer whether the council is successful with its PFI bid, and to await the outcome and detail of the HRA review and development of freedoms and flexibilities. The panel would also oversee a new stock condition survey and a full consultation strategy with residents and other stakeholders. In the intervening period the housing directorate will concentrate on completing the re-structure, delivering the improvement plan and finalising the Housing Asset Management Strategy and revised housing strategy for the Borough. The membership of the panel could be extended to include advisors for legal, finance, communications, and an independent tenant advisor and review its membership and terms of reference when the results of the consultation on the new tenant participation structure are known.

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July 2009

Appendices

A	Council decision 27 June 2005
B	Stock options-the Legal Perspective (Trowers and Hamlins)
C	Desktop Strategic Financial Options review (Housing Quality Network-HQN)
D	Timeline 2009-14

Council decision of 27 June 2005

"Northampton Borough Council re-affirms its commitment to the democratic process and a policy in which the final decision on the future of the landlord service of the Council's Housing Stock will reside with the council tenants and that the Council will continue to develop a housing asset management structure to deliver high quality improvements to the current council housing stock.
In pursuing the policy of seeking to meet the future needs of the people of Northampton and in reaching a decision on the future of the Housing Landlord service, Northampton Borough Council has taken the following into account.
(i) All aspects of the Northampton Borough Council Housing Options Appraisal as required by Government policy
(ii) Northampton Borough Council Stock Condition Survey 2003
(iii) Northampton Borough Council's current position as a "recovering council"
(iv) Northampton Borough Council's projected financial position 2006-2010
(v) ODPM determination that there is no "fourth option" for Council Housing
(vi) A meeting with the Town's MP's and Minister on 9 June 2005

That the Chief Executive inform the Government Office of the East Midlands (GOEM) that having taken all of the factors into consideration the decision of the Council is for Stock Retention whilst further work is conducted, with full involvement of tenant representatives, into how improvements above that of the basic Decent Homes Standard can be achieved in future and into options that encourage and provide greater tenant involvement in the management of the Council's housing stock.
The amendment was then voted upon and carried to be become the substantive Motion."[2]

Cabinet decision of 30 October 2008

(1) That it be agreed to carry out a review of the Housing Investment Options Appraisal originally completed in 2005 to be updated in the light of the investment options now likely to be available and revised stock and financial information.

(2) That an advisory panel to Cabinet be established to review the Options Appraisal and its implications and to report back to Cabinet by the end of January 2009. The Panel to be cross party with a 4 to 1 composition and that the three Party Leaders/Group Whips to give the names of their representatives for the Panel to the Chief Executive by the end of the following week."[3]

[2] Minutes of the Full Council meeting 27 June 2005
[3] Minutes of the Cabinet meeting 30 October 2008 item 6

Stock Options – the legal perspective

1 **Background**

1.1 Northampton Borough Council (**the Council**) is currently investigating housing investment options. The Housing Asset Management Strategy Cabinet Report refers back to the housing investment options appraisal that was carried out in 2004/5. This appraisal identified three available options:

(a) Stock transfer in full or in part;

(b) Private Finance Initiative (PFI); and

(c) Arms Length Management Organisation (ALMO).

The Council has not pursued (c) but has applied for PFI Round 6 and is looking at transfer options.

1.2 It is possible for the Council to mix and match these options, so long as regard is had to the key legal issues. Fundamentally, the Council is always a housing authority and this brings certain obligations. The Council's obligations in relation to homelessness and wider housing strategies remain. The Council has a statutory obligation to balance the Housing Revenue Account (HRA). So long as the housing stock remains in Council ownership, the Council will have a legal obligation to maintain it. If these, or other arrangements, are to be changed, then tenants have an extensive set of rights and must be consulted on these possible changes. In addition to these housing related obligations, the Council will also have obligations to its staff, and changes to the structure in which the housing stock is maintained will raise pension issues for staff.

This paper will explore options (a) and (b) above.

2 **HRA PFI**

2.1 This option does not involve a transfer of ownership from the Council, and so tenants will remain Council tenants. The Council remains the landlord with direct legal responsibilities to the tenant, but lets a long term contract to a special purpose vehicle (SPV) for properties to be refurbished and then managed and maintained over what is usually a 30 year period. The SPV raises private finance to enable the refurbishment to be carried out, and possibly new build too, and the Council pays a fee to the SPV over 30 years. The fee is sufficient to meet the borrowing costs as well as ongoing management and maintenance. The PFI credits provided by CLG to successful bidders support the additional costs.

2.2 As members can see from the diagram in the slides the above is a very simplistic description of housing PFI. In practice the long term management and maintenance is often carried out by a subcontractor, which might be an RSL, and the refurbishment by another contractor. The SPV itself may be owned by these contractors or by others. The banks who lend to the SPV are lending not on the security of property, but on the income from the fees the Council pays and therefore will want a direct relationship with the Council. The Council will want the ability to terminate contracts and bring in better contractors if the service to its tenants is not satisfactory, and the banks need involvement in that process to ensure the ability to repay is not damaged.

2.3 In strictly legal terms the Council needs consent under s.27 Housing Act 1985 to delegate the housing management functions that are delegated in a PFI scheme. In order to secure proper services for its tenants it is vital that the service to be provided is adequately defined and that the scope for variations, and the potential cost of variations, is clearly understood.

2.4 Over time, stock numbers will be reduced as tenants exercise their right to buy. Funding for the scheme is largely based on the rental flow and there have to be mechanisms to adjust the fee as stock numbers fall, since costs may not reduce in line with numbers.

2.5 Before entering into an HRA PFI contract, tenants must be consulted. The main consultation requirement is at s.27 Housing Act 1985 as amended by a statutory instrument (SI 2003/940) to enable a local authority to let a PFI contract and for the agreement to be subcontracted and for the subcontractor to change, if necessary. However, unlike transfer, there is no requirement to ballot tenants.

2.6 The legal documentation is largely concerned with balancing the risk between the parties, with inevitably the public and private sectors each trying to minimise their risk. There is standard PFI documentation accepted by the Treasury but each PFI scheme usually involves significant amounts of negotiation.

3 Transfers

3.1 Large Scale Voluntary Transfer (LSVT)

This option involves the Council transferring its whole (or virtually the whole) housing stock to another body. LSVTs have so far always involved freehold transfers and so once the stock is transferred it can never come back to the Council. However, leasehold transfer is now being talked of as a possibility (see below).

Under current rules, a council wanting to transfer more than 499 dwellings in 5 years needs a place on the disposals programme. However, this position will change under the Housing and Regeneration Act 2008. There is provision in this to remove the statutory need for a disposals programme and replace it with a more general statement about the ability to take account of the potential cost to the Exchequer (see Schedule 14). In the 2008 Act this provision will only apply if more than 499 dwellings are disposed of to the same organisation, or to connected organisations, rather than over a 5 year period.

There is a statutory requirement to consult and ballot secure and introductory tenants.

3.2 Estate transfers

This option is a partial transfer of the Council's housing stock. As with the LSVT option, tenants must be consulted and balloted pre-transfer. So long as there are less than 499 properties transferring, a disposals programme place is not required. However, as with the LSVT option, since it is a transfer of the Council's freehold title there is no going back once the properties have been transferred. Once again though, there is the possibility of a leasehold transfer.

There is sometimes confusion in relation to estate transfers. Estate renewal projects (where estates are decanted and empty buildings or land are transferred, often in phases, and new homes built by an RSL, with council tenants moving into new RSL stock built on the estate are not tenanted estate transfers. Tenants do not have to be balloted. It is only when homes are transferred with tenants in them that the transfer process applies.

3.3 Transfer to what?

Under current government policy transfer can only take place to a registered social landlord (**RSL**), which now is a landlord registered with the Tenant Services Authority (**TSA**).

3.3.1 Stand alone new RSL

Where there is an LSVT, it is still most common to transfer to a new stand alone RSL that has been set up for the transfer.

The new RSL would most likely be charitable. This offers more comfort to tenants since it is not a commercial vehicle and being charitable also has significant tax advantages. The RSL could either be an industrial and provident society or a company limited by guarantee. Either way, it will need to meet TSA registration criteria.

It is common to have a board of 12 or 15, with the Council, tenants and independents each making up a third of the board. Shareholders/company members would be made up in the same ratio, with each group holding a third of the votes at a general meeting.

A further option is a community gateway model, which involves more tenants and fewer council nominees on the board with only residents being allowed to be shareholders.

3.3.2 A partner RSL, with the new RSL as part of a group

This has become a little more common over recent years. The partner RSL is usually chosen through tenant consultation, and often after a competitive bidding process.

As compared with a new standalone RSL, it may offer additional resources from the RSL group, with the possibility of staff helping with tenant consultation and other pre transfer activities. Central costs post transfer such as HR, IT and finance can be shared, which may increase the price that the new RSL can pay to the Council for the stock if the central costs are reasonable. There may also be the possibility of sharing any abortive costs if the transfer does not go ahead. It may also mean the transfer has access to group loan finance.

Unless a new group is created for the transfer this option will mean that the RSL will have to fit into an existing group, although some new groups have been especially created in order to accommodate a new transfer RSL.

3.3.3 To an existing RSL

In the case of LSVTs, it is unusual to transfer to an existing RSL. It is more common to use this option in the case of estate transfers. As with the partner RSL route, it is usual for there to be extensive tenant consultation and competition for the choice of the RSL.

With no new RSL to be set up pre transfer costs should be less, and the whole process may well be quicker, both pre and post ballot. The existing RSL may offer some form of area or estate board to give local tenants and members a voice in the future of the estate, but this is normally less formal then setting up a new board for an RSL

3.4 The Transfer Process – pre-ballot

Tenants must be fully consulted. The process is exactly the same whether it is an LSVT or an estate transfer.

Informally, tenants can be consulted in any way that the Council and the tenants find useful. Often newsletters tenant meetings, and direct visits are used.

The statutory formal two stage process is set out in section 106A and Schedule 3A Housing Act 1985, as amended by the Housing and Regeneration Act 2008. There is also extensive CLG guidance that needs to be followed.

All secure and introductory tenants must receive an offer document setting out the full details of promises that are being made, the identity of the new landlord, and the effect the transfer will have on their tenancies. Tenants must then be given at least four weeks to consider this document and make comments to the Council. These comments must be considered, and in light of these, the Council considers whether changes should be made to the offer document. The second stage is to inform tenants of any changes that were made to the offer document as a result of their comments. A ballot must then be held. The 2008 Act made the requirement for a ballot statutory. Tenants have the right to make written objections to the Secretary of State.

Guidance states that leaseholders should also be consulted; however the statutory position is not the same, and the statutory right to be consulted does not cover them.

3.5 Tenants' rights

On transfer, secure tenancies by statute will become assured tenancies. The differences between these types of tenancies should be explained to tenants in the offer document. All tenants need to be offered a new tenancy agreement, and this new tenancy should maintain their key rights of succession and security of tenure and limited grounds of possession.

It is usual to promise that rents and service charges should be the same as under the Council's tenancy, with the same rent restructuring. Rent guarantees are sometimes offered for a set period.

By statute, tenants keep their right to buy, and the tenant's right to buy and discount are kept if they then transfer properties within the transfer landlord.

The tenants may also have a right to a role on the board and to be shareholders/members of the transfer RSL depending on the type of transfer RSL being set up.

3.6 Transfer process – post-ballot

It is always the Council's decision whether or not to transfer, even if there is a vote in favour of transfer.

If transfer is to go ahead, the RSL will need to be registered with the TSA. The exact properties that are to transfer will need to be agreed between the parties, and finance will need to be put in place.

It is usually only after the tenant ballot has been held that the transfer agreement is negotiated in detail between the parties.

The lenders will be closely involved in agreeing the terms of the transfer agreement, and will be looking to see that the transfer RSL has a robust business plan and that its income and costs are as secure as possible.

CLG will want to see that the RSL is independent from the Council.

The Council will want to be assured that promises to tenants will be delivered and that they have adequate rights in the transfer agreement to monitor delivery of promises and enforce the promises if they are not being delivered.

Before the properties are transferred Secretary of State consent must be obtained, and the Secretary of State must be satisfied that the majority of secure and introductory tenants (not leaseholders) are not opposed.

3.7 TUPE and pensions

Whether the PFI or transfer option is chosen, staff will have rights to transfer under the Transfer of Undertaking (Protection of Employment) Regulations, normally referred to as TUPE. TUPE preserves the employees' terms and conditions of employment, and all continuity of service is recognised.

Staff and trade unions have the right to be consulted and it is normal to agree a protocol for the staff transfer.

Staff roles will need to be assessed and those who are "assigned to the undertaking" will transfer, however it is normally determined by agreement that it is those who spend more than 50% of their time on housing that will transfer. Related support staff may also transfer.

There is a Code of Practice on staff transfers in the public sector. Whether or not the staff are strictly transferring under TUPE or not, all staff are to be treated as though they are transferring under TUPE with all the protections that flow from that assumption. The Two Tier Workforce Guidance will apply to the PFI option, but not to an LSVT.

With regard to pensions, the new employer should gain admission to the County scheme. On transfers, CLG guidance is that the housing authority should pick up any pension deficit as at the transfer date. In practice that is now often paid by the transferee and deducted from the price.

4 New ideas

4.1 Leasehold transfers

This option provides the possibility of tenanted stock returning to the Council after 30 years. It is public knowledge that Bolton is discussing leasehold transfer with CLG. While no decision has yet been made, it is likely that CLG would only see tenanted leasehold transfer as acceptable if it is part of a package providing significant area regeneration. Simply doing a "normal" LSVT or estate transfer but with a leasehold rather than a freehold transfer is probably not an option.

Note that leases must be more than 21 years long to take housing out of the HRA.

The consultation arrangements would be the same, as would the choice of new landlord.

4.2 Local Housing Companies/asset backed vehicles

The Green Paper encouraged councils to look at new forms of delivery vehicle. Local Housing Companies (**LHC**) are one form of possible delivery vehicle. A number are being set up around the country. Most of these are delivery vehicles for new build.

The Council with one or more partners sets up a company (or possibly a limited liability partnership). The Council provides the land/assets for the scheme, and the partners may provide equity or borrowing capacity. The Council, through its interest in the LHC, has a long term interest in the scheme.

A key issue for LHCs is whether they should be controlled by the Council or not. If they are controlled by the Council (and control is assessed using accounting rather than legal tests) then borrowing by the LHC may affect the Council's ability to use its prudential borrowing powers for other projects, because in assessing capacity for prudential borrowing the Council has to look at borrowings of entities whose accounts are consolidated with it.

But since the major changes to the law regarding transactions by local authority controlled companies in 2003, it is no longer true that all transactions of a company controlled by a local authority count as local authority transactions.

Many councils however prefer that the LHC is off balance sheet and its accounts are not consolidated with the local authority. Councils who want off balance sheet LHCs are usually looking to have maximum involvement without actually having control.

Whether on or off balance sheet if an LHC builds new housing it will not be within the HRA, so the rents are not caught up in the HRA subsidy system and can support new borrowing. Tenants will not be secure tenants of the Council, they will not have the right to buy and they will be entitled to local housing allowance rather than housing benefit.

If an LHC is getting grant funding for social rented housing from the Homes and Communities Agency, and it is not controlled by the local authority and it wishes to retain ownership of the social rented housing, once s.31 of the 2008 Act is in force it will have to register with the TSA.

If land is being transferred it must be at best consideration or, if not, with consent. If it is HRA land it will need consent under s.32 Housing Act 1985, although there are some general consents where HRA land is being transferred vacant and at full value.

4.3 Community Land Trusts

The Green paper also gave encouragement to the development of community land trusts (**CLTs**) as a delivery vehicle for new housing.

A CLT is an entity set up to ensure that land is kept for community benefit and provides permanent low cost home ownership, and also sometimes rented housing. CLTs have been recognised by the Housing and Regeneration Act 2008, s.79, with a statutory definition. They need to serve a defined geographical area with individuals who live or work in the area entitled to be members and with the members controlling the CLT.

Profits must benefit the local community and the CLT must be established with the express purpose "of furthering the social, economic and environmental interests of a local community by acquiring and managing land and other assets in order:

(a) to provide a benefit to the local community; and

(b) to ensure that the assets are not sold or developed except in a manner which the trust's members think benefits the local community"

Most CLTs being set up to date have been small and rural, but some larger and more urban ones have been considered though not so far set up.

Trowers & Hamlins

January 2009

APPENDIX C

NORTHAMPTON BOROUGH COUNCIL
DESKTOP STRATEGIC FINANCIAL OPTIONS REVIEW
UPDATED 29 JUNE 2009

1.0 Introduction

1.1 HQN was asked to prepare an illustrative analysis of the possible financial implications of the various high level strategic options potentially available for Northampton Council housing stock.

1.2 This analysis is an updated report from the report produced in January of this year. It is based on updated stock condition survey information. Although the prices on the survey have been updated, as well as being adjusted for 2008/09 expenditure and additional sample surveys, it needs to be noted that the survey dates back to 2003/04. Any outputs from this report therefore need to be treated with caution and are subject to any possible update, review or new stock condition survey data. The outputs summarised below serve to set out the financial relationship between the various alternative financial futures and offer some pointers as to the next actions to shape the debate on future options.

1.3 At a high level, the prognosis is as follows:

- With no change to national financial policy, the future of the HRA within the subsidy system is for long term revenue deficits and significant short and long term capital shortfalls as measured against the updated stock condition survey.
- For a self financing HRA (outside the subsidy system) to be viable and to deliver significantly higher levels of investment than staying in the system, would require a substantial increase in housing debt at the point of settlement. However, under a best case scenario this could be affordable.
- The overall valuation for a whole stock transfer (and indeed a stock transfer less the East Northampton PFI scheme) based on the core assumptions in a prospective Housing Association business plan is positive and would allow a high level of investment in the stock to be made.

2.0 Methodology

2.1 A consideration of the strategic options for stock ownership and management provides for three main alternative financial futures, as follows:

- Council housing through HRA in the subsidy system, however reformed
- Council housing through a self financing HRA
- Stock transfer.

2.2 The analysis has been undertaken on the basis of whole stock options and where relevant taking into account the possible PFI scheme currently being bid for.

2.3 This note identifies the key financial factors associated with the future of the stock on a ‘desk top’ basis making general assumptions about future behaviour in line with accepted practice and experience of the Northampton financial position; it should be noted that these assumptions and outputs are for illustrative purposes only and a key

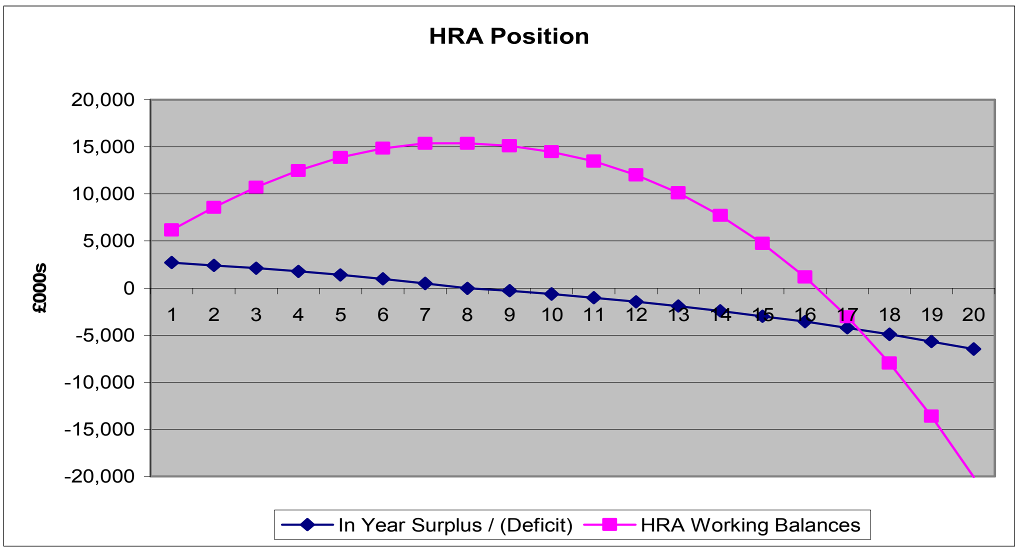
part of any future debate would be to consult upon, test and reach a consensus about the assumptions, particularly service and investment levels.

3.0 HRA in-subsidy: the 'no change' whole stock position

3.1 This section sets out the findings if the HRA stays within the current subsidy system. The assumptions made as below:

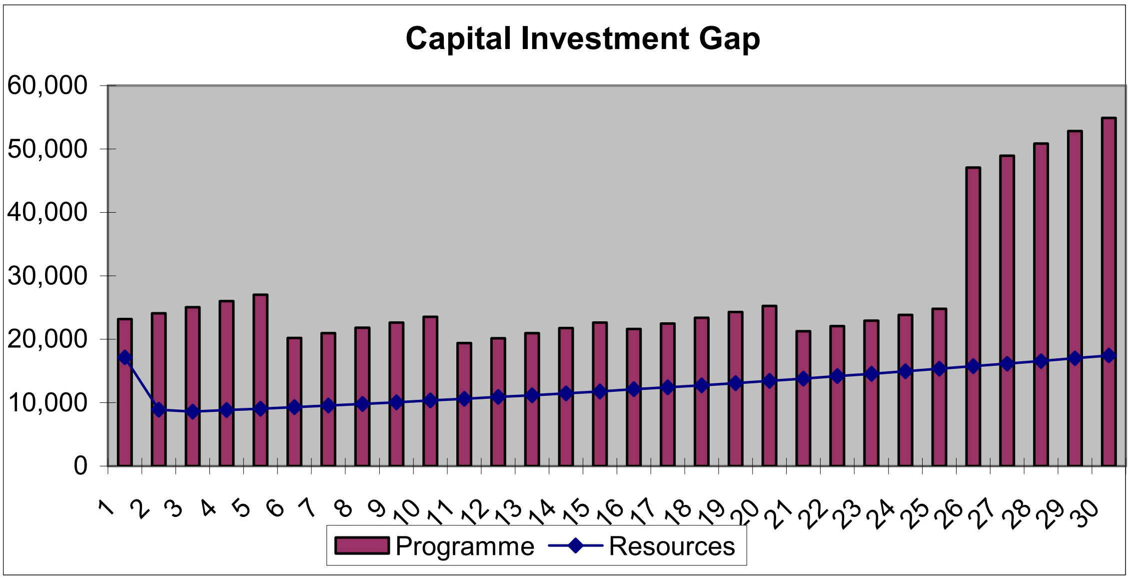
- Actual rents converge with target rents in 2016/17
- Actual management and maintenance costs have been increased by real inflation factors.
- Repairs costs have been reduced in line with property numbers on a pro-rata basis.
- Within the subsidy system, revenue and capital are separately forecast - revenue surpluses are not automatically committed to capital and capital shortfalls do not automatically draw on revenue for finance either directly or through prudential borrowing.
- There are revenue contributions to the capital programme committed in line with the capital programme for 2009/10.
- The useable 25% element of RTB receipts is committed to the HRA capital programme.
- The projected stock investment level is based upon an updated version of the original 2003/04 stock condition survey. It has been updated for work undertaken in the interim period. In addition additional surveys have been undertaken to increase the original sample size. For this analysis the current prices actually being achieved have been used for the key decent homes elements of bathrooms, kitchens, rewires and heating. The remaining elemental rates have been increased by 4%.

3.2 We developed a summary forecast HRA for 30 years and a comparison of capital expenditure needs against likely capital resources over the same period. The HRA is forecast to move into in-year deficit within 8 years and into overall deficit in 17 years.



3.3 Within the above, £10.9m of negative subsidy in 2009/10 is forecast to reach negative subsidy of £46.2m by year 30, or around 42% of rent income.

3.4 Projected capital resources have been compared to the updated stock condition survey outputs. The outputs are contained in the chart and table below.



3.5 The chart illustrates that there is an investment shortfall for each of the 30 years.

	Year 1 - 5 2013.14	Yrs 1 - 10 2018.19	Yrs 1 - 20 2028.29	Yrs 1- 30 2038.39
Resources	52,373	101,280	220,706	376,091
Investment	125,328	234,435	456,249	825,635
Surplus / (Deficit)	-72,955	-133,155	-235,543	-449,544

3.6 The capital shortfall against the SCS over 10 years is £133m, over 30 years £450m. This highlights significant challenges ahead not only in meeting liabilities and the aspirations of tenants towards the future of the stock and their neighbourhoods but also in maintaining a decent homes standard profile over the long term.

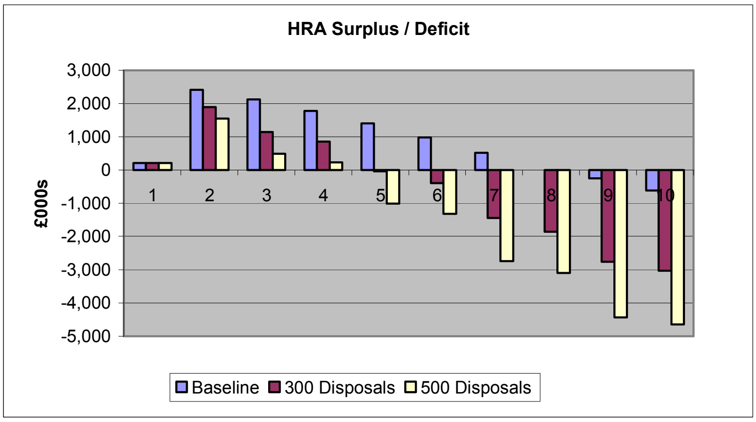
3.7 This increase in investment gap from the previous report is almost entirely due to the marked reduction in right to buy sales over the last 2 years. This has the effect of substantially reducing resources but also means that more properties remain to require investment. If sales were to increase to 100 per year from 2010/11 the 10 year investment gap would reduce to £113m the same figure as in the previous report.

3.8 There is the possibility of not investing in some of the improvement above decent homes shown as non priority improvements in the stock condition information. From below it can be seen that this does reduce the investment gap but does not eliminate it.

	Year 1 - 5 2013.14	Yrs 1 - 10 2018.19	Yrs 1 - 20 2028.29	Yrs 1- 30 2038.39
Resources	52,373	101,280	220,706	376,091
Investment	107,075	194,066	415,880	785,266
Surplus / (Deficit)	-54,702	-92,786	-195,174	-409,175

3.9 A maximum of £14.5m contribution could be made by the HRA from in year surpluses and reserves but again serves only to reduce the gap but not eliminate it. In addition this brings forward the need to make revenue savings of around £0.5m per annum to 2016/17.

3.10 To reduce the investment gap the council could consider the disposal of properties with above average investment need on an ongoing basis, for example 300 or 500 properties every 2 years. It is not possible to estimate the effect of this on the capital investment profile until actual properties could be identified but the effect on the HRA can be estimated with the chart and table below identifying the in year surpluses / deficits for each option.



	2,009.10	2,010.11	2,011.12	2,012.13	2,013.14	2,014.15	2,015.16	2,016.17	2,017.18	2,018.19
Baseline	213	2,411	2,119	1,779	1,401	977	509	-3	-258	-619
300 Disposals	213	1,889	1,140	850	-44	-398	-1,442	-1,862	-2,765	-3,037
500 Disposals	213	1,542	487	230	-1,008	-1,315	-2,743	-3,103	-4,435	-4,648

In year surplus / deficits

3.11 HRA revenue savings will be required at early date as shown in the table above. By 2015/16 the council will require £1.4m savings with 300 disposals and £2.7m with 500 disposals. At this scale the majority of costs would not be variable with reduction in overall management and council overheads required. In conclusion it would be difficult to manage out costs on a continuous drip feed of stock loss.

4.0 HRA in-subsidy with Northampton East PFI Scheme

4.1 If the Northampton East PFI scheme should happen there will be a consequence for the rest of the stock. In this report we assume that any revenue costs will be offset by matching revenue savings within the HRA. This report considers the effect on the investment gap for the remaining stock. If the stock in the PFI area was to have an above average investment requirement as shown in the stock condition survey then the overall investment gap should be reduced for the remaining stock.

	Year 1 - 5	Yrs 1 - 10	Yrs 1 - 20	Yrs 1- 30
	2013.14	2018.19	2028.29	2038.39
Resources	51,337	94,619	200,226	337,487
Investment	119,218	216,585	421,416	759,649
PFI Set Up Costs	8,056	8,056	8,056	8,056
Surplus / (Deficit)	-75,937	-130,022	-229,246	-430,218
Surplus / (Deficit)	-72,955	-133,155	-235,543	-449,544

4.2 If allowance is made from capital for the additional PFI set up costs the effect on the overall investment gap in the medium term is minimal. However it should be remembered that the PFI stock will be having a total investment far in excess of the stock condition survey.

4.3 This shows that the PFI scheme only has a minimal positive effect on the 30 year investment gap for the remainder of the stock if that stock should remain within the current subsidy system.

5.0 Self financing HRA

Introduction

5.1 We have calculated a possible self financing settlement for Northampton's HRA based on the assumptions utilised in the recently completed national self financing project as follows:

1. The debt settlement based on future negative subsidy rising over 30 years.
2. The debt settlement based on freezing subsidy at 2011/12.

5.2 The original principle for self financing in the pilot project is to commute future subsidy into one single debt-settlement. In forecasting subsidy payments over 30 years, the extent of the under funding and future surpluses inherent in the system quickly became clear within the project. The impact on a self financing settlement was to make the debt-settlement very high as the HRA would be paying over a commuted sum based on the Net Present Value (NPV[4]) of assumed increases in negative subsidy, therefore effectively unsustainable in the short to medium term. This linkage means that in order to make self financing viable, the subsidy system is required to be made viable, a fact which effectively triggered the review of the subsidy system.

5.3 The six pilot authorities within the project therefore argued that, in parallel with a better funded system, the debt-settlement should be based on a freezing of the current subsidy position; or at least from 2011/12. The importance of this date is that it is both the original target date for rent restructuring and, critically, the first year of the next Government Spending Review period. The National Review is not considering any changes to funding in the current period (2008-

[4] *NPV: a technique whereby annual future income and expenditure flows are discounted to represent the 'time value of money' – NPV represents the net value of future income less future expenditure taken over 30 years and brought back to 'today's' money by discounting at 6% which is an assumed gross investment rate for money over the long term*

2011) on the basis that these spending totals are already factored into the national expenditure plans.

Illustrative debt settlements

5.4 In both cases, Northampton's HRA is a significant net *payer* of negative subsidy in NPV terms over 30 years.

5.5 A commutation of the future negative subsidy amount into a Net Present Value would mean an increase in debt of £270m. This represents the value *in one go* of the net of all future negative subsidy should nothing change with the system. This represents the value of negative subsidy rising from £10m to £46m over 30 years.

5.6 The debt adjustment if the subsidy position was frozen at 2011/12 and future subsidy was adjusted in one go, would result in a debt increase of £129m. This represents the commuted value of negative subsidy rising to £11m by 2011/12 and then staying at the same amount over the next 27 years.

5.7 These two potential alternative approaches could therefore be said to represent the technically *best* and *worst* case scenarios for self financing and the 'opening debt' for each of these approaches is set out below.

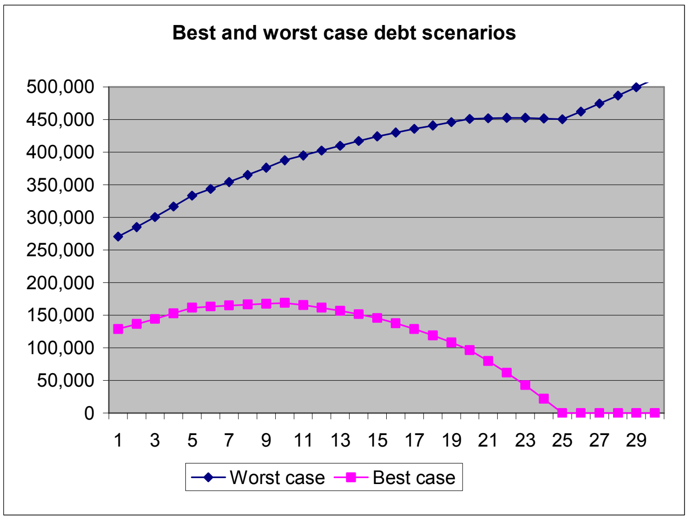
5.8 When added to the current HRA debt for Northampton of -£7m, the *worst* case self financing scenario would involve a debt settlement and float-free from the system at a level of £263m debt. The theoretical *best* case would involve an opening debt of £122m.

Modelling increased investment

5.9 The principle advantages of a self financing HRA compared to staying in the subsidy system is the availability of all future rent income locally to provide headroom for increased expenditure, mainly towards the stock. As rents increase, increased headroom over a long period could be used to finance borrowing or to supplement the amount of expenditure on the stock from the HRA.

5.10 We have therefore modelled in a self financing context the delivery of the Northampton Stock Survey profile. The approach is shown as a debt profile which highlights the long term viability or otherwise of a self financing plan and this is compared to what self financing would look like if the same level of capital resources were available as forecast within the current subsidy system (MRA and RTB receipts). Rising debt over 30 years highlights that the plan is unaffordable. Debt that is reducing highlights that a plan would be viable.

The chart overleaf shows these two profiles.



5.11 If the opening debt was £255m, spending at the SCS profile would cause rising debt over 30 years as borrowing costs incurred further borrowing to attempt to fund the required expenditure. This is clearly unviable.

5.12 At an opening debt of £122m, the theoretically *best* case self financing scenario, investment at the SCS profile would lead to an increase of debt in the early years to finance the programme (to £169m) which would be repaid within 25 years. This highlights that the SCS profile could be financed with a considerable degree of headroom, providing that the opening debt can be controlled to this level.

5.13 Therefore, the viability of a self financing plan in the Northampton context would be entirely dependent on the securing of a settlement which approached the £122m in the 'best case' scenario above. In fact, opening debt at £145m could still allow the SCS profile to be financed with a closing debt after 30 years of around zero. Above this level of opening debt, the plan begins to become more sensitive to changes in inflation and interest rates and therefore less viable.

5.14 It should be noted that the basis for the self financing scenarios above rest upon a roll forward of current service revenue costs with 1% real increases in the cost base. The above conclusions about the viability of a self financing plan are therefore dependent upon the controlling of increases in management and repairs costs to this level of inflation. Though challenging, in a self financing context, this might prove more achievable than staying within a volatile and unpredictable subsidy system.

5.15 Under a theoretically best case self financing scenario, the opening debt for a Northampton self financing HRA could be expected to be £122m. This would allow all future rent increases to be retained locally and provide for additional headroom to increase investment to the SCS profile level and beyond providing revenue costs were controlled to inflation. This headroom would also enable the council to consider new build using the flexibility of keeping rental income within the HRA. It is far from clear that the National Review would result in such a positive outcome, however a series of alternatives relating to the redistribution of current debt between authorities are also being analysed.

5.16 The option of a self financing HRA for Northampton might therefore be more viable than staying in the HRA subsidy system. However, there are many dependencies in achieving the kind of review outcomes and therefore series of factors which could put the HRA in such a position.

5.17 An individual approach to self financing at Northampton could be dependent upon the achievement of performance criteria. In the short to medium term, therefore, it is difficult to see self financing for Northampton in anything other than the context of a 'national settlement' with greater flexibility for all HRAs. The review outcomes will be known in March.

6.0 Stock transfer

6.1 We have calculated an indicative valuation for the housing stock for a possible whole stock transfer based on assumptions from the business plan. We have also undertaken a separate valuation with the PFI stock excluded. It must be noted that this provides a guide to inform thinking on the debate on future options and does not represent what an actual valuation would be.

6.2 The valuation is a cashflow valuation based on a single commutation into one value of future net rental flows over 30 years and is therefore a similar calculation as for self financing but with assumptions which provide for the private finance nature of a transfer.

6.3 The relevant general assumptions (and how these differ to the HRA futures) are summarised below.

- The valuation is of the stock 'on day one' and therefore there is no assumption of property changes.
- There is no inflation on the cashflows – this provides some comfort to the funders that there is some leeway in the HA business plan to manage risk.
- Rents are assumed to increase on the same path as under the HRA.
- VAT is applied to a proportion of repairs and all capital works.
- The capital spending need has been increased for fees and VAT in the valuation. In addition the base data has been increased by 15% to allow for the development of a "Northampton Standard and allowing for the possibility that any transfer funders would require a certain standard of investment. This addition is lower than the previous report as the costs used for the key elements are now based on actual costs currently being incurred.

6.4 The Transfer Valuation or Net Present Valuation is based on the 30 year value of cash flows and represents the value for the stock. The indicative valuation on this basis is ***£13.4m***. A similar valuation has been undertaken with PFI stock excluded. The overall valuation is shown overleaf

	Whole Stock	Stock less PFI
Total valuation	£13.4m	£17.1m
Outstanding debt as per CLG inc. premiums	£15.5m	£13.7m
Net receipt	-£2.1m	£3.4m
Set up costs	£3.5m	£3.5m
Net Receipt	-£5.6m	-£0.1m
CLG Levy at 20%	£0m	£0m
Difference between actual debt and as per CLG	£21.4m	£18.9m
Actual Receipt	£15.8m	£18.8m
Possible VAT Shelter	£25.0m	£22.0m

6.6 From the gross receipt CLG expect any debt outstanding on the HRA to be repaid. According to CLG's measure of debt for Northampton the figure stands at £15.5m at 2011/12. This leaves a net negative receipt to the council of -£2.1m. Set up costs of any new housing association (including ballot costs) could amount to £3.5m. This would leave a net negative receipt to the council of -£5.6m.

6.6 Although CLG's measure of debt for Northampton is £15.8m the actual level of debt is negative £7m (i.e. "capital receipts in the bank"). The CLG guidance therefore allows Northampton to borrow £21.4m bringing the debt level up to £15.5m (their measure of the debt). This debt is then paid off from the receipt leaving the council with the £21.4m cash before any debt premiums are taken into account. The net effect of this is that the council gets to keep the original receipt and cash in the £7m receipts in the bank. Or put another way the council borrows £21.4m and the government pay off the debt from the gross transfer receipt leaving the council with the original amount borrowed.

6.7 A similar calculation applies to the stock less PFI properties except that debt is pro rata'd to the stock transferred. A HRA would still be kept for the PFI stock.

6.8 Any balances on the HRA would revert to general fund at the point of transfer. If transfer was to happen on 31/03/12, working balances and reserves of £10.7m are projected to be available if not used in the interim (This excludes any TUPE costs).

6.9 If the transfer landlord was to seek charitable status, a VAT shelter could be negotiated representing recovered VAT on up to 10 years of capital investment post-transfer: This could be in the region of £25m spread over 10 years for a whole stock transfer and would represent additional resources available for investment in the community by the council and/or the housing association. The use of the VAT shelter is determined as part of the process of agreeing the Transfer Agreement and the overall council's VAT status.

6.10 Right to Buy receipts post-transfer (Preserved RTB receipts) are usually split between the council and housing association. Receipts are no longer subject to pooling from government.

6.11 Currently up to £7m is charged to the HRA from the general fund. If the stock was to be transferred as a whole or along side a HRA PFI scheme there would no longer be any scope for these charges. The council would need to identify how much of this cost would remain post transfer and therefore the financial hit to be taken by the general fund.

6.12 At the point of transfer there would likely be a deficit on the pension fund. No new landlord would take this deficit so the council would need to fund this pension gap at the point of transfer. In addition the valuation may need to be adjusted to allow for any additional costs to be incurred by the new landlord in future pension contribution costs.