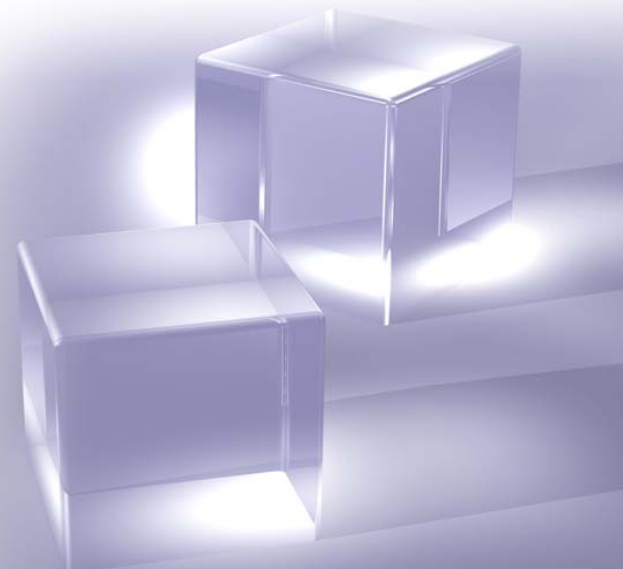


SALISBURY DISTRICT COUNCIL

HOUSING OPTIONS APPRAISAL

DRAFT FINAL REPORT

FEBRUARY 2005



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1. Introduction

- 1.1 HACAS Chapman Hendy were appointed in September 2003 by Salisbury District Council to undertake an appraisal of options available for its Council Housing. In order to comply with Government guidance, any strategy adopted would need to allow the stock to be brought to the Government's Decent Homes Standard by 2010, whilst implementing the Government's Rent Restructuring regime, and bringing rents to the Government's targets by April 2011.
- 1.2 The review examines the resources available to meet these demands and in particular gives detailed consideration to the following options:
- stock retention by the Council (based on assumptions about future costs, and resources);
 - the potential for an Arms Length Management Organisation in Salisbury and the possible impact on resources;
 - the Private Finance Initiative (PFI);
 - stock transfer to a Registered Social Landlord.
- 1.3 This report refers to the Office of the Deputy Prime Minister (ODPM) throughout, in describing rules previously set and actions carried out by the former Department for Transport, Local Government and the Regions (DTLR) and its predecessor departments, the Department of the Environment, Transport and the Regions (DETR) and the Department of the Environment (DOE).
- 1.4 In order to prepare this report, it was necessary to obtain detailed information from Council officers. HACAS Chapman Hendy acknowledge with thanks the assistance of those officers who provided information and time.

2. Current Government Housing Policies

2.1 The main analysis in the report has been undertaken against the background of current Government thinking on housing policy. This includes the Government's Communities Plan, published on 5 February 2003, and its Public Service Agreement Plus review of policies contributing to the Decent Homes Standard, published on 3 March 2003. The PSA review contributed to, and is reflected in, the Communities Plan. The content and structure of the report also reflects the Government's '*Delivering Decent Homes – Option Appraisal Guidance for Local Authorities*' of June 2003.

2.2 In summary, the Communities Plan, insofar as it is directly relevant to this report;

- states "By 2010, all social housing will have been made decent";
- reaffirms the Government's commitment to the options of Arms Length Management Organisations (ALMO), Private Finance Initiative (PFI) and Large Scale Voluntary Transfer (LSVT) as the only alternatives to stock retention;
- provides details of the allocation of funds to those alternatives for the period of the current Comprehensive Spending Review (2003/4 – 2005/6);
- states that all Local Authorities with their own housing stock will be required to produce a robust Option Appraisal for Government sign off by July 2005;
- states that authorities opting for stock retention cannot expect to receive additional funding, beyond that available from the Housing Investment programme (HIP).

2.2.1 As well as the PSA Plus Review, the Government also issued guidance on the three options of ALMO, PFI and LSVT on 3 March 2003. This Guidance is reflected within this report.

2.2.2 The Communities plan follows the proposals contained in the July 2001 consultation paper "*HRA subsidy and rent restructuring*", the Local Government White Paper "Strong Local Leadership - Quality Public Services" and the resulting Local Government Act 2003, and associated consultation on HRA subsidy arrangements.

2.2.3 The Local Government Act 2003 included the following provisions pertinent to this review:

- the removal of rent rebates from the Housing Revenue Account (HRA), which has now become a "straightforward" landlord account;
- subject to prudential limits, freedom to borrow against the revenues in the HRA. Borrowing against the Major Repairs Allowance (MRA) is not allowed,

although the Major Repairs Reserve may be used to repay the principal of such borrowing;

- high performing Arms Length Management Organisations (ALMOs) will, within limits set by the spending review, be free to retain the proceeds of their rent increases to the amount necessary to fund the borrowing they would need to upgrade their stock to the Decent Homes standard;
- set-aside rules in relation to housing receipts will be replaced by a pooling system that will apply to all housing receipts.

2.3 The Act also contains powers to allow the Government to require that a Housing Revenue Account (HRA) Business Plan be submitted, and to allow Subsidy to be set on a non-formulaic basis. The act sets out a number of specific criteria, related to the Council's wider role as a Housing Authority, as well as its landlord role, as well as on the basis of "assumptions as to any matter". This means that the Government's judgement of the Council's performance, or perhaps its assessment of the Option Appraisal carried out, could influence the resources it receives.

2.4 Other initiatives having an impact on this Option Appraisal Study announced within and since the Government's December 2000 Housing Policy Statement "The Way Forward for Housing", are as follows:

- the Government's social housing rent policy;
- the possibility of a new single legal status for social housing tenancies;
- modernising the stock transfer programme;
- the effective abolition of Local Authority Social Housing Grant (LA SHG) in its current form.

2.5 These proposals are summarised below:

2.5.1 The Government is keen to hold social rents at an affordable level, provide a closer link between the rent and the qualities tenants value in a property, and reduce unjustifiable differences between rents set by Councils and by RSLs. The rent policy statement, issued on 13 December 2000 provides the methodology to be used to determine target rents for social housing and to achieve convergence over ten years from 2002/03. The policy will be reviewed by ODPM in 2004 (HACAS Chapman Hendy are assisting with this review), and a consultation paper has recently been published seeking comments on proposals to revise the formula for calculating rents.

2.5.2 Changes in rents under restructuring for individual tenants are limited to RPI + 0.5% +/- £2 per week. For many Councils where the rents are low, restructuring will lead to higher average rents. From 2002/03 the average level of rent increases charged by RSLs should be limited to RPI + 0.5%. The implications on the valuation for a stock transfer of rent restructuring are considered in Section 8 of this report.

- 2.5.3 Currently Council tenants have a secure tenancy, and RSL tenants (following a stock transfer) have an assured tenancy. Although the rights of assured tenants are enhanced on a contractual basis within their new tenancy agreement on transfer, they still lose certain rights, and the fact that the rights differ – even if only to a minor degree – can be of concern to tenants facing a proposed transfer. The Government is now proposing to look at the possibility of creating a single legal status for social housing tenancies, incorporating the best features of both the secured and assured tenancies. This move would be generally welcomed in the social housing sector, as it would give identical rights to all tenants.
- 2.5.4 Local Authorities have the right to award grants to RSLs operating in their area. Until April 2003 the Housing Corporation reimbursed these local authority social housing grants (LASHG) on the same day on which the authority paid them. The receipt from the Housing Corporation was 100% reserved for debt redemption. The effect of this arrangement was that whilst the expenditure counted as capital expenditure, and required credit approvals or other capital resource to cover it, there was no revenue effect on the Council of having given the grant. The Government signalled the abolition of this arrangement, with effect from April 2003, within its August 2002 consultation paper “The Way Forward for Housing Capital Finance”. Authorities are still able to give grants, but they are not now reimbursed.
- 2.5.5 The August 2002 consultation paper also contained a chapter which included suggestions for discussion on a “blue skies” basis, rather than firm proposals. These deal with the future of the subsidy system, especially around the funding of historic debt charges where this applies. The consideration of these issues was taken further within the August 2003 consultation paper ‘*Future Housing Capital Financing Arrangements*’, although no firm proposals have yet been developed. These ideas are incorporated into our analysis of Salisbury’s projections and are discussed further in section 4.6 of this report.

3. Assessment Criteria

3.1 The Assessment Criteria for the Option Appraisal are based on the Council's strategic objectives and priorities identified following consultation with tenants as follows:

- To provide affordable housing in accordance with one of the Council's key priorities including the provision of adequate new social housing at target rents in partnership with the housing corporation, Registered Social Landlords and other agencies and stakeholders;
- To meet the Decent Homes Standard by 2010;
- To maximise the resources available to make necessary repairs and improvements to Council properties and improve the quality of life of residents;
- To continue to provide a quality housing management service;
- To maintain and strengthen tenant participation and protect tenants' rights;
- To maintain the Council's strategic role as a housing authority.

3.2 The options will be compared to these criteria in Appendix VII.

3.3 Housing Need

3.3.1 In the context of the need to maximise the supply of affordable housing and in accordance with ODPM guidance for options appraisals, it is pertinent to consider Housing need within Salisbury.

3.3.2 Salisbury District Council has provided us with the executive summary from the 2002 housing needs survey undertaken by Fordham Research. Given that the report is now two years old, some of the analysis has changed, primarily due to economic and market forces. The key issues identified, however, are still very relevant.

3.3.3 The key findings of this report, updated with current prices, which are relevant to the Housing Options Appraisal are:

- **The Housing Market** – entry-level prices range from approximately £139,000 for a one-bedroom home to £302,000 for four bedrooms. Minimum market-level rents range between £450 and £800 per month, depending on property size, and new build prices ranged from £145,000 to £450,000, again depending on size.
- **Housing Costs and Incomes** – a key feature of any housing needs survey is an assessment of “affordability”. This assessment compares average

household incomes with market rent levels and property prices in order to estimate whether households would be able to access private sector housing. The average household income at the time of the survey (all sectors) was £20,050 per annum, compared with a national average of £23,000 and a regional average of £20,500. Average weekly net income was estimated to be £347. Council tenants had the lowest average incomes in the survey group at £6,103, 70% less than the survey average.

The affordability measures used in the survey were as follows:

- Mortgages – a household would not be eligible for a mortgage if gross household annual income were less than a third of the mortgage requirement.
- Private rented – a household would not be able to afford private rented housing if the rent would take up more than 30% of its net household income.

On the basis of these affordability measures, it seems clear that households with even an average income would struggle to buy family-sized property, and Council tenants would be unable to purchase even the smallest properties. In rental terms, again households with even the average net weekly wage would not be able to rent properties at the upper end of the market. The rate of increase in property prices and market rents over the past two years can only have made the situation in Salisbury worse, thus the demand for “affordable” housing is likely to have increased over this period.

- **Housing Needs** – the basic needs assessment model shows that there is a backlog of existing need of some 131 households, and newly arising need of some 1,139 households. Assuming a supply of new affordable housing units of 375 units per annum leaves an estimated shortfall/requirement of 895 affordable housing units per year for the five-year period.

3.3.4 The results of the housing needs survey demonstrate that demand for affordable housing remains strong within Salisbury, with a significant proportion of the population being unable to access the available private sector housing. The gap between assessed demand and the supply of affordable housing at the time of the survey was estimated at 895 units per annum. Over 5 years this equates to a requirement of 4,475 dwellings in excess of current supply.

4. Stock Retention

4.1 Introduction

4.1.1 This Section examines the current position with regard to the Housing Revenue Account and the Housing Capital Programme in the light of the investment requirements of the stock as based on the Council's stock condition survey.

4.1.2 As a basis for this study we have prepared an HRA Business Plan financial model which takes into account the results of the stock condition survey, the Council's 2004/05 HRA budget estimates and the final HRA Subsidy Determinations for both 2004/05 and 2005/06. We have also produced a version of the model that excludes stock condition costs in excess of those required to meet Decent Homes Standards, as categorised by the Council's surveyors, Cyromany.

4.1.3 The assumptions used in the model have been discussed and agreed with officers. We have also undertaken some sensitivity testing on certain key assumptions within the models to assess the potential impact of variations in these assumptions on the council's position. These sensitivity tests are discussed later in this section.

4.2 Rents

4.2.1 The modelling of Salisbury's rents is based on the assumption that the local authority formula rent will increase by 1.5% in real terms for 2005/06 in accordance with guidance issued with the 2003/04 subsidy determination. It is anticipated thereafter that formula increases of 1.9% (real) per annum will be required during the rent restructuring "transitional period" to achieve convergence with RSL formula rents by 2011/12. Thereafter, real increases of 0.5% have been assumed.

4.2.2 As at April 2004, the reported average weekly rent in Salisbury is £2.70 more than the average RSL formula rent. Therefore, the projected increases in average actual rents will be lower than those of formula rents. As with any mean average, these figures mask the fact that there will be dwellings with smaller and larger variations than the average.

4.2.3 As mentioned in the previous chapter, the rent restructuring regime includes a safeguard for tenants that their weekly rent may not increase by more than RPI + 0.5% + £2 per annum. The modelling has been carried out on the basis of average rents and average targets, with the Council able to increase rents by the amount implied without restriction. The ODPM has confirmed that where, in practice, actual average rents are lower than would otherwise be anticipated because of the safeguard, the guideline rent will be similarly reduced, albeit with a time lag of one year, which we have assumed to be *de minimus*. It is therefore reasonable to assume that these items will balance out in practice.

4.3 Housing Revenue Account Subsidy

4.3.1 The modelling is based on the final Subsidy Determinations for both 2004/05 and 2005/06. For future years, it assumes the continuation of the existing formulaic subsidy calculation and makes assumptions about future changes to allowances based on the ODPM's statements. No account is taken of non formulaic subsidy setting, the provisions for which are contained in the Local Government Act 2003.

4.3.2 The HRA Subsidy formula will continue to assume rent income based on a guideline rent. During the transitional convergence period the guideline rent is to move, according to a prescribed formula, to the 2011/12 formula rent. This is in effect a withdrawal of subsidy as national average rents are currently about 16% above guideline rents.

4.3.3 The 2004/05 HRA Subsidy Determination included revised targets and actuals for management and maintenance allowances, whilst the associated commentary suggested that they would increase by 6% in real terms for 2005/6 along with a further 'rebasings' increase to compensate for the subsidy loss arising from rent restructuring. The 2005/06 Determination included further revisions to the calculations, which resulted in Maintenance allowances being higher than previously anticipated. We have used the 2005/06 allowances in our modelling, and have also assumed that the rebasing increases will continue at 2% each year until 2011/12 (being the target date for rent convergence). For Salisbury, we have assumed that Management and Maintenance target allowances will increase in line with the target increases outlined above, i.e. to increase by 2% per annum in real terms from 2006/06 until 2011/12, and that actual allowances will converge with the targets by 2015.

4.4 Service Charges

4.4.1 The *Guide to Social Rent Reforms in the Local Authority Sector*, published in December 2002, sets out the incentives for local authorities of un-pooling service charges from base rents. The majority of service charges in Salisbury relate to sheltered accommodation, and are already accounted for separately from rents, although there is still an element of subsidy from all rents as the charges do not fully recover the costs of providing the services. Salisbury has not yet commenced the unpooling of general service charges, but has commenced a process to investigate areas where there may be the possibility of charging for services already received. Such areas currently identified include communal cleaning, communal electricity and pumping stations and sewage treatment works. We would recommend that the Council continue its investigation into the possibility of charging for services regardless of which option for the future of housing in Salisbury is ultimately decided upon.

4.5 Capital Programme

4.5.1 The options reviewed in this appraisal are based on the current budgeted programme of works for 2004/05 and the stock condition survey results thereafter.

- 4.5.2 For the purposes of our modelling, we have assumed that real inflation (i.e. in excess of the general rate of inflation) of 1% per annum will apply on all works costs for years 2 – 6. Thereafter, no real inflation has been assumed.
- 4.5.3 The survey costs produced by Cyromany included an allowance for preliminaries at a rate of 12.5% of major works cost for years 1 – 5 and 10% thereafter. We have added an allowance for fees of 10% throughout the period of the projections.
- 4.5.4 Cost projections have been adjusted to reflect the fact that stock numbers are reducing as a result of RTB sales.
- 4.5.5 The identified programme of works between 2004/05 and 2013/14 is as set out in Table 4.5 (i) below. This table represents the full costs identified by the stock condition survey and therefore includes works over and above the level required by the full Decent Homes Standard. Table 4.5 (ii) compares the cost over 10 years of the full survey costs, the costs required to meet full Decent Homes Standard, the full cost plus the additional costs of meeting the Salisbury Standard and the continuation of the Council's existing policy of spending at the level of the Major Repairs Allowance.

Table 4.5 (i): STOCK CONDITION SURVEY					
MAJOR REPAIRS AND IMPROVEMENTS SUMMARY					
	Backlog Works £'000	Planned Repairs £'000	Improvements £'000	Other £'000	Total £'000
2004.05	0	4,458	0	225	4,683
2005.06	184	1,966	1,346	1,086	4,582
2006.07	188	2,012	1,378	1,124	4,702
2007.08	192	2,059	1,410	1,164	4,825
2008.09	197	2,107	1,443	1,204	4,951
2009.10	202	2,158	1,478	1,247	5,085
2010.11	0	5,000	55	795	5,850
2011.12	0	5,080	56	815	5,951
2012.13	0	5,161	57	835	6,053
2013.14	0	5,243	58	856	6,157
Total	963	35,244	7,281	9,351	52,839

- 4.5.6 The above projections represent the recommended level of investment on the Council's housing stock. To this extent, the investment levels shown incorporate the

costs required to deliver the Government's full "Decent Homes Standard" by 2010, along with the continuation of the Council's existing programmes of works either unrelated to, or exceeding, Decent Homes Standard. This standard of investment is the recommended standard, in that it takes account of all identified works and should prevent the build up of backlog repairs in the future.

Table 4.5 (ii): STOCK CONDITION SURVEY				
COMPARISON OF SURVEY RESULTS WITH DECENT HOMES STANDARD, FULL COST WITH TENANTS ASPIRATIONS AND EXISTING BUDGETED CAPITAL EXPENDITURE				
	Full Survey Results £'000	Full Decent Homes Standard Plus Essential Works £'000	Full Survey Plus Tenants' Aspirations £'000	Existing Budgeted Capital Expenditure £'000
2004.05	4,683	4,683	4,683	4,683
2005.06	4,582	2,035	5,029	4,216
2006.07	4,702	2,100	5,165	3,201
2007.08	4,825	2,168	5,304	3,275
2008.09	4,951	2,237	5,447	3,352
2009.10	5,085	2,309	5,473	3,434
2010.11	5,850	2,088	6,249	3,489
2011.12	5,951	4,261	6,359	3,545
2012.13	6,053	4,331	6,472	3,537
2013.14	6,157	4,402	6,586	3,593
Total	52,839	30,614	56,767	36,324

4.5.7 The above table illustrates the difference in cost between the three alternative investment levels and with the Council's existing budgeted capital expenditure. As mentioned above, the full survey costs represent the "recommended" level of investment and that if the Council was to maintain its dwellings in accordance with this programme of works, no backlog of repairs would arise in the future. It can be seen from the above that the costs associated solely with delivery of the Government's full "Decent Homes Standard" by 2010, at less than £31m are in the region of 58% of the recommended investment level over the 10-year period shown. Over the full 30 years of the HRA projections, the difference between the full survey costs and Decent Homes costs is in the region of £45m. It should be noted that the costs shown above in respect of Decent Homes cover all of the elements included in the standard, along with other essential works (such as asbestos removal and subsidence) that the Council would have to carry out over the period, and a continuation of the disabled adaptations programme. The cost of delivering the

“pure” Decent Homes Standard, i.e. doing absolutely no other works has been estimated at £3.6m for the first 10 years, based on two elemental failures being allowed, and £4.1m assuming all elements are covered. Salisbury currently has a programme of works in place to meet the minimum standard, which allows for a maximum of two elemental failures, in this instance kitchens and bathrooms.

4.5.8 The Council has undertaken a consultation process with its tenants to ascertain what tenants’ aspirations are, and have used the results of this exercise to produce the “Salisbury Standard”. The results of this process have demonstrated that tenants are interested in, amongst other things, increased security on estates, improved estate layouts, fencing and boundaries, improved parking on estates and internal decorations for elderly residents. The costs of providing these have been incorporated in the aspirational version of the model. Other “aspirational” items were identified by tenants such as improved kitchen and bathroom standards where possible, but these were already provided for within the full survey costs. Over the 10-year period shown above, the additional costs to meet tenants’ aspirational levels of investment is in the region of £3.9m. Over 30 years, this cost increases to £11m.

4.5.9 It should be stressed that an investment strategy based on achieving solely the “Decent Homes Standard” would not be a recommended course of action in the longer term as the general condition of the Council’s dwelling stock would worsen over time, and increasing numbers of properties would become either undesirable from a tenants perspective, or fall into disrepair as backlog repairs mount up. It is however envisaged by the ODPM’s Option Appraisal guidance that it may be considered where more extensive works are not affordable. As mentioned above, the Council currently has a programme of works in place to meet the minimum Decent Homes requirements, which allow for two elemental failures. In addition, the Council’s current policy is to have an investment programme equal to the value of the annual major repairs allowance. As can be seen from the above table, this is some £6m higher than the cost of the Decent Homes plus essential works requirements over the 10-year period shown, and as such should provide for works above the level of the Decent Homes Standard.

4.6 Capital Funding

4.6.1 HRA capital expenditure can be funded from the usable proportion of RTB receipts, borrowing, the Major Repairs Allowance, and, direct revenue funding. Salisbury’s position in respect of each of these is set out in the succeeding paragraphs:

4.6.2 Right to Buy Receipts

From April 2004 the new capital receipts pooling rules apply, requiring 75% of RTB receipts to be paid to ODPM and leaving 25% as usable either to fund General Fund or HRA capital expenditure. For authorities such as Salisbury, which is debt-free, transitional arrangements have been introduced to provide some degree of protection over the first three years’ operation of the new arrangements. During the transitional period, Salisbury would be able to retain a greater proportion of its capital receipts than “with debt” authorities, although these amounts will reduce over the three year period until the council is ultimately in the same position as other authorities that still have debt.

The projections assume no use of capital receipts to fund HRA capital expenditure in 2004/05 or thereafter as all receipts are prioritised corporately, and the Council's usable RTB receipts tend to be used to fund non-HRA housing capital expenditure. A sensitivity has been modelled, however, demonstrating the effect of HRA use of capital receipts on the Council's ability to fund its investment needs

4.6.3 Borrowing

Up until 2003/04 Government support for HRA capital expenditure had been available in the form of basic credit approvals, the revenue debt charges of which attracted housing subsidy. From April 2004 these credit approvals have been replaced by 'supported borrowing' allocated via the Regional Housing Board. Supported Borrowing in 2004/05 has been set at £0.5m. It has been assumed that supported borrowing will then reduce in stages over the period to 2010 (being the target date for achieving the decent homes target). No supported borrowing is assumed after that year. It has been assumed, in consultation with the Council, that none of the borrowing allocations will be applied to fund HRA capital expenditure.

Our modelling reflects the new arrangements in respect of the "Subsidy Capital Financing Requirement"; the assumed debt for the purposes of the subsidy calculation, and the "HRA Capital Financing Requirement"; the actual debt to be charged to the HRA.

These arrangements are necessary because under the provisions of the Local Government Act 2003, a new regime governing borrowing by Local Authorities commenced in April 2004. Until then Councils were only able to undertake long term borrowing when they had "credit approvals" available to cover the debt. These approvals are effectively Government permissions to borrow up to a specified ceiling. Many Councils, as well as the Chartered Institute of Public Finance and Accountancy (CIPFA), the public sector accountancy body, have long campaigned for a change to this system. They have argued for Councils to be allowed to borrow money, without restriction, as long as they are able to meet the debt charges (principal repayments and interest) arising from it.

The Local Government Act 2003 removed the previous controls on local authority borrowing. From April 2004, authorities are now able to borrow to fund increased capital investment within the HRA, provided that they have the resources to service the additional borrowing. The ODPM has recently re-iterated that Councils are not to be permitted to include their major repairs allowance (MRA) in this calculation of resources available to finance additional borrowing.

4.6.4 Major Repairs Allowance

As its name implies, this is an allowance within the subsidy system, intended to allow Councils to pay for major repairs to their dwellings. Salisbury's allowance is just under £547 per dwelling in 2004/05 and just under £573 in 2005/06. We have assumed it will increase in line with inflation in future years. The MRA can only be used to fund capital expenditure, and if unused in one year, is carried forward in a "Major Repairs Reserve" to future years. Salisbury carried forward a balance of

£2.7m in its Major Repairs Reserve from 2003/04. Our model assumes that the MRA will be utilised to its maximum extent each year.

4.6.5 Direct Revenue Financing

Also sometimes known as “Revenue Contributions to Capital Outlay”, this describes the situation where a Council uses revenue monies to pay for Capital expenditure. Salisbury has made such contributions in recent years, and the HRA model used for these projections automatically assumes that where revenue monies are available, and capital resources are inadequate, revenue financing will be utilised.

Table 4.6 below sets out the sources of capital financing used in the Base Position projection.

TABLE 4.6: BASE POSITION - CAPITAL FINANCING					
	Borrowing	RTB Receipts	MRA	RCCO	Total Financing
	£,000	£,000	£,000	£,000	£,000
2004.05	0	0	4,683	0	4,683
2005.06	0	0	4,216	365	4,581
2006.07	0	0	3,203	1,498	4,701
2007.08	0	0	3,227	1,598	4,825
2008.09	0	0	3,270	1,680	4,950
2009.10	0	0	3,314	1,771	5,085
2010.11	0	0	3,358	851	4,209
2011.12	0	0	3,412	0	3,412
2012.13	0	0	3,467	0	3,467
2013.14	0	0	3,522	0	3,522
Total Capital Financing					43,435

As can be seen by a comparison of the total in the above table with the full investment requirements shown in table 4.5 (i), the level of capital financing available is less than the overall expenditure requirement, which means that there is a shortfall in investment resources of £9.401m. This amount is shown as a capital deficit in table 4.7 below.

4.7 Housing Revenue Account Projections

4.7.1 As at April 2004 the total rented housing stock owned by the Council was estimated to be 5,472 units. The average reported rent level for stock in the Council’s Housing Revenue Account (HRA) for 2004/05 is £65.61 per week based on a 50 week year.

- 4.7.2 Using the ODPM's HRA Business Plan model we have produced an HRA projection using the 2004/05 budget as the starting point, and based on the results of the stock condition survey. We have agreed the assumptions used with Council officers. The model is effectively the base position for this appraisal, and demonstrates the Council's ability, or otherwise, to retain and maintain its housing stock to the desired standard over the thirty-year period of the plan. We have also prepared a further version of the model which assumes the continuation of the Council's current policy of capital expenditure being equal to the level of Major Repairs Allowance received. This would allow for works over and above the level required by the full Decent Homes Standard but not to meet the full level of required investment. The purpose of this is to ascertain whether or not the Council could afford to maintain its stock to this lower standard.
- 4.7.3 From the base position, we have undertaken some sensitivity analysis to ascertain the potential impact of variations in certain key assumptions.

SCENARIO 1 – Base Position

In this scenario, we have projected existing budgets and made assumptions on various matters such as rent restructuring & the attendant subsidy rules, voids and bad debt levels throughout the 30 years, supported borrowing, RTB sales and real increases in costs, as agreed with officers and shown in detail in Appendix II. We have also used the projections contained in the Council's updated stock condition survey as a basis for repairs, maintenance and improvement costs. Management costs are assumed to be 95% fixed in this scenario, and real inflation is assumed on stock condition costs at the rate of 1% per annum for years 2 – 6. General inflation is assumed at the rate of 2.5% per annum throughout.

SCENARIO 1a – Base position – Decent Homes plus essential works

As mentioned above, we have prepared a version of the base position model that excludes works costs over and above the level required to achieve Decent Homes Standard plus the essential works the Council would also need to carry out over the period of the projections. The remainder of the assumptions are unchanged from the base position.

SCENARIO 1b – Base position – including Salisbury Standard

As with Scenario 1 but with the additional costs of the Salisbury Standard added. In addition to the increased investment costs mentioned above, tenants have identified certain areas where they see a need for an improved level of service from the Council. The Council has produced an estimate of the costs likely to be involved in meeting these desired service improvements, and these costs have been incorporated in this scenario. The projections in Appendix III show this additional cost as "Other Revenue Spend".

SCENARIO 1c – Base position – continuation of existing policy of capital expenditure at level of MRA

As with Scenario 1 but with the stock condition survey costs replaced by the assumption that the existing policy of capital expenditure being at the level of the Major Repairs Allowance (MRA) would continue throughout the period of the projections. Year 1 of the programme would include “slippage” from 2003/04, but this would be excluded from subsequent years’ expenditure.

SCENARIO 2 – Variable element of management costs increases

As with Scenario 1 but with management costs assumed to be 75% fixed and 25% variable.

SCENARIO 3 – RTB sales reduce

As with scenario 1 but with the numbers of properties assumed to be sold under RTB reducing to 50% of the original assumption from year 2.

SCENARIO 4 – Reduction in real increase in stock condition cost inflation

As with scenario 1 but with real inflation of 0% applied to all stock condition survey costs in years 2 - 6.

SCENARIO 4a – Increase in real increase in stock condition cost inflation

As with scenario 1 but with real inflation of 2% applied to all stock condition survey costs in years 2 - 6.

SCENARIO 5 – usable RTB receipts available for HRA use

As with scenario 1 but assuming that 50% of usable RTB receipts are available to support HRA capital expenditure.

- 4.7.4 The table which follows compares the Base Position projection with the versions assuming the Decent Homes only levels of investment and the Base Position plus aspirational costs. The table shows projections for the HRA Operating Account balance and the annual capital financing balance:

**Table 4.7 – Comparison of Base Position with
Decent Homes and Salisbury Standard versions**

	Scenario 1 Base Position		Scenario 1a Base position – Decent Homes plus essential works		Scenario 1b Base position with Salisbury Standard costs		Scenario 1c Base position with Salisbury's existing investment policy	
	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2004.05	3,760	0	3,760	0	3,760	0	3,760	0
2005.06	5,306	0	5,678	0	4,693	0	5,729	0
2006.07	5,287	0	7,199	0	4,016	0	7,290	0
2007.08	4,888	0	8,505	0	2,910	0	8,586	0
2008.09	3,883	0	9,359	0	1,211	(63)	9,387	0
2009.10	2,276	0	9,778	0	1,125	(2,222)	9,712	0
2010.11	1,239	(1,641)	9,911	0	727	(5,113)	9,559	0
2011.12	649	(4,180)	9,669	0	(71)	(8,060)	8,831	0
2012.13	73	(6,766)	9,453	0	(870)	(11,065)	8,119	0
2013.14	(404)	(9,401)	9,351	0	(1,585)	(14,129)	7,359	0

4.7.5 As can be seen from the above table, based on our Base Position projections the Council's Housing Revenue Account is forecast to go into an overall deficit position within 10 years. Annual deficits will arise from year 3 onwards, and balances will be steadily eroded over the period shown. Remedial action will be necessary to balance the account and prevent a deficit occurring. Using the Base Position model, which includes the full costs of the updated stock condition survey, there is a shortfall in investment resources over the same period in the region of £9.4m. Over 30 years, this funding shortfall increases to £82m.

4.7.6 Reducing the investment costs to the level required solely to achieve the Decent Homes Standard plus essential works makes a significant difference to the revenue position as the need for revenue contributions is reduced. The HRA is now viable over the period of the projections shown above and for some time to come, although it is still projected to go into overall deficit in around 23 years. In capital funding terms, the significant reduction in costs means that over the 10-year period shown, the funding shortfall is completely eliminated, and over 30 years, a shortfall only begins to appear from year 22 onwards, totalling in the region of £37m by year 30.

4.7.7 Given that the HRA already appears to be unviable in the longer term in the Base Position model, the inclusion of additional revenue costs arising from the tenants aspirations research will make the situation worse. On this basis, the HRA is projected to have used up all available balances and go into an overall deficit in year

8 of the projections, with a projected deficit in the region of £1.5m by year 10. In capital funding terms, the additional cost of tenants' aspirational investment increases the funding shortfall to just over £14m.

- 4.7.8 If the Council was to continue with its current policy of investment expenditure matching the available MRA resources, then it would be able to meet the Decent Homes Standard and provide some additional investment over and above this level. The Council may not necessarily be able to continue with all of its existing programmes of works, however, as some of the expenditure previously spent on the continuation of existing "non-decency" programmes (i.e. works that are not required to meet the Decent Homes Standard) may need to be diverted to meeting Decent Homes plus essential works.
- 4.7.9 The above table indicates that, based on the projections we have undertaken, the full survey (recommended) level of investment does not appear to be affordable within projected resources, but the Council should be able to meet the Decent Homes Standard by 2010 and maintain this standard for some time to come. As mentioned above, however, Decent Homes is a minimum standard of investment, and is not recommended as the basis of a long-term asset management strategy. With the size of funding shortfall on the recommended investment levels, however, the situation does not appear very comfortable for Salisbury, in terms of achieving much more than the minimum standard, or in terms of delivering tenants' aspirations, without additional capital resources.
- 4.7.10 The Housing Revenue Account could continue to operate in the short term, but may require some remedial action to avoid going into deficit in the longer term. Levels of expenditure and the potential for generating additional income will need to be reviewed under any retention option in order to balance the account in the longer term. To put the level of savings required into context, based on the Base Position model, permanent revenue savings in the region of £0.773m would be necessary from year 2 onwards to ensure that the HRA was in balance by year 30. This equates to approximately 20% of the 2004/05 management budget, or 19.6% of the revenue maintenance budget. In addition, if the aspirational service improvements are to be implemented and delivered, additional savings will be required to counteract the additional costs involved.
- 4.7.11 Table 4.8 below illustrates the results of the sensitivity tests undertaken on the models. In each case, the sensitivities have been applied to both scenarios 1 and 1c to demonstrate the impact on both the Base Position and the scenario assuming the continuation of the Council's existing investment policy.

Table 4.8 - Results of sensitivity tests on Base Position

	Scenario 1 Base Position		Scenario 2 Management costs 75% fixed		Scenario 3 RTB sales at 50% of base assumption		Scenario 4 Real works inflation 0% years 2 - 6		Scenario 4a Real works inflation 2% years 2 - 6		Scenario 5 50% RTB receipts used for HRA	
	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2004.05	3,760	0	3,763	0	3,760	0	3,760	0	3,760	0	3,760	0
2005.06	5,306	0	5,319	0	5,336	0	5,351	0	5,261	0	5,678	0
2006.07	5,287	0	5,318	0	5,408	0	5,426	0	5,148	0	7,200	0
2007.08	4,888	0	4,944	0	5,130	0	5,174	0	4,599	0	8,507	0
2008.09	3,883	0	3,975	0	4,273	0	4,373	0	3,385	0	8,455	0
2009.10	2,276	0	2,412	0	2,827	0	3,031	0	1,502	0	7,617	0
2010.11	1,239	(1,641)	1,242	(1,458)	1,291	(1,020)	1,254	(609)	1,223	(2,704)	5,729	0
2011.12	649	(4,180)	708	(3,997)	916	(3,643)	665	(2,866)	633	(5,536)	3,368	0
2012.13	73	(6,766)	197	(6,583)	589	(6,323)	89	(5,166)	56	(8,420)	1,302	(366)
2013.14	(404)	(9,401)	(203)	(9,218)	406	(9,062)	(387)	(7,509)	(422)	(11,358)	874	(2,318)
Results of sensitivity tests on continuation of existing investment policy scenario												
	Scenario 1c Existing investment policy		Scenario 2 Management costs 75% fixed		Scenario 3 RTB sales at 50% of base assumption		Scenario 4 Real works inflation 0% years 2 - 6		Scenario 4a Real works inflation 2% years 2 - 6		Scenario 5 50% RTB receipts used for HRA	
	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd	Revenue Surplus/ (Deficit) c/fwd	Capital Surplus/ (Deficit) c/fwd
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
2004.05	3,760	0	3,763	0	3,760	0	3,760	0	3,760	0	3,760	0
2005.06	5,729	0	5,742	0	5,757	0	5,730	0	5,688	0	5,730	0
2006.07	7,290	0	7,320	0	7,415	0	7,290	0	7,186	0	7,290	0
2007.08	8,586	0	8,642	0	8,836	0	8,634	0	8,378	0	8,634	0
2008.09	9,387	0	9,479	0	9,793	0	9,520	0	9,037	0	9,520	0
2009.10	9,712	0	9,848	0	10,292	0	9,972	0	9,175	0	9,972	0
2010.11	9,559	0	9,749	0	10,318	0	9,963	0	8,825	0	9,963	0
2011.12	8,831	0	9,084	0	9,792	0	9,387	0	7,890	0	9,387	0
2012.13	8,119	0	8,445	0	9,314	0	8,769	0	6,962	0	8,769	0
2013.14	7,359	0	7,770	0	8,821	0	8,107	0	5,975	0	8,107	0

- 4.7.12 The sensitivity testing undertaken is intended to demonstrate the potential impact on the projections of changes in the underlying assumptions
- 4.7.13 The sensitivity test in respect of the proportion of management costs assumed to be fixed does not have a significant impact on the projections. The revenue position is slightly improved due to the increased variable proportion of management costs meaning additional costs would be saved as stock reduced through right-to-buy sales. The capital funding deficit is unchanged in this scenario.
- 4.7.14 The scenario assuming reduced RTB sales produces some fairly significant variations, with an improved HRA position in both scenarios, although the account is still projected to go into deficit in year 16 in the Base Position model and in year 23 in the existing investment policy scenario. In terms of the capital funding shortfall, in the Base Position model, the shortfall reduces marginally over the 10 years, indicating that the additional costs incurred are less than the equivalent additional resources arising from the additional Major Repair Allowance. Over 30 years, the shortfall increases by £4m, reflecting the increased costs in the later years of the works programme. In the case of the existing investment policy option, there is still no funding shortfall over the period shown, but small shortfalls arise from year 22 onwards, totalling £88,000 by year 30.
- 4.7.15 The more significant variations in the projections occur when relatively small changes are made to the assumptions relating to real inflation on works costs. The revenue accounts are not directly affected by the change in real inflation increase assumptions, but may be indirectly affected as more or less revenue contributions are required. A reduction in real inflation slightly improves the revenue position but an increase in real inflation makes it marginally worse. In terms of the capital funding deficit, there would be a relatively large (in percentage terms) impact resulting from either an increase or decrease of just 1% in real inflation over years 2 to 6 of the projections. In respect of the Base Position, if real inflation were running at 0% instead of the 1% previously assumed, the funding shortfall over 10 years would reduce by £1.9m (20%) to £7.5m, and if real inflation was at 2%, the shortfall would increase to £11.4m, an increase of £2m (21%). In respect of the existing investment policy option, neither a reduction nor an increase of 1% would change the fact that there is no funding shortfall over the 10-year period.
- 4.7.16 The most significant variations, however, arise with the assumption that 50% of available RTB receipts could be used to support HRA capital expenditure. With regard to the Base Position, use of 50% of available RTB receipts would reduce the capital funding deficit by £7.1m over the 10 year period shown, although there would still be a cumulative deficit in the region of £2.3m by year 10, increasing to £67m by year 30. Inclusion of the additional costs relating to the Salisbury Standard would give a 10-year capital funding deficit in the region of £7.2m, rising to £79.1m by year 30. In respect of the existing investment policy scenario, the revenue position would be improved due to reduced Revenue Contributions as the investment is already fully-funded. It is important to note that any use of capital receipts would not resolve the underlying need to balance the HRA in the longer term, and in addition would have corporate implications, in terms of the Medium Term Financial Strategy.
- 4.7.17 A final sensitivity test relates to the proposals for higher real inflation increases on subsidy management and maintenance allowances. The consultation paper on reviewing rent restructuring (July 2004) contained proposals for local authority rents to converge with RSL target rents, which we had already assumed would be the

case. To counteract the additional withdrawal of subsidy this would produce, however, the consultation paper also contained proposals for higher levels of real increases in management and maintenance allowances than were previously assumed. We have therefore modelled a scenario assuming real “rebasing” increases in management and maintenance targets of 4% per annum, rather than the 2% previously assumed. The results of this modelling show that if this was implemented for Salisbury, the HRA would no longer go into deficit during the period of the projections, and the capital funding deficit would be reduced by £8m to £72m over 30 years.

4.7.18 During the consultation period, however, a number of issues were raised regarding the proposals, and in order to give sufficient time to consider and respond to these issues, ODPM has deferred making a decision regarding possible changes to rent restructuring for a year. Given that the results of the consultation process are therefore indeterminable, we would counsel against placing too much emphasis on this issue at this time.

4.8 Prudential Borrowing

4.8.1 Under the provisions of the Local Government Act 2003, a new regime has been established from 1 April 2004 to replace the existing regime governing borrowing by Local Authorities.

4.8.2 Previously, Councils were only able to undertake long term borrowing when they had “credit approvals” available to cover it. These approvals were effectively Government permissions to borrow up to a specified ceiling. Many Councils, as well as the Chartered Institute of Public Finance and Accountancy (CIPFA), the public sector accountancy body, had long campaigned for a change to this system. They argued for Councils to be allowed to borrow money, without restriction, as long as they could meet the debt charges (principal repayments and interest) arising from it.

4.8.3 From April 2004, The Local Government Act removed the previous controls on local authority borrowing, and authorities can now borrow to fund increased capital investment within the HRA, provided that they have the resources to service the additional borrowing. Local authorities are not allowed to pre-empt resources they will need to meet their maintenance and management liabilities and for renewal expenditure. For this reason, authorities are not permitted to borrow against their major repairs allowance.

4.8.4 The modelling we have undertaken has shown that the HRA is projected to go into deficit within the next 10 years or so unless remedial action is taken to balance the account. Any service improvements desired by tenants would require savings to be made to enable them to be funded. Given this, it is difficult to see how prudential borrowing could be of much use to Salisbury until such time as the HRA is on a more sound footing. Our view is that, notwithstanding the CIPFA prudential code, which looks three years ahead to gauge “affordability”, if a situation can reasonably be foreseen where the HRA is predicted to be in deficit, we would question the degree of “prudence” if borrowing were undertaken under those circumstances. It will obviously be for the Council to determine its own assessment of “prudence”.

4.9 Summary of the HRA Base Position Options

- 4.9.1 Projections based on existing budgets and the Council's updated stock condition survey indicate that, in capital funding terms, there is projected to be a cumulative shortfall of capital resources between 2004/05 and 2013/14 in the region of £9.4m, rising to £82m over thirty years. When the costs associated with continuing the council's existing investment policy are used, there is no capital funding shortfall. Given that the levels of investment available on this basis exceed the levels necessary for Decent Homes plus essential works for more than 20 years, this indicates that on the basis of our projections, Salisbury would be able to achieve the Government's target of meeting Decent Homes Standard by 2010, and continue to maintain properties at this level of investment for some time to come. As indicated in 4.5.9, an investment strategy based on solely achieving the Decent Homes Standard would not be recommended, as in the longer term, the general condition of the Council's dwelling stock would worsen over time, and increasing numbers of properties would either become undesirable from a tenants perspective, or fall into disrepair as backlog repairs mount up. While a continuation of the Council's existing investment policy would enable a higher level of investment than Decent Homes plus essential works to be achieved for around 20 years, ultimately it would start to lag behind. In addition it would not be sufficient to avoid backlog repairs arising in the future.
- 4.9.2 The HRA operating account is projected to go into deficit within the next 10 years, and remedial action will be required to prevent this occurring. This indicates that the HRA will soon become unviable, and that any service improvements that require additional expenditure would not be affordable without an equivalent amount of savings being made.
- 4.9.3 Sensitivity tests have been undertaken to assess the impact of changes in real inflation assumptions in respect of stock condition costs, assumptions regarding the proportion of management costs assumed to be fixed, levels of RTB sales, and regarding use of RTB receipts to support HRA capital expenditure. The results of these tests were set out in table 4.8, and showed varying degrees of sensitivity to the changes in assumptions. In capital funding terms, the most significant variations were seen with the relatively small variations in real inflation on stock condition costs and the assumptions regarding use of capital receipts.
- 4.9.4 Prudential borrowing would not appear to be of immediate benefit to Salisbury, but the situation should be reviewed once the HRA has been placed on a more even footing.

5. Stock Retention – Arms Length Management

5.1 Introduction

5.1.1 This section evaluates the option of the Council's retaining its housing stock, but putting Arms Length Management arrangements in place, with a view to attracting additional investment to assist it in meeting the decent homes standard. Key elements of the statutory framework for this include:

- the authority's tenants remain the secure tenants of the authority, and all the existing legislation and regulations governing their rights and the landlord's obligations remain applicable, including provisions for Tenant Participation Compact(s) between the landlord authority and recognised representative tenant groups, the Right to Manage and the Right to Buy;
- the legislation and regulations concerning local authority housing finance continue to apply to the housing stock managed at arms length;
- the provisions of Best Value, powers of the Audit Commission and requirements to achieve public sector efficiencies continue to operate; to obtain additional funding, the ALMO must maintain at least a "2-star" service, and continue to improve service quality and efficiency with a view to achieving a "3-star" rating in due course;
- the management agreement which defines the relationship between the authority and the ALMO above would normally be subject to the EC procurement rules applicable to local authorities; however, ODPM guidance offers the view, based on case law, that the regulations do not apply where the authority exercises a control over the ALMO which is similar to that which it exercises over its own departments, and the ALMO carries out the essential part of its activities with the controlling local authority. Care may need to be taken, however, in designing an ALMO which is significantly different from the "template" model, or in delegating other activities in addition to housing management;
- entry into such a management agreement is a matter of housing management as defined in Section 105 of the Housing Act 1985, and therefore is a matter on which all secure tenants affected by it must, in any case, be informed and consulted in advance. Unlike a stock transfer, however, a ballot of all tenants is not compulsory.

5.2 Government policy and funding programmes

5.2.1 The Housing Green Paper, published in April 2000, introduced proposals for arms length arrangements to be recognised, where successful in delivering improvements in housing services, by additional funding allocations: *"an additional option for financing capital investment in housing"* was proposed by Ministers in *"housing which remains in local authority ownership, where an authority is delivering high-quality housing services, is making effective use of resources and has put its housing management at arms-length"*.

5.2.2 Additional funding programmes to enable local authorities to meet the Decent Homes Standard in their own housing stock through the agency of Arms Length Management Organisations (ALMO's) have now been a feature of three Spending Review periods covering the years 2002/03 to 2007/08. Authorities have bid to date for these funds in four "rounds" of bidding and provisional allocations have been awarded to a total of 50 authorities. The ODPM published in October 2004 new guidance on ALMO's (referred to in this report as "the 2004 Guidance"), in conjunction with an announcement about the funding available in 2006/07 and 2007/08, for which two further rounds (5 and 6) of bids will be invited. Bids for Round 5 are to be submitted to ODPM by 28 January 2005. ODPM's earlier statements suggested that Round 6 bids would be invited for submission at a similar time in 2006, but there is some possibility of this date being brought forward to the second half of 2005 and further guidance to this effect being issued.

5.2.3 ODPM has stated in the 2004 guidance that Round 6 is expected to be the last round of the ALMO programme specifically to support the Decent Homes objective.

5.3 Regulatory and other requirements of ALMO's

5.3.1 **The Office of the Deputy Prime Minister (ODPM)**

ODPM guidance on the nature of ALMO's and bids for funds

ODPM governs the nature and structure of ALMO's through two mechanisms:

- the approval of bids for funding to meet the Decent Homes Standard;
- the statutory requirement (Section 27, Housing Act 1985) that local authorities obtain the consent of the Secretary of State to a delegation of their housing management function to another organisation.

ODPM's 2004 Guidance replaces previous guidance on the criteria which will be applied in evaluating these and provides detailed checklists for the required content of bids for funds and applications for Section 27 consent. Guidance is provided on:

- the key organisational features of an ALMO;
- the functions which an ALMO may undertake;
- the financial arrangements relating to an ALMO;
- tenant involvement in developing the proposal and participating in the ALMO's management;
- staff implications;
- the retained housing strategic role;
- monitoring the performance of ALMO's.

It is not intended to repeat here the information provided in the 2004 Guidance, but some key provisions are worth summarising and putting in a wider context.

5.3.2 The Constitution of the ALMO

Constitutionally, an ALMO is a company limited by guarantee in which the local authority owns the single, non-transferable share and, as shareholder appoints a Board of Directors. Such a company would be non-profit-distributing. Such an arrangement clearly satisfies one part of the conditions under which it is believed EC procurement regulations would not apply to the service agreement between the authority and the ALMO. The option of an Industrial and Provident Society is left open in the Guidance, but this is not a model which has been widely used. A “template” Memorandum & Articles of Association is provided by ODPM and at key stages in the implementation process an applicant authority is required to identify any variances introduced to this template.

5.3.3 Board Membership

ODPM require that tenants and individuals who are independent of the authority be members of the Board, and it is expected that local authority elected members will also be so. In some authorities, leaseholders may also appropriately be separately represented. Provided no one group has a majority on the Board, authorities may determine the proportions of Board membership for each group. ALMO's (provided they meet all the other criteria) are not controlled arms length companies as defined in S. 68 of the Local Government & Housing Act 1989, which would have the effect of restricting local authority membership of the Board to less than 20%.

5.3.4 ODPM's core principles for ALMO management

ODPM has a number of fundamental requirements of ALMO's, most of which are incorporated into the 2004 Guidance, including:

- the ALMO should, as a basic minimum, be the means of providing and improving all landlord services to tenants and manage investment in HRA housing within their geographical area;
- the ALMO Board should exercise “management freedom” in achieving the most cost-effective approach to delivery of these services and to meeting tenants' priorities;
- the ALMO should be able to demonstrate its strategy for achieving improvements in efficiency;
- the ALMO should have powers to retain and use (some) operational surpluses, although care may need to be taken regarding the operation of Corporation Tax in this regard.

5.3.5 The scope of the ALMO's responsibilities for service delivery

The minimum acceptable scope of an ALMO's activity is defined by the 2004 Guidance and includes all core housing landlord functions, including management of

capital investment programmes. In addition, an ALMO may take on related functions, provided these do not distract from its primary functions of improving services to local authority tenants and investing in Decent Homes. ALMO's to date have varied considerably in the scope of their activities and responsibilities over and above the required minimum, depending upon a number of factors including:

- whether the ALMO is managing the authority's whole stock or part of it;
- the respective requirements for operational effectiveness of both the authority and the ALMO;
- the quality of performance which any additional services are likely to achieve under the ALMO's management.

5.3.6 Management Agreement

A formal agreement between the local authority and the ALMO sets out the respective responsibilities of the two parties, the arrangements for monitoring performance and other terms. The normal term of the agreement is 10 years. Again, a "template" document can be obtained from the NFA. ODPM expects the relationship between the Council and the ALMO to be a more flexible partnership than most client/contractor relationships have been in Housing hitherto. The ALMO is required by the Management Agreement to prepare a "Delivery Plan" each year, setting out the core business targets which it proposes meeting in delivering the services, and the mechanisms by which it expects to achieve these. This document forms the basis for negotiating the ALMO's programmes of activity and fees, and for monitoring its achievements on a regular basis.

5.3.7 Financial Issues

Authorities who have established ALMO's continue to manage overall borrowing, HRA subsidy entitlement and rent levels across their whole stock, and to ensure that the cost of the ALMO's activities is constrained within HRA and credit approval controls. Funds are transferred to the ALMO to meet running costs and to fund such capital investment as the ALMO has commissioned, by agreement with the authority, under a "fee" payment mechanism set out in the Management Agreement. The level of "fee" is usually agreed annually in line with the authority's financial planning cycle.

In bidding for additional funds, the authority is expected to analyse its stock condition, existing programmes of work and identified demand for Council housing, together with existing available resources and to prepare a Building Costs Model which enables ODPM to check that the additional funds bid for are focused on acceptable programmes of work for which other resources are not reasonably available. The additional ALMO funding which an authority may obtain relates to three different types of investment:

- programmes specifically to meet the Decent Homes Standard;
- costs of demolition of dwellings for which there is unlikely to be any long-term demand;

- environmental improvements (up to a maximum of 5% of the approved amount).

If a provisional bid is approved, funds will not be released to the authority until the ALMO has set up in business and has obtained at least a two-star rating from the Housing Inspectorate for all the services which it delivers on the authority's behalf. The allocation will be withdrawn if the ALMO does not achieve this within a maximum of approximately 3 years from the authority's bid being accepted. Most authorities aim to reach a successful inspection outcome far more quickly than this, however, in order to optimise their spending period within the two year Spending Review period to which their allocation relates.

Once the conditions are met, additional subsidy is awarded through an additional Supported Borrowing allocation to the authority, supported by an ALMO allowance in the authority's HRA Subsidy calculation which effectively covers the debt charges incurred by the authority on the additional borrowing. It is thus intended that these additional resources should be neutral in respect of other elements of the authority's HRA. All other HRA subsidy regulations would continue to apply, as would the Government's rent re-structuring proposals for local authorities.

ODPM will monitor the achievement of the specific programmes of investment which the allowance is intended to support, through the authority's annual HRA Business Plan submissions. It will also assure itself that the additional resources are being used to support additional programmes to achieve the Decent Homes Standard, not to replace other investment programmes within the HRA.

5.3.8 Potential financial freedoms

Under present financial frameworks and constraints, it is not anticipated that an ALMO would undertake:

- capital borrowing and investment on its own account;
- running an independent rent account.

However, two potential changes to the Housing finance regime may result in ALMO's being able to contribute additional investment capacity:

- ODPM established in August 2004 a Review Group to explore feasible mechanisms whereby ALMO's achieving Excellent (3*) Inspection ratings might exercise greater financial freedom from the HRA financial constraints;
- the 2004 Housing Bill made provision for ALMO's, alongside private developers, to gain access to the Housing Corporation's Social Housing Grant programme.

5.3.9 The Audit Commission (Housing Inspectorate)

Additional funds will be made available only to authorities whose ALMO's achieve 2* or 3* for the services they deliver in Housing Inspection. This Inspection, which will only be undertaken after an ALMO has been in operation for at least 6 months, addresses not only the quality of services delivered by the ALMO, but the standard

of governance by the ALMO Board and the clarity and viability of the partnership framework between the ALMO and the local authority, The Audit Commission published in March 2003 guidance entitled *ALMO inspections and the delivery of excellent housing management services* which sets out the Key Lines of Enquiry (KLOE) which will apply to this inspection, in addition to those relating to the services delivered by the ALMO. In May 2003 the Commission also published *Learning from the First Housing ALMO's*, which contains useful observations on the relationship between local authorities and their ALMO's, and indications of the Commission's expectations.

5.4 Experience to date

5.4.1 The main risks in pursuing the ALMO option as a means of achieving the Decent Homes Standard are:

- failure to attract a worthwhile level of additional funding;
- failure to achieve the level of tenant support needed to obtain ODPM's consent to delegate the Housing Management function (Section 27 consent);
- failure to achieve the minimum of 2-star Inspection rating needed to release the allocated funds.

Each of these is considered in the light of authorities' experience to date below.

5.4.2 Levels of additional funds raised

The ODPM's potential allocations in any given year are currently divided between funding for new ALMO's taking up their first tranche of money and that for more established ALMO's whose first allocation was for a previous spending review period. The spending plans for 2005/06 announced by ODPM on 6 October 2004, therefore, are divided between £453 million for ALMO's who are just starting work and have yet to achieve their qualifying inspection results (Round 4) and ALMO's who started their investment programmes in 2003/4 (Round 2). In the latter case, the second tranche of allocations provides enough funds to complete the spending programmes which they originally bid for. ODPM has given an assurance in the 2004 Guidance that acceptance onto the ALMO programme implies a commitment to fund the authority's agreed investment in Decent Homes up to 2010, despite the fact that firm allocations can only be made for a maximum of 2 years. Nevertheless, it remains possible that, if an ALMO lost its 2-star rating after its first successful bid, it would have difficulty getting an approval for the remaining investment requirement after its first tranche of funding ran out.

The level of additional funds raised by authorities to date can be illustrated by the following table of funding allocations for 2005/06. It can be seen that:

Authority	Original bid £m	£ bid per dwelling	Approved Tranche 1 £m	Tranche 1 £ per dwelling	To be spent in year(s)	Approved Tranche 2 £m	To be spent in year(s)	Cum. total £ per dwelling
Barnsley	147.7	£6,244	48.2	£2,038	2003-4	93.4	2005-7	£5,988
Blyth Valley	48.4	£6,235	17.5	£2,256	2003-4	30.9	2005-7	£6,235
Bolton	166.1	£7,725	53.0	£2,465	2003-4	79.5	2005-7	£6,164
Brent	54.7	£6,411	33.8	£3,963	2003-4	20.3	2005-7	£6,338
Carrick	23.1	£5,966	7.2	£1,860	2003-4	15.8	2005-7	£5,940
Cheltenham	36.9	£7,340	15.0	£2,984	2003-4	21.4	2005-7	£7,249
Colchester	35.7	£5,058	13.5	£1,912	2003-4	22.2	2005-7	£5,053
Hillingdon	59.3	£4,265	16.6	£1,194	2003-4	31.4	2005-7	£3,452
Kensington & Chelsea	52.3	£7,244	21.7	£3,006	2003-4	21.7	2005-7	£6,016
Leeds North East	45.8	£6,678	10.5	£1,533	2003-4	23.4	2005-7	£4,945
Leeds West	87.7	£6,641	18.3	£1,386	2003-4	40.0	2005-7	£4,412
Oldham	94.8	£5,111	36.0	£1,941	2003-4	50.4	2005-7	£4,658
Bassetlaw	62.0	£7,823	18.5	£2,334	2005-7			
Brent	14.0	£18,065	14.0	£18,065	2005-7			
Bury	27.0	£3,024	8.6	£967	2005-7			
Ealing	207.0	£14,102	64.0	£4,360	2005-7			
Eastbourne	45.2	£11,797	11.7	£3,061	2005-7			
Hammersmith & Fulham	191.5	£13,902	78.2	£5,673	2005-7			
Manchester (partial)	131.0	£7,556	17.6	£1,013	2005-7			
Newark & Sherwood	49.4	£9,267	15.5	£2,906	2005-7			
Nottingham	165.0	£4,935	28.0	£837	2005-7			
Rotherham	215.5	£8,577	52.5	£2,089	2005-7			
Sandwell	318.9	£9,091	62.6	£1,785	2005-7			
Sheffield (partial)	184.3	£8,315	70.6	£3,184	2005-7			
Slough	45.4	£6,510	11.6	£1,660	2005-7			
Wolverhampton	288.2	£10,766	awaited					

- cumulative allocations currently represent between £4,000 and £7,250 investment per property managed by ALMO's (of which, in Rounds 1 to 4 there are about 700,000 nationally), with the likelihood that further allocations will bring the average up to far more than that for some authorities before 2010;
- the average investment per dwelling which authorities say they require has increased over the period between the two bid rounds;
- Round 2 authorities are now well on the way to having the full amount of funding required to complete their investment programmes.

5.4.3 To date, only 4 of the 52 authorities who have submitted bids in Rounds 1-4 have been refused an allocation, of whom 2 bid successfully in the following round.

5.5 Tenant support

5.5.1 In order to obtain Section 27 consent from the Secretary of State to delegate its Housing Management function the authority must demonstrate clear evidence of tenants' support for the proposal. Although it is not compulsory that this be done via a ballot, approximately half the authorities who have proceeded to this stage this far have included a formal ballot in their consultation programme. One authority has failed to achieve a satisfactory ballot result while all the remainder have been successful in demonstrating tenant support for the proposal.

5.6 Inspection Results

5.6.1 Of the 24 ALMOS which have had their final ALMO Inspection results published, 5 have failed to achieve the requisite minimum of a 2 star rating for the service they deliver. Although the numbers involved are very small, this represents a failure rate of over 20%, which represents a significant risk.

5.6.2 If an ALMO fails to achieve the requisite 2-star rating, it may agree with the Audit Commission that a re-inspection will be carried out, and may still take up its allocation if the required standard is then met, provided no more than 2 years elapse between the issue of the ODPM's Section 27 consent and the achievement of 2 stars. However, it is likely that, if the full 2 years were allowed to elapse, very little time would then remain in which to spend the allocation, and ODPM has stated in the 2004 Guidance that in such a case they would wish to review the ALMO's funding.

5.7 Process and Timescales for Implementation

5.7.1 The implementation process is characterised by 4 key milestones or stages:

- obtaining an allocation of funds, conditional upon gaining Section 27 consent and the requisite Inspection outcomes;
- gaining Section 27 consent;
- "going live";
- gaining the required Inspection result, gaining the ODPM's release of the additional allocation and starting to spend.

5.7.2 The chart below illustrates the possible timetables for authorities bidding in Rounds 5 and 6, assuming that Round 6 bids are invited in the autumn of 2005, and based on experience elsewhere. The timetable for Round 6 assumes that authorities will, as previously, await the outcome of their bid before concluding tenant consultation and submitting their section 27 application, although it is possible to run in parallel the processes of setting up the ALMO and bidding for funds.

	2004/05		2005/06				2006/07				2007/08			
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Round 5														
Obtain ODPM sign-off of OA	■													
Submit Round 5 bid		■												
Conditional approval			■											
Section 27 consent					■									
Go live					■									
ALMO Inspection							■							
Draw-down tranche 1 allocation								■	■	■	■	■	■	■
Round 6														
Obtain ODPM sign-off of OA				■										
Submit Round 6 bid					■									
Conditional approval						■								
Section 27 consent								■						
Go live								■						
ALMO Inspection										■				
Draw-down tranche 1 allocation											■	■	■	■

Key elements of work at each of these stages are outlined below.

5.7.3 Bids for Additional Funding

Authorities were invited in the 2004 Guidance to apply by 28 January 2005 for additional resources for Round 5 to support expenditure in 2006/07 and 2007/08. In contrast with previous bidding rounds, no Expression of Interest is required for Rounds 5 or 6, it being assumed that authorities' plans to bid for ALMO funding will be identified through the process of sign-off of option appraisals.

A signed-off Option appraisal must accompany bids for both Round 5 and Round 6. Given the timetable for bidding in round 5, it is expected that the majority of authorities currently undertaking option appraisal will, if ALMO is the preferred option, bid for Round 6. The timetable for this bidding round is still under consideration by ODPM, who will be issuing further guidance in due course, but is hoped to be before the end of 2005 both in order to maintain momentum in the option appraisal and moving forward process, and to optimise the opportunity to take up funding during the 2006-8 period, given the lead-in times associated with the subsequent stages in implementation before spending may commence.

ODPM guidance on the criteria for assessment of bids, and the information to be provided in support of a Round 5 bid, is set out in the 2004 Guidance and is not expected to change materially for Round 6. This schedule of requirements effectively establishes the agenda and programme of activity which would be necessary to progress to the next stage of implementation.

5.8 Obtaining Section 27 Consent

5.8.1 Until Section 27 consent is received the authority may not complete the delegation of the Housing Management function to the ALMO under the proposed management agreement, and the ALMO consequently cannot commence trading. In order to apply to ODPM for Section 27 consent, the authority must have set up the ALMO Board in "shadow" form, and both parties should have agreed the constitution of the

ALMO, together with the Management Agreement and much of the associated documentation, including an ALMO Delivery Plan setting out how the ALMO will deliver the service improvements and investment plans which are its primary business objectives.

- 5.8.2 In parallel with this process of establishing the ALMO, defining its relationship with the authority, and establishing the authority's retained structure for delivering the services which are not delegated, and for monitoring the ALMO's performance, an intensive programme of tenant consultation, leading to a test of opinion, must be completed to provide evidence to ODPM of the tenants' support for the ALMO proposal.
- 5.8.3 The majority of authorities find this the most labour and cost-intensive stage of the implementation process, and that it takes 5-6 months.
- 5.9 "Going live"
- 5.9.1 In order to go live, the authority must have received Section 27 consent and resolved the final detail of separation issues and the Management Agreement with the ALMO prior to signing the formal documentation.
- 5.9.2 The mechanisms for managing both the performance and financial monitoring relationship between the authority and the ALMO should be in place by this stage.
- 5.10 Final ALMO Inspection
- 5.10.1 The Audit Commission requires ALMO's to have been in business for a minimum of 6 months before a final ALMO Inspection is undertaken. During this period the authority and the ALMO should ensure that all elements of their relationship are in working order and that both parties are prepared for the inspection. The Key Lines of Enquiry relating to the ALMO arrangement are available in the Audit Commission publication *ALMO inspections and the delivery of excellent housing management services* (March 2003).
- 5.10.2 Most authorities begin their preparations for obtaining 2 or 3 stars for services provided by the ALMO at the commencement of the implementation process, however.
- 5.11 The Possible Role of Arms Length Management in Salisbury
- 5.11.1 In considering whether to proceed with Arms Length Management the authority will wish to consider the benefits, risks and costs of such a course of action, in comparison with other potential approaches to meeting its objectives and the Decent Homes Standard.

5.11.2 Tangible Benefits

The primary tangible benefit would be additional financial support in meeting the Decent Homes Standard, provided the ODPM's criteria, discussed below in the context of "Risks", could be met. The projections we have undertaken indicate that Salisbury could comfortably achieve the Decent Homes Standard by 2010, and maintain this standard for some time to come. In addition, over the period to 2010/11, the Council would only be £1.6m short of being able to deliver its full investment requirements, or £5.1m short of achieving the Salisbury Standard. The amount that the Council could potentially bid for under an ALMO would therefore be very small. Consideration of the potential for non-financial and longer term benefits will be necessary to determine whether the "overall" potential benefits would be sufficient to warrant establishing an ALMO.

The Council has recently achieved a "good" score in its 2004 CPA inspection, and indeed was only 3 points away from achieving an "excellent" score. As part of this process, housing received an "A" rating, and this, together with the 2* rating received by the repairs service in its 2002 best value inspection would seem to indicate that, should the Council decide to bid for ALMO resources, it would be well placed to achieve the minimum 2* rating from the Housing Inspectorate necessary for the additional resources to be released.

It must be stressed, however, that any modest ALMO funding which the Council might possibly secure would only be available until 2010/11, and so it would not be a long-term solution to meeting the Council's funding gap. From 2011/12 onwards, significant shortfalls in investment resources would continue to arise, and the Council would not be able to achieve the recommended level of investment expenditure.

In addition, the costs of setting up an ALMO, and of it being run as a separate organisation, would produce an additional cost to the HRA, for which no additional funding would be available. We estimate that this could be in the region of £150,000 pa, which would add to the difficulties on the Operating Account described in paragraph 4.7, and lead to the HRA going into deficit sooner than would otherwise be the case.

It should also be noted that any bid for ALMO resources would be in competition with other authorities, some of whom would probably have no prospect of achieving the Decent Homes Standard without these additional resources. Under these circumstances, it is likely that priority would be given to bids from authorities that, unlike Salisbury, would otherwise struggle to meet the standard. Given the increasing popularity of ALMO, in addition to the risks outlined below, there is a risk that lower-priority authorities may not be accepted onto the ALMO programme, or may not receive the full amount bid for, in which case consideration would need to be made regarding a "de minimus" level, below which a bid would not be worthwhile.

5.11.3 Non-Financial benefits

Establishment of an ALMO could give rise to non-financial benefits, including:

- addressing the underlying Government policy of a separate focus between Housing strategy and management;
- additional scope for the benefits of operating economies in service management to be ploughed back into landlord services;
- additional scope for spending and investment priorities to be more influenced by tenants' and leaseholders' views, addressing the Council objective for review of priorities;
- additional scope for tenants' and leaseholders' representatives to take a part in managing the service, meeting the Council objective of continuing to involve and empower users in the planning, provision and monitoring of services.

5.11.4 Longer-Term Benefits

The Government's interest in rewarding authorities and ALMO's who achieve excellent ("3**") ratings in Inspection of Housing services has gained momentum now that the first round of ALMO's are nearing completion of their investment programmes and some have achieved such a rating. The ODPM Review Group referred to earlier is considering, in the context of financial freedoms, the constitutional and other changes which might be necessary to enable ALMO's in the longer term to contribute funds and services to supporting sustainable communities in partnership with tenants and other bodies. The Review Group's findings may reveal potential for ALMO's to transform themselves into bodies offering wider benefits, once the Decent Homes objective has been achieved.

5.11.5 Critical Risks

The core risks of the strategy are all implicit in the ODPM's bid criteria summarised above:

- attracting an allocation of additional funds is dependent upon:
 - a robust analysis of stock condition and benefits of additional resources in meeting the Decent Homes standard;
 - a clear, and sustainable, vision of the ALMO structure and relationship with the authority which complies with ODPM core principles;
 - in-principle support from tenants and staff.
- obtaining Section 27 consent is dependent upon:
 - demonstrable support of the majority of tenants;

- a fully-developed ALMO structure and mechanisms for its relationship with the authority which comply with ODPM criteria;
- “going live” in time to meet the deadline for Inspection (6 months after “go-live”) and release of additional funding in time to enable their full take-up within the ODPM’s planning period, is dependent upon support from dedicated resources and corporate and political stakeholders;
- achieving the necessary Inspection rating is dependent upon:
 - achieving service improvements and widespread tenant awareness and appreciation of these;
 - establishing an effective ALMO Board and practicable working partnership between the Council and the ALMO;
- delivering enhanced programmes of investment within a defined time period is dependent upon:
 - the property professional skills and resources at the ALMO’s disposal;
 - the local building contracting market.

Management of these risks is fundamental to the process of successfully implementing ALMO management.

5.11.6 Costs of Implementation

The financial and other costs of pursuing this strategy would need to be compared with the potential benefits and risks, bearing in mind that, in addition to the ongoing revenue costs of joint Council/ALMO management,

- implementation would have a real financial and/or opportunity cost;
- the additional resources potentially generated by award of the ALM allowance are not intended to, and would not, address other potential difficulties in the HRA Business Plan, such as high costs of management services.

6. Stock Retention – Other Issues

6.1 Introduction

6.1.1 This Section considers other issues affecting the Council if it retains the stock, and various options open to it.

6.1.2 The key issues addressed below are:

- Best Value;
- Tenant Participation Compacts;
- Housing Management Contracts;
- Tenant Management Organisation.

6.2 Stock Retention and Best Value

6.2.1 The Local Government Act 1999 enacted in July 1999 imposed Best Value on local authorities. The ODPM Best Value in Housing Framework, January 2000, provides guidelines for local authorities on Best Value and the action in order to provide efficient and responsive housing services. At the same time, the Audit Commission was empowered to undertake the Inspection of local authority services under the Best Value regime, in the case of Housing, under the auspices of a specific Housing Inspectorate.

6.2.2 The Local Government White Paper "Strong Local Leadership - Quality Public Services" published in December 2001 introduced some significant changes to the Best Value regime, including:

- a framework of "corporate governance assessment", over-arching service-specific Best Value assessments;
- an extension to all upper-tier authorities of the pilot Public Service Agreements arrangements, under which financial and other freedoms can be negotiated by "high-performing" and "striving" authorities and their district authority partners, including:
 - new trading powers;
 - streamlined best value review procedures;
 - reduced levels of external inspection;

- changes in the Best Value regime for all authorities, including:
 - an expectation that reviews will be more strategic, challenging and focused on known weaknesses;
 - simplified requirements of the Best Value Performance Plan;
 - removal of the requirement that every service be reviewed every five years
 - an expectation that there will be robust independent input to the analysis of the implications of reviews by lead officers and elected members.

6.2.3 The ODPM Guidance Note of 14 February 2002 "Best Value Performance Plans and Reviews" sets out the new requirements in the last area. Best Value Performance Plans should now include:

- a summary of an authority's objectives;
- a statement on national and local performance indicators, standards and targets;
- a summary of performance against relevant performance indicators, standards and targets, including comparisons with previous years and with other authorities;
- a summary of proposals to achieve standards and targets;
- details of the authority's review programme;
- a summary of action plans following any reviews;
- responses to audit and inspection.

6.2.4 The Audit Commission and ODPM produce national performance indicators each year, keeping their number and definition under review in the context of government policy and priorities. In 2002/03 the Housing BVPIs included for the first time, an indicator on the proportion of local authority stock which was non-decent at the start of the year, and the change in that proportion between the start and end of the financial year. This BVPI (BV184) has been retained in subsequent years.

6.2.5 The Audit Commission has, in line with the principles and specific requirements of the White Paper, reviewed its working practices in undertaking Best Value Inspections, and will be developing new approaches as outlined its Strategy 2001-2004 (published December 2001). Changes include less emphasis on auditing compliance with the letter of guidance on review and greater emphasis on:

- participation in the design of proposed reviews from the outset;

- the involvement of the public and stakeholders in Inspections;
- disseminating good practice and benchmark examples of service development and improvement.

6.2.6 It is therefore important that both the authority's performance and its plans for service improvement are satisfactory, and desirable that they should show signs of improving toward the upper quartile of comparable authorities' results.

6.2.7 Currently, independently of the new incentives announced in the White Paper and outlined above, the HIP allocation is in part based on the relative efficiency and effectiveness with which the authority delivers its housing services. The ODPM has indicated that those authorities which are assessed as being "below average" or "well below average" will be expected to review their housing services as a priority. The Council currently has a rating of "average".

6.3 Tenant Participation Compacts

6.3.1 The National Framework for Tenant Participation compacts published in June 1999 requires Councils to have had an agreed objective and action plan for compacts in place.

6.3.2 Tenant Participation compacts should be based on that framework and address:

- participation policy;
- tenants' role in decision-making;
- communications with tenants;
- structures of tenant involvement and opportunities for tenants to become involved;
- support available from the Council for such activities;
- dealing with complaints about, and arrangements for review of the framework;
- performance monitoring of the Council's service delivery.

6.4 Housing Management Contracts

6.4.1 If the Council retains the stock, it may nonetheless consider letting a contract for the management of its housing stock to another organisation.

6.4.2 The rationale for this would be the potential cost savings which might be possible, with as a minimum, no detriment to the quality of service, but the possibility of

enhancements. We envisage that the best chance of savings through such a contract would be if this were with a RSL operating within the Council's boundaries.

6.4.3 We believe that European Union procurement rules would apply to such a contract, and that the Transfer of Undertakings, Protection of Employment (TUPE) regulations would apply to staff on the basis outlined in chapter 8, although the Council may wish to take legal advice on these matters. The Secretary of State's permission would be required, as described for ALMOs in the previous chapter.

6.4.4 In assessing this as an option, the Council would wish to consider the potential impact on its General Fund, as it is possible that Support Services currently supplied to the Housing Management function and charged to the HRA would not be required by the partner organisation.

6.5 Tenant Management Organisation

6.5.1 Local authorities can hand over the management of their stock to a Tenants Management Organisation (TMO) under the Housing Act 1985, amended by the Housing and Planning Act 1986.

6.5.2 Often the tenant organisation will form a Tenant Management Co-operative registered as an Industrial and Provident Society under co-operative rules. The members of the co-operative own the organisation. Usually, all tenants of the properties managed by the co-operative are members of the co-operative.

6.5.3 The TMO then signs an agreement with the Council to take on management responsibility for the properties identified in the agreement. The TMO will agree to take on all or some of the management responsibilities of the Council. The local authority will allocate an allowance per property for management and maintenance. The TMO operates its own accounts with this allowance.

6.5.4 Staff from the Council will normally transfer to the Tenant Management Organisation. Perhaps the most well known TMO is that set up in the Royal Borough of Kensington and Chelsea. This remains an option available for tenants whether the Council retains the stock or pursues a stock transfer (see section 9).

6.5.5 A TMO is an alternative to a housing management contract by an external housing provider, which does not involve the transfer of the housing stock. It would give tenants direct involvement in the management of the housing service, and through this the potential for cost savings that would improve the current situation with the HRA.

6.6 Stock Retention – Summary

6.6.1 The Government are keen to encourage the separation of an authority's housing management functions from its strategic duties, and indeed there are operational benefits to be gained from such an approach. However, the arms-length models proposed which do not involve the transfer of stock, would only provide additional resources for the Council's housing service, if the Council were to be accepted on the annual programme. If the Council is interested in this option as a potential future

means of providing the housing service through access to additional resources, it would need to take steps towards setting up the type of organisation the Government envisages as detailed in section 5.

- 6.6.2 Letting a Housing Management contract to another organisation, for example an RSL operating within the Council's boundaries, may provide cost savings, and possibly service improvements but the Council would need to consider carefully the impact of this approach on the General Fund.
- 6.6.3 Setting up a Tenant Management Organisation is an alternative available to the Council to run its housing service and may be attractive to tenants interested in running the service in their local area. Enhanced tenant involvement may, in certain circumstances, improve the current pressures on the HRA. However, it is unlikely to bring in any significant additional resources, and hence fully address the investment requirements. The setting up of a TMO, or similar organisation, is an option that could be available to groups of tenants alongside other options for the future of the housing service.
- 6.6.4 The alternatives considered above are all in line with the Governments' initiative to have Members distancing themselves from the day-to-day housing functions and focusing on more strategic issues.

7. Private Finance Initiative

7.1 Introduction

7.1.1 This section provides an overview of the arrangements for the Private Finance Initiative (PFI) in respect of HRA housing, and describes the current status of PFI as a housing option.

7.2 The Application of the PFI to HRA Housing

7.2.1 The Housing Revenue Private Finance Initiative (HRA-PFI) is a method whereby private sector finance can be brought in to renovate public sector housing stock while the properties remain in public ownership.

7.2.2 For Salisbury District Council, 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. (In all the schemes approved to date, management of the housing stock is to be undertaken by the private sector provider, except for Camden, a high performing authority, where provision of management services has been retained by the Council.)

7.2.3 The types of private sector bidders for these contracts have in practice been consortia consisting of major construction companies, banks and housing associations.

7.2.4 For a scheme to pass the rigorous tests set by the ODPM and the Treasury, the Council would have to illustrate that the proposed scheme provided better value for money than retention and reinvestment by Council management with conventional public subsidy or transfer to a Registered Social Landlord.

7.2.5 There have been two rounds of HRA-PFI: a first round of 8 'pathfinder' projects and a second round of a further 11 projects.

7.2.6 There are currently eight local authority HRA-PFI Pathfinder projects in England that have received initial approval from the ODPM and Treasury and are proceeding with the procurement stage with their preferred private sector partners. Only two of the pathfinders, Manchester and Islington, have actually yet reached contract signature stage (both in April 2003), and so as yet the true value of PFI for local authority housing stock in England is unproven.

7.2.7 Eleven more local authorities are either developing their Outline Business Cases, or at procurement stage in the second 'round' of PFI bids. Each project covers between around 500 and 1,600 homes.

7.2.8 The key features of a HRA-PFI scheme, as developed in the pathfinder schemes for local authority housing in England are:

- the local authority retains freehold ownership of the stock;
- a licence is granted to a private sector provider sufficient to enable private finance to be raised for repairs and improvements to the stock;
- tenants remain the tenants of the local authority;
- the local authority retains rental income from the properties;
- the local authority retains responsibility for lettings, voids and rent-setting;
- the majority of the risk must pass to the private sector provider, to ensure that the project remains off balance sheet to the public purse;
- payment is made by the local authority to the private sector provider to meet costs of operations and financing;
- the local authority is awarded a special credit allowance (the PFI credit) which results in additional disposable revenue funds flowing through the housing revenue subsidy calculation, sufficient to meet payments to the private sector provider.

7.2.9 Initial findings from these schemes indicate that HRA PFI project financing works best on estate based projects for basic renovation rather than a high level of improvements and that the authority needs to be able to bring other resources to the scheme, such as development sites to make the scheme attractive to a private sector service provider.

7.2.10 As in the case for partial stock transfer, to form part of a HRA- PFI project, stock needs to be easily identifiable on a geographic or property type basis.

7.2.11 The Communities Plan announced in February 2003 that £685m of new PFI credits would be made available to refurbish local authority homes. This has resulted in a further bids round for HRA-PFI, with the latest timetable indicating that initial expressions of interest would have had to be submitted in October 2004, and final bids in January 2005.

7.2.12 Also in February 2003, ODPM had issued a paper for consultation which proposed for the first time to amend the Capital Finance Regulations to enable new build to be included within an HRA- PFI project. This was widely welcomed by the sector, particularly in relation to regeneration projects where refurbishment alone is frequently not an appropriate solution, and the change came into force in April 2003.

- 7.2.13 Further detailed criteria, based on experience of the initial pathfinders, were then published by the ODPM in its indicative guidance for the next round of HRA-PFI schemes, in March 2003. They remain fundamentally unchanged, although, as might be expected, more emphasis has been placed on tenant consultation and involvement, and long-term sustainability.
- 7.2.14 The 2004 Spending Review announced increased resources for PFI, with £1.22bn in PFI credits being made available over the spending review period. These credits will be available for both HRA and non-HRA PFI, with emphasis being placed in the October 2004 guidance on the potential for PFI to be used for building new affordable housing for rent, in addition to meeting regeneration needs.
- 7.3 PFI in Salisbury
- 7.3.1 There are some concerns arising from experience to date about the practicability of the model's wider application, the value for money it represents, and its capacity to comply with PFI risk transfer principles.
- 7.3.2 Based on current Housing PFI models the scheme will not provide Salisbury with a viable whole stock solution. The ODPM's June 2003 Option Appraisal Guidance for Local Authorities emphasised that, as with the arms length management initiative, extra funding will only be available to bridge the investment gap to achieve the decent homes standard (with some additional funds to address wider area improvement work). The October 2004 guidance reinforces this, but also extends the possible uses of PFI to include building new affordable housing for rent. Given this, PFI would not provide the additional resources needed to achieve the recommended programme of works identified by the stock condition survey, but could assist in providing new affordable housing.
- 7.3.3 As stated above, the PFI is most appropriate as a solution for an identified group of dwellings. Salisbury does not have an obvious group of dwellings within its housing stock. Further, the removal of a portion of the stock to pursue such a scheme could make the issues on the Operating Account for the remaining HRA worse through dis-economies of scale.
- 7.3.4 For the reasons set out above, it is not considered appropriate therefore, for Salisbury to consider HRA PFI further.
- 7.3.5 The Council may, however, wish to consider non-HRA PFI as a possible means to meet one of its key objectives of providing new affordable housing.

8. Stock Transfer – Financial Analysis

8.1 Introduction

8.1.1 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).

8.2 Partial or Full Stock Transfer

8.2.1 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).

8.2.2 Partial transfer has tended to be pursued by larger, metropolitan authorities, as a means of dealing with stock with very high investment needs. In some cases, the transfer has been the means to achieve the demolition and rebuilding of poor condition stock. These transfers are often at nil value, or are even accompanied by a “dowry”, paid by the transferring Council to the new landlord, in recognition of the responsibility being accepted.

8.2.3 As outlined in the PFI chapter, Salisbury does not have any clearly definable stock which may warrant such an approach. The size of Salisbury’s stock, and the high degree of fixed costs, is such that a partial transfer could make the HRA’s Operating Account position worse than outlined within this report.

8.2.4 For these reasons, we have not considered partial transfer as an option at present, and this chapter will consider full transfer only.

8.3 Transfer Valuation

8.3.1 The rest of this Chapter considers the likely LSVT valuation, based on the new stock condition survey figures. The following areas are specifically covered:

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

8.3.2 There have been over 150 large scale voluntary transfers to date involving the transfer of some 805,000 housing properties, most of which have been to new

sponsored housing associations, or local housing companies set up specifically for the transfer.

8.4 ODPM Rules

8.4.1 Stock transfers are subject to ODPM consent and their regulations and guidelines, which are issued periodically. If the Council wished to proceed with full-scale transfer it would need to apply for a place in the annual disposals programme.

8.4.2 To give authorities more time to develop proposals and consult tenants, and ease the pressure on the funding of transfers, the Government permits a transfer to take place over two financial years. This removes the restriction, which was previously in place, of having to complete the transfer within the financial year following application. However, the transfer is expected to take place within 6 months of the ballot.

8.4.3 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 organisation they would need to be registered before transfer could take place.

8.4.4 As well as applying for admission to the programme, work would need to be undertaken to set up the new landlord (if appropriate) and prepare for consultation with tenants on the proposals, prior to going to ballot.

8.5 Valuation Assumptions

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

8.5.2 This is based on discounting all future expenditure and income cashflows over the next 30 years at a discount rate of between 6% and 8%. We have used 7%, being a reasonable rate given the valuation assumptions used. In practice a new landlord should be able to achieve a lower "real" interest rate on the current market.

8.5.3 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.

8.5.4 The valuation is based on estimated stock including shared ownership dwellings as at 1 April 2004 of 5,472 units. The valuation is subject to further changes in the number of dwellings such as future Right to Buy sales.

8.5.5 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.

8.6 Investment Requirements

8.6.1 Expenditure on repairs, maintenance and improvements has been based on the Council's stock condition survey (the full programme), as adjusted for fees. VAT has been added to all works categories, with the majority of costs being uplifted by 17.5%, and responsive and void costs being uplifted by 14.66%. This lower rate is based on the assumption that the Council's direct labour force would transfer and that VAT savings would be available on the employee cost element of their costs.

8.6.2 A validation of the draft stock condition survey has identified that the cost projections are within the range indicated by a benchmark group.

8.6.3 For the purposes of the HRA projections, real inflation of 1% per annum has been added to all stock condition costs in years 2-6 of the programme. We have used the same assumption in our valuation modelling, which is based on recently agreed valuations. We have, however, modelled a sensitivity test (test 2) to assess the potential impact of real inflation at 2% per annum for years 2-6

8.6.4 In addition to the recommended level of costs identified by the survey, the Council has undertaken a consultation exercise with tenants to identify their aspirations. As discussed in the HRA section above, the Council has analysed and costed the results of this consultation exercise, and has produced a schedule of desired service improvements, which will impact on revenue costs and desired additional investment, which will be an additional capital cost. These costs, together with the full survey costs, comprise the "Salisbury Standard". We have carried out a sensitivity test (test 1) showing the impact on the valuation of these aspirational standards of both service delivery and investment.

8.7 Voids and Bad Debts

8.7.1 Voids and Bad Debt rates have been assumed to be at 1.9% of collectable rents throughout the projections, in line with the HRA projections. Funders will be interested to test the effect of varying the voids and bad debts projections.

8.8 Right to Buy Sales

8.8.1 Since early 1992 it has become the convention to exclude RTB sales receipts from the base valuation as some of the early stock transfers met with difficulties achieving the effective sales targets imposed.

8.8.2 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 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.

8.9 Management Costs

- 8.9.1 A key determinant affecting expected management costs will be the size and structure of the new landlord. As a 'stand alone' structure the new landlord would expect to incur at least the costs of the Council's current HRA management budget, plus additional costs in respect of VAT plus higher overheads arising from reduced economies of scale.
- 8.9.2 Ultimately, it will be necessary for the new landlord to prepare a detailed budget and staffing structure which will take account of any staff transferring from the Council plus the office expenses, running costs and service costs associated with managing the stock. In the meantime, we have assumed for the purposes of the valuation that the new landlord's management costs will be 20% higher than the 2004/05 budget.
- 8.9.3 In practice, an existing social landlord may be able to operate more cost effectively than this, as it does not need to set up the same level of corporate support. Consequently we have carried out a sensitivity test based on the current HRA budget + 15%. This is sensitivity test 3.

8.10 Rents

- 8.10.1 The detailed calculations showing how the average actual rent will converge with the target rent, in accordance with the government's social rent policy, are shown in Appendix IV.
- 8.10.2 As mentioned in chapter 4, the rent restructuring regime includes a safeguard for tenants that their weekly rent may not increase by more than RPI + 0.5% + £2 per annum. The modelling has been carried out on the basis of average rents and average targets by bed size, with the Council, or in the case of transfer the new landlord, able to increase rents by the amount implied without restriction. In practice it is likely that some individual dwelling rent increases will be capped by the RPI + 0.5% + £2 limit, i.e. not all rents will have reached target level by 2012, the end of the restructuring period, and these rents will continue to converge over time until convergence is reached. Given that average actual rents are currently above average RSL target rents, this limitation is unlikely to have a significant impact in Salisbury. A more detailed appraisal of individual dwelling rents would in any event be required in the event of the Council pursuing a stock transfer in order to determine the implications for the indicative valuation of rent increase limitation. However, since the limitation methodology just delays target rents being achieved rather than preventing them from being achieved, and with average current rents being above target levels, it is unlikely that the consequences will be substantial.
- 8.10.3 There can be significant differences between the breakdowns of charges to tenants for an RSL compared to a local authority. Projections for service charges and leaseholder charges are based on the Council's estimates. The Council currently charges sheltered tenants for services received but has not yet commenced the process of unpooling general service charges. The level of charges to sheltered tenants, which are currently subsidised by the general rent pool, and the possibility of charging general needs tenants for services received should be reviewed in order to assess whether any additional income could be achieved. This review should be undertaken regardless of which option is pursued as the additional income could improve the HRA position for the retention options or increase the indicative

valuation shown below in the case of stock transfer. In the meantime, however, no additional income has been assumed.

8.11 VAT Scheme

8.11.1 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 repairs to be saved. The scheme has approval from Customs and Excise, and from the ODPM, although discussions with Inland Revenue about an issue on Corporation Tax which has recently arisen are ongoing. At present, it seems likely that in order to achieve the benefits of the scheme, the transfer RSL would have to be charitable. It is anticipated that savings would be shared equally between the Council and RSL, so that the Council's receipt may rise quite considerably as a result.

8.11.2 It should be stressed that were the Council to pursue the transfer option, more detailed work would have to be undertaken on this to establish its value. However, based on the draft survey and VAT savings on all catch-up, major repair and improvement works over a 10 year period it is possible that the Council's share (assumed to be 50%) may total approximately £3.6m. The financial institutions who fund RSLs are nervous about Business Plans which rely on the scheme for their viability, and hence it would not form part of the transfer valuation. However, some recent transfers have proceeded on the basis that a proportion of the benefits from VAT Savings Schemes are applied towards funding the provision of new affordable housing.

8.12 Loan Arrangement fees

8.12.1 Loan arrangement fees are charged by funders to cover the costs associated with setting up a new loan facility for the new landlord and are incurred at the point of transfer. The fee will typically be based on a percentage of the maximum borrowing to be incurred (the funding requirement).

8.12.2 Loan arrangement fees have historically been included in a Council's set-up costs, and so been defrayed from the transfer receipt. The ODPM's latest transfer guidelines, however, indicate that such fees should now be funded directly and solely by the new RSL, or otherwise by a loan from the Council, rather than a grant. To this extent, we have included an amount in the transfer valuation to cover this cost. In practice, this does not affect the net receipt that the Council would receive since, although the valuation would be reduced by the amount of the fees, set-up costs, which are deducted from the gross receipt for calculation of the levy payable to the Government and the Council's net receipt, would be similarly reduced giving a neutral impact of this change.

8.12.3 We have assumed an arrangement fee of £600,000, which is based on 1.25% of a funding requirement of £48m. The funding requirement will be higher than the valuation, as the debt will increase because the net income generated from rents (after deducting expenditure), will not cover interest payments due to the additional investment programme in the earlier years. The arrangement fee of 1.25% represents the market rate for arranging funding.

8.13 Valuation

8.13.1 The resulting valuation arising out of the above assumptions is £48.3m (a unit valuation of £8,833). Details of the assumptions and valuation cashflows are included in Appendix V.

8.13.2 The Council's attributable housing debt, based on its 2004/05 mid year subsidy capital financing requirement, is £2.7m and so there will be no overhanging debt following a transfer.

8.14 Sensitivity Testing

8.14.1 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.

8.14.2 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.

TABLE 8.13			
INDICATIVE VALUATION & SENSITIVITY TESTS			
TESTS	DESCRIPTION	IMPACT ON BASE (£M)	REVISED VALUATION (£M)
	BASE INDICATIVE VALUATION		48.3
TEST 1	Stock Survey Projections with aspirational investment; desired service improvements - the Salisbury Standard	(7.7)	40.6
TEST 2	Real inflation on stock condition costs increased from 1% to 2% per annum years 2-6	(3.1)	45.2
TEST 3	Management costs HRA + 15% (from + 20%)	2.0	50.3

8.14.3 The sensitivities illustrate the impact on the valuation of relatively small changes in the underlying assumptions. In Salisbury's case the indicative valuation is sensitive to changes in the assumptions for stock condition costs.

8.14.4 It is clear from the above that the inclusion of the additional costs of meeting tenants' aspirations would have a significant impact on the valuation, but the valuation would still be firmly positive, and would still generate a capital receipt.

8.15 Application of Receipt

8.15.1 The ODPM stipulates rules on the application of any capital receipt arising from transfer.

8.15.2 The key items to be considered are as follows:

- setting up costs;
- ODPM Levy;
- set aside receipts;
- usable receipt.

8.16 Setting Up Costs

8.16.1 The setting up costs associated with transfer would be paid by the Council from the capital receipt from the transfer and can be separately categorised as pre and post ballot.

8.16.2 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.

8.16.3 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 ODPM, 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.

8.16.4 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 stand alone new landlord. 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.

8.16.5 Recent guidance provided by the ODPM 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.

TABLE 8.15:			
ILLUSTRATIVE SETTING UP COSTS			
	Pre Ballot £000	Post Ballot £000	Total £000
Council			
Lead Consultants	50	60	110
Stock Condition Survey (any additional work)	50	0	50
Independent advisers to Tenants	70	0	70
Conveyancing Costs	0	65	65
Legal Advisers	25	75	100
PR Adviser	50	0	50
Electoral Reform Society	15	0	15
Publicity (newsletters etc)	15	0	15
Market research	5	0	5
Offer Document and video	55	0	55
Home visits	35	0	35
VAT Shelter Scheme Advice	0	15	15
Environmental survey	0	25	25
Seconded Staff and Support Admin.	60	35	95
Sundry Costs/Contingency	10	25	35
Sub-total	440	300	740
New Landlord			
Lead Consultants	45	150	195
Legal Advisers	20	150	170
Public Relations	0	15	15
Tenant Information & Handbook	0	35	35
Board Training	15	15	30
Employee survey (change management)	15	0	15
Stock Condition Survey (specialist surveys)	0	40	40
Pre transfer procurement advice	0	10	10
VAT Shelter Scheme advice	0	30	30
Valuation Report	0	25	25
Audit report	0	20	20
Funding Advisors	0	50	50

TABLE 8.15:			
ILLUSTRATIVE SETTING UP COSTS			
	Pre Ballot	Post Ballot	Total
	£000	£000	£000
Funders' Lawyers	0	80	80
Land Registry Fees	0	25	25
Start Up costs (incl. Salaries, indemnities & office costs)	50	450	500
IT Advisors	0	40	40
NHF Affiliation Fee	0	20	20
Sundry Costs/Contingency	15	90	105
Non Recoverable VAT	13	110	123
<i>Sub-total</i>	173	1,355	1,528
TOTAL	613	1,655	2,268

8.16.6 In the event of the Council opting for stock transfer, it may prove necessary for a new stock condition survey to be undertaken as warranties would be required in respect of the survey information. This would add to the costs shown above.

8.17 ODPM Levy

8.17.1 The ODPM Levy is based on 20% of the net leviabie receipt after adjustments for the non leviabie receipts and housing debt (defined as the Subsidy Capital Financing Requirement) and set up costs. Salisbury has a Subsidy Capital Financing Requirement of £2.7m and set up costs have been estimated above as being in the region of £2.3m. Based on these figures, the ODPM levy is calculated as £8.7million. The details of this calculation are contained in Appendix VI.

8.17.2 The table below shows an indicative calculation of the levy and net receipt for the Council:

TABLE 8.17	
APPLICATION OF CAPITAL RECEIPT	
	Base Indicative Valuation (£m)
Total Receipt	48.3
Setting up Costs	(2.3)
ODPM Levy	(8.7)
HRA Debt	(2.7)
Net Receipt	34.6

8.17.3 When the additional costs associated with the Salisbury Standard are included in the valuation, as demonstrated in table 8.13, sensitivity test 1, the valuation reduces. As a consequence of this, the net receipt would also be reduced to £28.5m, compared with the £34.6m shown above.

8.18 Usable Receipt

8.18.1 The ODPM's August 2003 consultation paper "*Future Housing Capital Financing Arrangements*" proposes that LSVT receipts and preserved RTB receipts will not be subject to the pooling arrangements introduced with the Local Government Act 2003.

8.18.2 Consequently, in our modelling we have treated both the LSVT net capital receipt and the preserved RTB receipts as being 100% usable without implications for future government grant levels. The Council would have the choice of applying the receipts to fund capital expenditure or investing it and crediting the investment income to the General Fund. For the purpose of this appraisal we have assumed that the Council would choose to invest future RTB receipts.

8.19 Impact on General Fund

8.19.1 The main items to consider with regard to the impact on the General Fund are as follows:

- housing benefit costs;
- HRA working balance;
- residual corporate costs;
- VAT exemption;
- future RTB sales.

8.20 Housing Benefit Costs

8.20.1 Whilst a stock transfer does not alter tenants' rights to Housing Benefit, technically this benefit would become a Rent Allowance, rather than a Rent Rebate. With effect from 1 April 2004, both Rent Allowances and Rebates are subsidised within the General Fund, using the same subsidy regime. There is one cost which might arise for Rent Allowances which will not arise for Rent rebates. This is the situation where a rent allowance cheque is reported not to have been received, and is therefore duplicated, and the original cheque is later cashed. This does not tend to be a large area of cost for Councils, and would be mitigated by encouraging tenants to agree to

have their rent allowances paid direct to the landlord. It is therefore assumed that this will be neutral on the General Fund.

8.20.2 For 2004/5 and 2005/6 only, the Council is allowed to make a transfer in respect of the “incentive area” back to the HRA. This amount is £161,597 in 2004/5, and £80,799 in 2005/6. Both of these amounts can effectively be disregarded for this purpose, as a transfer could not realistically take place until the end of 2005/06 at the earliest.

8.21 Working Balance

8.21.1 Following the closure of the HRA any remaining balance is transferred to the General Fund. We have assumed the 2004/05 year end HRA balance of £3,760,000.

8.22 VAT Exemption

8.22.1 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.

8.22.2 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. In Salisbury’s case it is considered likely that in the event of a transfer the 5% limit would be breached and we have therefore treated the annual recovery of this VAT as an additional cost of transfer.

8.23 Residual Corporate Costs

8.23.1 In respect of residual corporate costs it is difficult to determine how much could be saved by the Council in the event of a transfer. In consideration of these costs the Council will be undertaking a detailed analysis of their existing expenditure with a view to calculating a net cost which could not be saved following transfer. There is also the issue of the strategic/operational split, which further complicates the calculation as there are a range of services with shared support functions that would need to be dis-entangled before accurate figures could be obtained. In the interim therefore, for the purposes of this report we have assumed that the whole of the Central Support Service and Corporate Management costs currently borne by the HRA would remain as a cost to the General fund. This is a pessimistic view as, given the relative size of the housing function compared with the overall size of the Council’s operations, a proportion of these costs would almost certainly transfer with the housing stock. If the Council were to pursue transfer, it would be necessary to investigate these costs during the pre ballot period to ensure that a realistic estimate could be obtained prior to formally agreeing to proceed to ballot.

8.23.2 In common with the majority of Local Authorities, Salisbury has a shortfall in its pension fund, which it is backfunding over time in line with the advice received from the Council's actuaries. The overall deficit for the whole council is in the region of £10m, but detailed figures are not available relating to the proportion of this figure attributable to the HRA. For the purposes of this exercise, we have assumed that 30% of the overall deficit (£3m) would be attributable to the HRA. A detailed analysis of this would be required in the event of the Council deciding to pursue a stock transfer in order to accurately assess the impact on the General Fund.

8.24 Proceeds from Future RTB Sales

8.24.1 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.

8.24.2 The value of RTBs to the Council will be subject to this negotiated agreement. For illustration purposes, however, a calculation is based on the discounted sale price of the property, less an admin fee and less the future net income foregone by the new housing organisation as a result of the sale. Our modelling is based on an average sale price, after discount, of £80k per unit with £21k being retained by the new landlord and £59k being returned to the Council.

8.24.3 Projected receipts are estimated at £2.8m in the year following transfer of which the Council could expect to receive in the region of £2.1m. Thereafter, receipts would vary according to the number of RTBs and house price inflation. Based on the level of RTB sales projected by the Council, which total 500 units over the first ten years, the Council could reasonably expect approximately £36m of usable receipts from this source. This amount is more than double the £17m in usable receipts the Council could expect to receive from the same number of sales under stock retention.

8.25 Impact on the General Fund

8.25.1 The net impact on the General Fund of the above analysis is demonstrated in the table below:

Post Transfer General Fund Cost/(Saving)						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6 to 10
	£'000	£'000	£'000	£'000	£'000	£'000
Expenditure						
Residual Corporate Costs	929	883	839	797	757	3,254
Superannuation back funding	3,000					
VAT – partial exemption	150	150	150	150	150	750
HB Transitional Scheme						
Income						
Interest on all receipts	(1,452)	(1,408)	(1,431)	(1,503)	(1,602)	(9,236)
HRA Balances		(3,760)				
Total Cost/(Saving)	2,627	(4,135)	(442)	(556)	(695)	(5,232)
Cumulative Cost/(Saving)	2,627	(1,508)	(1,950)	(2,506)	(3,201)	(8,433)

- 8.25.2 We are projecting a net cost to the Council in the first year following transfer, and thereafter, surpluses would arise. The surplus in year 2 is largely a result of the transfer to the General Fund of the residual HRA reserve. From year 3 we have projected increasing net General Fund surpluses arising as a result of transfer. This is because of the combined effect of increasing levels of investment interest, resulting from annual preserved RTB receipts, and the assumed reductions in the residual corporate costs. The cumulative position is projected to be a net surplus by the end of year 10 in the region of £8.4m. When the additional costs associated with delivery of the Salisbury Standard are included (which reduces the transfer receipt), the cumulative benefit to the General fund would be in the region of £5.9m by year 10. Following year 10 net annual surpluses would continue to increase.
- 8.25.3 These implications are indicative only and should be treated with caution. They are sensitive to the assumptions set out above. No account has been taken in assessing the General Fund implications of adjustments that may be applied to the Formula Spending Shares (FSSs).
- 8.25.4 It is assumed that the receipt from the transfer, and from ongoing RTB receipts, is invested. Any decision to spend receipts would result in a cost in lost interest, but from the above, there would appear to be significant scope to invest at least some of future receipts in the provision of new affordable housing.

9. Stock Transfer - Other Issues

9.1 Introduction

9.1.1 This Section considers a number of other key issues in connection with a stock transfer.

9.1.2 The key issues addressed below include:

- Type of new social landlord;
- Organisational, staffing & corporate implications;
- Timetable for transfer;
- Best Value Regime;
- Tenant Management Organisation.

9.2 Type of New Social Landlord – Key Options

9.2.1 In establishing criteria for assessing potential structures of new landlords or partners as new landlords the Council will want to ensure that its broad aims and objectives in relation to the future management of housing in the area are met.

9.2.2 There are a number of options open to the Council in deciding on the type of new landlord:

- set up a stand alone new organisation;
- transfer to an existing organisation (or subsidiary thereof).

9.2.3 We consider these options below. However, within these options the Council would also need to decide:

- whether to use a local housing company or housing association;
- whether to seek charitable status or non-charitable status.
- Whether to maximise tenant involvement through the use of a Community Gateway Model

9.3 Local Housing Company or Housing Association

9.3.1 The Housing Act 1996 introduced the concept of Local Housing Companies (LHC) as an alternative vehicle to registered housing associations for stock transfers of tenanted local authority housing. Previously, all transfers were to traditional housing associations registered as Industrial and Provident Societies. The effect of the Housing Act was to widen the type of organisation that could be registered with the Housing Corporation as a Registered Social Landlord to include non-charitable companies as long as they do not trade to distribute profits. In its 1996 guidelines the Housing Corporation also set the criteria for 'Registered Social Landlords', be they housing associations or Local Housing Companies.

9.3.2 This change has had the effect of increasing the scope for the structure of Registered Social Landlords so that their structure can now be as follows:

- main objectives - owning, developing and managing housing;
- Constitutional Structure - Industrial & Provident Society (I&PS) or company limited by guarantee (CLG);
- charitable or non-charitable;
- must not trade for profit;
- registered with Housing Corporation;
- follow Housing Corporation guidelines for Registered Social Landlord;
- Board of Management comprises local authority nominees, tenants and other persons with relevant skills or partner representatives;
- no overall majority of any one group on the Board;
- independent from local authority.

9.3.3 Although there is no absolute definition of a Local Housing Company, we can assume that it refers to a company limited by guarantee that takes on board the significant differences in the structure and operation allowed by widening the scope of RSLs as compared to the traditional transfer housing association registered as an Industrial and Provident Society. These differences are:

(i) Greater LA Nominees Representation on Board of Management

The traditional transfer housing association has had a maximum LA Nominee Representation of 20%. However, the Housing Corporation guidelines now allow 33.3% as a norm and in exceptional circumstances up to 49%, although that would mean a corresponding reduction in tenant representation. The 2004 National Housing Federation's code of guidance on Governance and Accountability suggests an optimum Board size of 12 members, which would translate, in terms of the above, to between 4 and 6 LA Nominees.

(ii) Greater Tenant Representation on Board of Management

The traditional transfer housing association has had varying levels of tenant representation usually up to a maximum of 33.3% (e.g. 4 Board Members out of 12). Again the guidelines now allows 33.3% as a norm and in special circumstances up to 49%, although that would mean a corresponding reduction in LA nominee representation.

(Items (i) and (ii) can also apply to Industrial and Provident Societies).

(iii) Wider Regeneration Role

A wider regeneration role for Registered Social Landlords can be accommodated within the possible structures as long as they are related to the main objectives of the organisation. This could for instance involve training and employment initiatives.

(iv) Council Control

In the company route, the Council as a body can be a shareholder and hold sufficient shares to give it veto power on key issues involving the Constitution of the Company. This could be used to ensure that the Council as a corporate body can control changes in those key issues, despite the Council not having a majority representation. This is probably the key advantage in the company option over an Industrial and Provident Society.

(v) Partnership Approach

It is envisaged that there will be a closer on-going involvement with the local authority than some (but not all) housing associations have had and that the organisation will remain more locally based.

(vi) Local Focus

As the name implies, it is envisaged that a LHC would focus its operation to a specific local area.

(vii) Regulating Body

The regulatory body for a company is Companies House rather than the Registrar of Friendly Societies for Industrial and Provident Societies (i.e. traditional HAs). Also the company is governed by its Memorandum and Articles of Association rather than model rules in respect of Industrial and Provident Societies. Both these factors allow Local Housing Companies more flexibility in its scope of operation over traditional HAs.

9.3.4 These differences can apply to a new stand alone organisation or, in most cases, to a new subsidiary of an existing housing association.

9.3.5 It is therefore clear that there are a number of advantages in the use of a local housing company over the traditional housing associations previously used on

transfers. In particular, a LHC tends to have a higher degree of accountability to the sponsoring LA and to the body of tenants and leaseholders of the stock.

9.4 Charitable or Non Charitable Status

9.4.1 A further choice, which would need to be made in respect of a new organisation, is whether it should seek charitable status. Both LHCs and Industrial and Provident Societies can achieve charitable status. However, it is more difficult for a company as it must seek separate registration with the Charity Commissioners, and registration will be subject to the Housing Benefit profile of tenants.

9.4.2 The Government announced the removal of stamp duty for the transfer of housing stock from a local authority to an RSL in the 2000 annual budget. The impact of the announcement is that one of the main advantages of charitable status prior to the announcement, the ability to avoid stamp duty, is now negated. However, recent developments on the VAT Shelter Scheme, referred to at 8.11, provide a new incentive to avoid Corporation Tax both in the early years following the transfer, and in future years (once in surplus). If non-charitable, organisations involved in stock transfers are within the scope of Corporation Tax and normally become liable after the major repairs work has been carried out and the accounts move into surplus.

9.4.3 The main disadvantages of charitable status are that:

- it cannot be reversed;
- it may limit scope of activity to those with charitable objectives;
- tenants may object to the perception of being housed by a charity;
- for the company route there is an additional layer of regulation.

9.4.4 If a transfer was proposed, a decision regarding charitable or non-charitable status can be made in principle at the pre-ballot stage or deferred if the articles allow for this decision to be made later. The latter had become more usual, prior to the recent developments on the VAT Shelter Scheme. Now, the trend is likely to be towards a decision on charitable status early in the pre-ballot period.

9.5 Transfer to a New Stand Alone Organisation or Existing Organisation

9.5.1 It is worth noting that of the over 150 successful voluntary transfers to date, most have been to new local authority sponsored housing associations or local housing companies specifically set up for the purpose. It has many attractions and in many ways can be seen as the most straightforward transfer model. The organisation will be set up by the Council but will develop its own identity free from links with other Registered Social Landlords (RSLs). Clearly, there will be close links on an on-going basis with the Council in this model, as the Council will be able to influence the setting up of the RSL.

9.5.2 Transfers involving existing associations have so far been limited although there are a growing number for estate based partial transfers, where, because of the viability issues for a new landlord, they have tended to be the more common approach. These transfers are either direct to the existing housing association or involve a new subsidiary of the existing housing association. There have been a small number of entire stock transfers to a subsidiary of an existing Housing Association where the stock numbers are too small to ensure financial viability.

9.5.3 The main advantages of a transfer to a new organisation set up specifically to manage the Council's housing stock are as follows:

- the new landlord would have a local focus, being set up specifically to manage the Council's housing stock;
- the Council would have greater influence in setting up the organisation, and will be able to ensure it has adequate on-going links with it;
- the new landlord would be more accountable to the Council and its tenants, with each making up about a third of the Board, and no influence from a parent organisation;
- perceived to be more attractive to tenants and more likely to achieve a positive ballot.

9.5.4 An alternative to setting up a new organisation is to transfer the stock to an existing Housing Association. This could involve the transfer of the stock into the organisation itself amalgamating with the existing stock, or setting up a new subsidiary for the transfer of the Council stock. Examples of the transfer into an existing organisation (without the setting up of a new subsidiary) are very limited for entire LSVT stock transfers. Hertsmere District Council undertook a split transfer in relation to then prevailing DTLR guidelines, transferring 4,000 properties to a new organisation, Ridgehill Housing Association, and the remaining 1,500 to an existing organisation, Aldwyck Housing Association. The London Borough of Bexley also undertook a split transfer to subsidiaries of London & Quadrant and Orbit Housing Associations of just over 4,000 properties to each in February 1998. More recently, Carlisle County Council transferred its stock of 7,198 dwellings to Carlisle Housing Association, a subsidiary of the Riverside Housing Group.

9.5.5 The advantages of using an existing organisation rather than a new organisation are as follows:

- time and set up costs to transfer may be slightly reduced;
- financial strength of an existing organisation will make funding easier, possibly with more competitive funding terms;
- stock valuation may be higher because of savings on management costs;
- possible contribution to set up costs;
- possible added resources for consultation process.

9.5.6 The Council should note that the ODPM guidelines require local authorities and their tenant representatives consider carefully the option of a transfer to an existing RSL (and provide evidence of tenant involvement) before embarking on the establishment of a new stand alone local housing company. Authorities will need to clearly demonstrate that tenants have been made fully aware of all the new landlord options and what each option offers to tenants, and provide evidence that they (tenants) have been fully involved in determining the eventual landlord.

9.6 The Community Gateway Model

9.6.1 The Community Gateway Model (CGM) is designed to maximise scope for community empowerment in stock transfer and arms length management. It is important to note that the CGM is not an extra new option for delivering decent homes; rather it provides an alternative approach to the implementation of the stock transfer and, potentially, arms length management routes.

9.6.2 Based on the principles of the Co-operative Movement, the model aims to give tenants and leaseholders more of a say than is typical, and is designed to bring decision-making down to a local level. Commitments on local devolution are clearly spelt out in a community empowerment strategy which would form part of the offer to tenants in the stock transfer context. The organisation has a shareholding membership that is open only to residents, and members have a role in selecting or approving both resident board members and independent board members.

9.6.3 Whilst community empowerment is central to the model, it is not an end in itself. Underpinning the model is the presumption that more tenant involvement will help social landlords to:

- deliver better services
- secure more money for investment
- generate communities that people want to stay in.

9.6.4 Because of the focus on community involvement, the model has a particular relevance in neighbourhoods where tackling social exclusion is a priority, and where the viability of investment depends on the achievement of community sustainability.

9.6.5 Key features of the model are shown below:

- Tenants could be the largest group on the Community Gateway Association (CGA) board (where they want this), holding one less than a majority of seats, whilst independents hold a third of seats and local authority nominees hold the remaining places;
- The membership of the organisation is open exclusively to tenants and leaseholders, and the CGA works to achieve high levels of tenant membership. The model aims to simplify the process of signing up for membership, and suggests a membership fee of 10p. Members are encouraged to see themselves as custodians of the new organisation;

- Where feasible, the business plan is structured around local community areas, and builds in assumptions about investing in community empowerment;
- Community options studies are programmed to take place in every local community area (over time – and not necessarily before a change of ownership or management) enabling residents to decide on how they want to get involved in local decision making;
- A range of options for local involvement is provided, from consultative options (such as estate panels/estate agreements) through to tenant management. Ultimately tenants would be supported in seeking to take ownership of their estates if they wanted this, and it did not have an adverse impact on viability.

9.6.6 Like the community mutual model launched recently in Wales, the model incorporates constitutional commitments on the devolution of power to local communities. However, in addition, the CGM provides a set of tools to help implement the model, including model rules for a CGA, a model Community Empowerment Strategy and guidance on issues such as funding and governance. The model CGA rules differ in some respects to the community mutual model rules, for example in requiring residents to “sign up” for membership (rather than allowing membership by default).

9.6.7 The model is a recent development, and local authorities interested in developing it now will be pioneers of the new approach. In order to enable local authorities to provide commitments on empowerment, ODPM and the Housing Corporation will need to work with organisations interested in adopting the model to ensure that appropriate financial provision for devolution can be made. If there is an interest in using the model in the context of arms length management, further dialogue will be needed with ODPM to accommodate the principle of resident membership.

9.7 Organisational and Corporate Implications

9.7.1 The removal of one of the major services (such as direct housing management) from the Council's activities will clearly have a major impact on the Council's organisational structure having significant staffing and corporate implications. The Council will, however, continue to have a significant housing role in respect of allocations, homelessness and the continuing enabling and strategic role. The Council will also have a role in monitoring the activities of the new landlord to ensure its promises and commitments to tenants and the Council are kept.

9.7.2 The Homelessness Act 2002 removed the legal requirement for a local authority to maintain a housing register which is constructed in a specific way, and promoted more flexible choice-based lettings schemes. However, the obligation remains upon the local authority to ensure that social housing resources in its area are accessible to people who are socially vulnerable or have difficulty in competing economically. Some mechanism of collecting information about those seeking housing, and prioritising people with such needs is therefore necessary, together with the means of demonstrating that priority needs have been met. Some form of database of potential residents and priority system in matching their needs to housing vacancies available in the near future therefore seems to remain necessary. The Council

could operate this itself, or could employ an 'agent' to operate it on the Council's behalf, being either the new landlord or a third party. However, the Council must take responsibility for:

- preparing the allocations system and consulting upon it;
- clearly identifying its own Register of applicants within any common Housing Register arrangement;
- making changes to the allocations system.

9.7.3 The Council has a duty to assess people who present themselves as homeless and to provide accommodation for those who are in priority need and not intentionally homeless. If a transfer were to take place the authority would have a number of options in relation to how they deal with homelessness:

- retain all homelessness functions (provision of temporary accommodation and assessment of applicants);
- transfer all functions;
- retain assessment function only;
- transfer initial assessment function but retain the authority to make the final determination.

9.7.4 The first option would require the Council to maintain a housing management and housing maintenance capacity in-house. Such an option could be very expensive. The economies of scale that currently apply would disappear on transfer and the Council would be faced with maintaining a substantial infrastructure to deal with a small area of work.

9.7.5 The second option of transferring all functions to another body is restricted by the Council's statutory responsibility. This would require the Council to establish mechanisms to verify the new body's decisions, which would lead to a duplication of effort and consequently increased costs.

9.7.6 The third option would be for the Council to retain responsibility for assessing applicants, referring those eligible for temporary housing to a new landlord. The new landlord would act on an agency basis to arrange accommodation for homeless people. A detailed agreement would be required to ensure that the new landlord, as agent, maximised the use of short leases and hostel spaces to avoid as far as possible the expense of bed and breakfast accommodation. The agreement would also cover issues such as the appropriateness of accommodation used etc.

9.7.7 The final option is similar to the third option with the new landlord in addition carrying out the initial assessment, which would then need to be referred to the Council to review and make the determination.

9.7.8 The new landlord in the transfer agreement will make various commitments and enter into covenants with the Council. These will cover issues such as:

- programme of works;
- policies.

9.7.9 It will also need to ensure that all income from the transferred stock and assets are used for social housing objectives. The Council will have an ongoing role in liaising with the new landlord; monitoring its activities and ensuring its commitments are being adhered to.

9.7.10 The Council would also continue to have a significant strategic and enabling housing role. This role would take on increased importance with the transfer of housing stock. This would include:

- preparation of the Council's Housing Strategy;
- liaison with the new body and other providers;
- the monitoring of new developments in the provision of social housing and facilitating their development (if appropriate) in the Council's area;
- exercise of the Council's nomination rights.

9.7.11 Should transfer take place, the Council will need to retain a housing unit to deal with those functions it retains. The housing role post-transfer is an important role involving considerable contact with external agencies. For this reason we consider that an officer at an appropriate level of seniority should lead the unit.

9.7.12 The Government has made it clear that Councils may not retain direct control of lettings of any housing transferred. The Council is however, able to negotiate nomination agreements with the new landlord, both in terms of homelessness arrangements and up to 75% of other lettings in some cases. It will also have the opportunity to agree the new landlord's allocations policy during the negotiations.

9.8 Staffing and Central Services

9.8.1 Staff directly involved in providing the housing service would transfer under the TUPE regulations to the new landlord. Under the TUPE regulations, staff transferring to the new landlord would carry with them their existing terms and conditions of employment.

9.8.2 The situation however is less clear in respect of staff in the Council's Corporate Departments who currently provide central support services to the housing service amongst other services. The TUPE regulations are usually considered only to relate to staff that spend at least 50% of time on the transferring service, although this (or any) percentage is not set out in legislation, so there is scope for local discretion and negotiation. This will therefore impact on staff in corporate support that provide assistance to the housing service. The implication of this on residual corporate

costs would need to be considered. It is possible for the Council to provide support services to a new organisation on an interim basis, for the first year, but thereafter the Housing Corporation would expect these services to be tendered for. In most transfers the existing posts for support services staff are usually accommodated within the residual Council structure or with the new landlord. Within the first few years there has occasionally been the need for a limited number of redundancies, although these have generally been managed on a voluntary basis.

9.9 Accommodation

9.9.1 Council staff operating the housing service currently occupy space in Council buildings. Apart from a transitional period (of not more than a year) it will not be permissible for a new landlord to continue to use this space. The Housing Corporation requires the new landlord to have its own independent offices after a year's transitional period.

9.9.2 Corporately, there is an overhead associated with the space vacated by the housing service. If other Council groups move into this space and increase the area they occupy, this will increase the costs of the services provided by these divisions.

9.10 Timetable for Transfer

9.10.1 The Council would need to prepare an expression of interest in accordance with the ODPM guidance. For the 2005/06 programme expressions of interest were required in October 2004 with a final submission due in January 2005. Timetables for future years' programmes have yet to be set. If the Council chose to pursue this option it might wish to consider, perhaps with the agreement of the CHTF, beginning some of the pre-ballot activities before submitting its formal application. This might include the work associated with selecting a recipient landlord.

9.10.2 A successful application would need to include:

- description of the proposed disposal;
- rationale for disposal;
- support for the proposals;
- outline of tenant opinion;
- timetable;
- status of the purchaser;
- details of the housing stock;
- stock condition information;
- diversity of social ownership;

- valuation and terms of disposal;
- assessment of effect on the HRA and HRA subsidy entitlement;
- continued effect on Public Sector Borrowing Requirement;
- estimate of the receipt and the Council's plans for the usable receipt.

9.10.3 The transfer process is both lengthy and complex. To some extent the detailed programme (as well as the required timescale) would be dependent on the type of proposed new landlord and how the initial decisions fit into the ODPM's disposal programme timetable. On-going liaison with the ODPM's Community Housing Task Force would be required. The chart below gives an indication of the timescales typically experienced with a whole-stock transfer, and demonstrates that it often takes two years or more from inception to transfer.

Indicative transfer timetable	2005/06				2006/07				2007/08		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Bid											
Granted place on programme											
Consultation/Ballot of tenants											
Transfer											
HRA closed											

9.10.4 If the Council, following consultation with tenants, wished to involve an existing RSL as the new landlord it would be necessary to build in the process of seeking and selecting a preferred partner organisation, if appropriate. This would lengthen the time required for pre-ballot work but is likely to be matched by a comparable reduction in the post ballot period due to the ability of an established organisation to accelerate key processes (e.g. fund raising and the setting up of the new body's operations, if set up as a subsidiary).

9.11 Registered Social Landlords and Best Value

9.11.1 Registered Social Landlords (RSLs), to whom any transfer of local authority housing stock would take place under current regulations, are not subject to the same regime of funding, audit, Best Value or inspection as local authorities. Their regulatory body, the Housing Corporation, published in January 2002 two companion documents: "The Way Forward - Our Approach to Regulation" and "The Way Forward - Inspection: Our Approach".

9.11.2 The first of these documents requires RSL's to assess themselves, in conjunction with their Housing Corporation "lead regulator" in comparison with the Corporation's "Regulatory Code" (this includes governance, financial and performance indicators) and to prepare a Regulatory Plan which contains this assessment and sets out proposed courses of action to achieve compliance. The second proposes an inspection regime, whereby all large RSLs, including those formed as result of whole stock transfers, will be visited and their service quality inspected, in the first instance within 3 years, and consistently thereafter. Of these two regimes, the former is concerned with compliance with minimum standards, while the latter is concerned with service quality and continuous improvement.

- 9.11.3 RSLs are not expected to carry out Best Value reviews which comply to the letter with the Audit Commission requirements applicable to local authorities, but they are expected to have a regime in place for the regular assessment of service quality and organisational performance, and Housing Corporation Inspection will assess the effectiveness of this mechanism, together with the organisation's demonstrable capability of improvement, in the same way as Audit Commission Housing Inspections do. Inspections are expected to be conducted in a broadly similar manner to the Housing Inspectorate's methodology, but will not result in a "star" rating, or other similar grading system. Reports from inspections will be publicly available on the Housing Corporation's website.
- 9.11.4 There is at present no indication that excellence in service delivery, as assessed through inspection, would have a direct influence on the funds available to RSLs, or their freedom from other aspects of the regulatory regime, as is proposed in the local authority context.
- 9.12 Tenant Management Organisation
- 9.12.1 As mentioned earlier, following stock transfer, the new landlord could consider whether it would like to offer a facility similar to Tenant Management Organisations. Although the tenants would have no statutory right to manage the proposed new landlord, in conjunction with the Council, could consider whether they would like to offer such a facility, and if so this would need to be included in the Consultation Document issued to tenants and comply with Housing Corporation Regulations.
- 9.12.2 Hence for groups of tenants, organisations similar to Tenant Management Organisations could be set up to manage the housing stock in local areas if required.

10. Stock Transfer – Key Issues for Tenants

10.1 Introduction

10.1.1 This Section considers the impact on tenants of transferring the stock to another landlord, and includes the terms of tenancy, future housing opportunities, and the accountability of the new landlord. It goes on to briefly outline the consultation procedures that must precede any transfer of tenanted stock. The decision to transfer is a very important one for tenants to make, as there are several issues to consider and it is irreversible.

10.1.2 The Government has issued guidelines that the Secretary of State will not give his consent to the sale of Council housing to a new landlord unless he is satisfied that the landlord will provide a good service to tenants and the new landlord is registered with the Housing Corporation as a Registered Social Landlord (RSL) which could include existing or new housing associations or local housing companies. The Secretary of State will expect potential landlords to be prepared to sign undertakings with Councils in which they agree to:

- take account of housing demand and conditions in the area in granting tenancies and managing their stock, and be open about their lettings policies;
- normally relet housing which becomes vacant at rents set and maintained at levels within the reach of those in lower paid employment ('affordable rents');
- carry out the promises and commitments made during the consultation process.

10.2 Terms of Tenancy

10.2.1 The Housing Green Paper outlines the Government's push to move to a single tenure drawing on the best features of both secure and assured tenancies. The Government is to explore the benefits of, and options for, moving to a new single form of tenure.

10.2.2 The landlord and tenant legal framework is established by the Housing Act 1988, which introduced assured tenancies and will have an impact on the whole range of tenants' rights as compared to secure tenancies. These are discussed in the following paragraphs. However, there would be the opportunity for the new landlord to give additional rights to tenants in order to enhance assured tenancies to the equivalent of a secure tenancy with the Council. These additional rights are provided by the Residents' Charter that is produced by the Housing Corporation and would be extended through the formal consultation document, which is influenced, by both the Council and the new landlord. Indeed in all transfers to date a wide range of additional rights has been granted (see below).

10.3 Rents

10.3.1 As part of the consultation process, transferring tenants may be offered a guarantee in respect of maximum rent increase for 5 years. Although the ODPM and funders will not generally permit these guarantees to extend beyond 5 years exceptions have been made where an existing association is involved. However the long-term projections are built into the valuation of the stock and into a 30-year business plan which would be independently analysed by the tenants' adviser. It is possible therefore to provide information on rent increases assumed throughout the 30-year period. Rent restructuring, in the ODPM's view reduces the significance of the rent guarantee.

10.3.2 The rents for dwellings newly let on assured tenancies are expected to dovetail with the 'target rent' within the 10-year restructuring period. The procedure to be followed would require the landlord to serve a notice on the tenant proposing a new rent. The new rent would normally take effect one month later unless the tenant considers it to be unreasonable and refers it to the independent Rent Assessment Committee. The Committee would decide if the new rent is reasonable in relation to market rents. The decision is final and binding.

10.4 Entitlement to Housing Benefit

10.4.1 Assured tenants to a new landlord would be entitled to claim Housing Benefit according to their incomes on the same basis as if they remained tenants of the Council.

10.4.2 Tenants' claims would be processed in the same way as for all other housing association and private tenants and can be paid direct to the new landlord subject to the agreement of the tenant. It also would be important to assure tenants of their continued eligibility for Supporting People Grant.

10.5 Right to Buy

10.5.1 The Housing Act 1988 brings into effect Section 8 of the Housing and Planning Act 1986 which gives existing secure Council tenants whose dwellings are transferred to a new landlord a statutory "preserved" Right to Buy their homes. Their entitlement to discounts would remain virtually the same as with the Council (as recently amended).

10.5.2 New assured tenants do not have a statutory Right to Buy. However, the Housing Act 1996 introduced the Right to Acquire for new tenants except in designated rural areas, although with a different and generally less generous discount system.

10.6 Succession

10.6.1 The rights of succession are reduced under an assured tenancy, as compared with a secure tenancy, being restricted to the case where a sole tenant under an assured

tenancy dies and immediately before the death of the tenant, the tenant's spouse was occupying the dwelling house as a principal home and the tenant was not a successor, in which case the spouse is entitled to the tenancy.

10.6.2 However, assured tenants of a registered housing association are expected to have rights contractually extended by the landlord to be equivalent to those of a secure tenancy.

10.7 Security of Tenure

10.7.1 Although tenants would be assured rather than secure tenants, the rights of tenants would be very similar, as assured tenants would be afforded contractual rights equivalent to those currently received as secure tenants.

10.7.2 The courts are only able to grant possession of dwellings let on assured tenancies on the specified grounds set out in Schedule 2 of the Housing Act 1988 and, in practice, it is most unlikely that possession would be obtained if the tenant pays rent and complies with the condition of tenancy.

10.8 Additional Rights for Tenants

10.8.1 The statutory rights for assured tenants have been set out above. A landlord may, however, extend tenants' rights and in particular the landlords of transferred Council tenants have considered it appropriate that additional existing rights in respect of security of tenure and/or succession should be retained for transferring tenants.

10.8.2 In addition, as a registered social landlord, a new or existing association or local housing company would be required to comply with the Residents' Charter which provides guidance on housing management practice, including the contractual grant of additional rights to all assured tenants. The additional rights include:

- the right to exchange tenancies with other public sector tenants;
- the right to take in lodgers, or sub-let part of the property with the landlord's permission (with the proviso that no security of tenure would be attached to any sub-letting);
- the right to carry out improvements with the landlord's permission;
- the right to carry out repairs and have the costs refunded where the landlord has failed to meet its repairing obligations;
- the right to be consulted about housing management changes and to be informed about the landlord's policies.

10.8.3 With the inclusion of these additional rights, effectively the only rights transferring tenants would lose are Rents to Mortgage and the Right to Manage, although in this instance initiatives similar to Tenant Management Organisations could be implemented by the new landlord (see section 8 above).

10.9 Impact on Leaseholders

10.9.1 A transfer would not have a substantial impact on leaseholders of Council flats bought through right to buy. The main implications would be for leaseholders within blocks of flats if considerable repair and improvement work were proposed in addition to the Council's current programme.

10.9.2 Some leaseholders would be liable for the additional costs relating to their flat, but this may be offset by an increase in the value of the property.

10.10 Future Housing Opportunities and Mobility

10.10.1 The receipt from the transfer may provide the Council with the opportunity to grant aid more social housing in the area to the benefit of future tenants.

10.10.2 One of the main elements of the transfer would be to ensure that the required repairs and improvements are carried out to the Council's existing stock.

10.10.3 New landlords would be encouraged to facilitate movement amongst their tenants by joining HOMES (Housing Organisations Mobility and Exchange Scheme) that allows tenants to move around the country, as is currently the case.

10.11 Accountability of New Landlord

10.11.1 There is no statutory obligation to assured tenants to be provided information or consulted as there is with secure Council tenants. However, registered social landlords are required by the Housing Corporation to demonstrate their commitment to informing and consulting their tenants and many are making real progress in setting up mechanisms to ensure accountability to their tenants and the local community.

10.11.2 Responsibility of the management of a housing association or Local Housing Company rests with its Board of Management. Assuming a 12 person Board, this would consist of:

- between 2 and 6 tenant representatives;
- between 2 and 6 Council nominees;
- at least 4 others with appropriate skills or nominees from a partner (such as an existing HA).

10.11.3 The typical arrangement is one-third representation (i.e. 4 members) from each of these stakeholder categories.

10.11.4 This contrasts with the current situation with the Council, where clearly there is greater representation through Councillors as members of the direct provider of the

housing service. Tenant representation on the Board of the new landlord would compare with the new roles being proposed for tenants under the new Tenant Compacts, should the Council retain the stock. The tenant role is enhanced on the new landlord Board through full voting rights.

10.12 Tenant Participation Compacts

10.12.1 Local authorities transferring their housing stock are expected to ensure that tenants have no less opportunity to become involved in decisions about the services that affect them after transfer than they do as tenants of the local authority.

10.12.2 This implies that RSLs accepting a transfer need to have in place a framework comparable with the transferring authority's Tenant Participation Compact.

10.13 Statutory Consultation Regarding Transfer

10.13.1 Clearly the views of tenants need to be sought in any voluntary transfer proposal. The earlier this begins the better. It is crucial to ensure that they are adequately informed of the reasons why the Council is considering transfer as an option for its housing service, and that their views are reflected in the decision as to whether the Council proceeds to formally consult the tenants on a transfer. Beyond this phase of the process it is important to draw a distinction between the statutory minimum consultation requirements and the best practice that has emerged from other similar exercises.

10.13.2 The 1988 Housing Act inserted new provision (Section 106a and Schedule 3a) into the Housing Act 1985 that clarified the procedures necessary for consultations on voluntary transfers.

10.13.3 The following are the key requirements for the consultation and ballot process:

- all secure tenants must be served with a formal notice ('the Stage One Offer or Consultation Document') setting out:
 - the identity of the proposed landlord;
 - probable consequences of transfer, e.g. changes in security of tenure, rent etc;
 - the Council's duty to consult;
 - the effect of the preserved right to buy;
 - tenants' right to make representation to the Council.
- the Council has a duty to consider any representation from tenants;
- all tenants must be served with a notice ("the Stage Two Document") informing them of:

- any significant changes to the Offer Document;
- the tenants' rights to make representation to the Secretary of State;
- the duty of the Secretary of State to withhold consent if a majority of tenants opposes transfer.

10.13.4 Whilst there is no statutory requirement for a formal ballot of tenants in Voluntary Transfers, in practice they always occur. They provide a clear indication of tenant support for a transfer and it is very unlikely that a transfer would progress if a ballot were not held.

10.13.5 A ballot should be conducted in the most open manner possible and should be conducted by a totally independent body, e.g. the Electoral Reform Society. This is usually a postal ballot carried out over a 3 or 4-week period. A simple majority of those voting is required for the Secretary of State to approve a transfer.

10.14 Wider Consultation Strategy

10.14.1 The above sets out the minimum requirements regarding tenant consultation. In practice a more comprehensive and detailed programme of consultation would be necessary. The Council would clearly wish to ensure that tenants had all the information they required to make a considered judgement about the options before them at the earliest opportunity. Tenants themselves would be unlikely to vote for a new landlord if they did not feel 100% sure that the move was to their long term benefit.

10.14.2 If the Council were to pursue a transfer option then a comprehensive tenant consultation strategy would have to be drawn up. This would focus on the issues that are of principal concern to tenants. These have been discussed above. A variety of communication techniques would have to be incorporated into the strategy including:

- door-to-door interviews;
- newsletters;
- public meetings;
- videos;
- information centres;
- helplines etc;
- tenant surgeries;
- tenant association briefings.

- 10.14.3 There would be a major impact on many members of staff during the period leading up to ballot and thereafter up to transfer. The wholehearted commitment and enthusiasm of staff is vital to the tenant consultation process. Day-to-day contacts with tenants by frontline housing staff provide a vital avenue of communication. It is normal practice to ensure that the consultation strategy takes account of the need for the Council's housing, maintenance and other support staff to be fully informed and involved about what is proposed. It is particularly important to ensure that staff understand the proposals and issues involved so that a constructive and consistent message is given to tenants. Early consultation with staff and Unions as appropriate is hence also very important.
- 10.14.4 If a decision is taken to pursue a transfer option, there is likely to be a significant impact on the Council members, and their commitment and enthusiasm for the consultation process would also be important.
- 10.14.5 The Council would also need to consider how to consult with other stakeholders, such as leaseholders, garage occupants and potential new applicants.
- 10.15 Independent Tenants' Advisor
- 10.15.1 In accordance with ODPM guidance, an Independent Tenants' advisor, has been appointed for Salisbury. It should be noted that if transfer were to be proposed, this support would need to be continued throughout the lead up to the ballot.

11. Conclusions

11.1 Review of Strategic Housing Options

11.1.1 The main options currently available to Salisbury District Council for the long-term future of its housing service are the retention of its stock, with or without an arms length management company, or transfer to a new landlord.

11.2 Retention

11.2.1 Within our appraisal of the stock retention option we have seen that the Council is able to achieve the Decent Homes Standard plus essential works by 2010 from within existing resources and could maintain that standard for some time to come. We have also demonstrated that neither the full survey level of investment nor the aspirational (Salisbury) standard could be achieved within existing resources. The shortfall in resources needed to deliver the recommended programme of works and improvements is projected as just over £9.4m over 10 years. This increases to £14m when aspirational works are added in.

11.2.2 We have highlighted, however, that the decent homes standard represents a minimum level of investment and would lead to backlog repairs arising in the future. In addition, tenants' aspirations would not be met under this standard.

11.2.3 The Housing Revenue Account is projected to go into deficit within the next ten years unless remedial action is taken to prevent this. We have estimated that permanent revenue savings in the region of £0.773m would need to be made from year 2 onwards to ensure that the HRA remained in balance throughout the thirty years of our projections.

11.3 Arms Length Management Organisation

11.3.1 Given the competitive nature of the ALMO bidding process and the fact that the Council could meet Decent Homes Standard from within existing projected resources, whereas other bidding authorities may be otherwise unable to achieve DHS, it is questionable whether an ALMO bid from Salisbury would be assessed as sufficiently high priority to receive additional resources. Furthermore, in the event of a successful bid, the additional revenue costs would place further stress on the HRA Operating Account.

11.4 PFI

11.4.1 The evaluation of PFI for housing is contained in Chapter 7. At the moment there remain some concerns arising from experience to date about the practicability of the model's wider application and the value for money it represents. Based on current Housing PFI models the scheme is unlikely to provide Salisbury with a viable whole stock solution, except possibly for the provision of new affordable housing.

11.5 Stock Transfer

- 11.5.1 Finally the appraisal of the stock transfer option was presented in Section 8. This shows that the transfer option could deliver the recommended programme of works identified within the Council's stock condition survey. Based on our indicative valuations, the council could expect to receive a net receipt from the transfer in the region of £34.9m, assuming the full survey standard of investment, or £28.5m assuming the Salisbury Standard was implemented. The impact on the General Fund would be negative in the first year following a transfer, but positive thereafter. Over the 10 years following transfer, a net cumulative benefit in the region of £8.4m is estimated to accrue to the General Fund. Inclusion of the costs associated with delivering tenants' aspirations would result in a reduced valuation, although not significantly. The reduction in transfer receipt would result in a lower benefit to the General Fund, with an estimated £5.9m accruing over the first 10 years.
- 11.5.2 The transfer option also offers the possibility of additional receipts from a VAT shelter scheme (see 8.11). We have estimated that the Council could receive approximately £3.6m over 10 years from such a scheme, assuming a 50:50 sharing arrangement with the new landlord. It is important to note, however, that given the recent developments with the Inland Revenue, the potential benefits of this scheme may only be capable of being realised if charitable status, along with the added regulatory burden of this, were sought,
- 11.5.3 In reviewing the various options, it is important to compare them with the main objectives for the options appraisal in order to enable the Council and its tenants to make the best decision as to the way forward for Salisbury's housing stock. The main options have been assessed against the key objectives set by The Options Appraisal Working Group in Appendix VII.
- 11.5.4 It can be seen from the results of the financial modelling and the comparison of options in Appendix VII that there are two main options available to the Council.
- 11.5.5 Whilst retention of the stock by the Council would enable the Decent Homes Standard to be achieved by 2010, and maintained for some time after this date, significant levels of savings would be required to enable a balanced HRA to be achieved. In addition, as mentioned in the body of the report an asset management strategy based purely on maintaining properties to Decent Homes standard would not be advisable in the long term. From the matrix in Appendix VII it can also be seen that this option would not enable new affordable housing to be delivered, except insofar as the Council decided to bid for PFI credits for new affordable housing, and was successful.
- 11.5.6 Stock transfer would enable the full stock condition survey requirements to be met, along with the additional costs associated with achieving the Salisbury Standard. There would be a substantial capital receipt arising from the transfer and additional receipts over time from preserved Right-to-Buy sales. The impact of a transfer on the General Fund would be beneficial, and would appear to give some scope for additional investment by the Council in new affordable housing provision, subject to corporate prioritisation of the available receipts.

APPENDIX I

STOCK RETENTION - MANAGEMENT AND MAINTENANCE ALLOWANCE PROJECTIONS

APPENDIX II

STOCK RETENTION - BASE SCENARIO ASSUMPTIONS

APPENDIX II: HRA PROJECTION ASSUMPTIONS

1. INFLATION

- a. Inflation has been assumed as 2.5% from 2005/06 onwards.

2. CHANGES IN STOCK

- a. At April 2004, the total rented housing stock owned by the Council was estimated to be 5,472 units. In addition, the Council is estimated to have a total of 414 leaseholders.
- b. Sales under the Right to Buy legislation have been incorporated on the basis of the Council's projections for the first two years, and steadily falling off over time from there onwards.
- c. The projected average RTB valuation is £110,963 in 2004/05, and it is assumed that these will attract a maximum average discount of £30,000. Increases in the valuation are based on the assumptions that property prices will increase by 1% in real terms per annum throughout the period of the projections.
- d. RTB admin costs for each unit of stock sold reflects the cost of administering the sale of dwellings to tenants including leasehold properties and reflects the cost of the staff involved in RTB such as undertaking valuations and drafting of legal documents. This is estimated at £300 per unit sold in 2004-05.
- e. No usable RTB receipts are assumed for HRA purposes.
- f. As the model uses unit costs and income data, the output is sensitive to changes in these assumptions.

3. RENTS

- a. The modelling undertaken reflects the Government policy on rent restructuring. The formula assumes target growth of 1.5% real for 2004-05 and 1.9% in subsequent years to 2011-12 to reflect the local increase necessary to reach convergence with the RSL formula rent by this time and then of 0.5% subsequently.
- b. The average rent for 2004-05 is £65.61 based on a 50 week rent year.
- c. In accordance with the ODPM guidance actual rents are assumed to increase in line with the formula growth assumptions with an adjustment to move actual rents towards the formula rent, phased over the convergence period to 2011/12. The modelling is based on averages, and takes account of the rent caps and the £2 per week limit on rent rises after allowing for an inflation-linked increase at the property specific level and calculates an average for modelling purposes on this basis. It is possible that some individual dwellings will be subject to the £2 limit, but this would be reflected in the following year's subsidy, and has been assumed to be de minimus. It is not anticipated at this stage that property specific rebate limitation will impact on the Council's position.

- d. Voids are included at the rate of 1.73% per annum throughout the projections. Bad debts have been assumed at the rate of 0.17% throughout.

4. SERVICE CHARGES

- a. Tenanted service charges which pre-dated rent restructuring have been shown as other income and are assumed to increase by inflation only.
- b. Leasehold service charges average £1.96 per week and are assumed fixed pending a review of charges.

5. OTHER INCOME

- a. Garages and shops within the HRA have been included in line with the 2004/05 budget. Garage rents are assumed to increase by inflation plus 1% on 2004/05 and inflation plus 0.5% thereafter. Income from shops is assumed to be fixed.

6. SUBSIDY

- a. Management and maintenance allowances (£330.14 and £655.02 per unit, respectively) are derived from the HRA subsidy determination for 2004-05. Corresponding figures for 2005/06 are £338.49 and £752.29.
- b. For future years, it has been assumed that target allowances will increase by 2% per annum from 2006/07 thereafter until 2010, when rent convergence should be achieved
- c. The Major Repairs Allowance has been included at £546.82 per unit per annum in 2004-05 and £572.52 for 2005/06 based on the ODPM calculations in the respective HRA Subsidy Determinations. Thereafter no real increases (or decreases) in this allowance have been assumed throughout the planning period.
- d. The guideline (notional) rent is based on the HRA subsidy determination for 2004-05 of £51.09. Movement in the guideline rent follows the same process as for actual rents with an annual increase in line with that of formula rents and an adjustment to move towards the formula rent, phased over the convergence period to 2011-12. Retrospective adjustments are made to take account of the rent caps and the £2 per week limit on rent rises after allowing for an inflation-linked increase at the property specific level. These assumptions reduce the subsidy paid to the Council (as it increases the subsidy paid to the ODPM for notional rents). The implication of this assumption is that by 2011-12, the Council will collect rents at the 'formula' level and pay the equivalent amount to the ODPM. The subsidy loss is offset to some degree by the assumed future increases in management and maintenance allowances shown above.

- e. The Council received supported borrowing of £0.569m in 2004-05, of which none is projected to be utilised in the HRA. Supported borrowing in future years is assumed to tail off by 2010, the ODPM target date for achieving decent homes. It has been assumed that, in line with the Council's capital programme, no supported borrowing will be used for the HRA investment programme in 2005-06 or subsequent years.
- f. Capital subsidy has been calculated in accordance with the 2004-05 HRA Subsidy Determination and an opening Capital Financing Requirement of £2.45m. The Item 8 charge has been based on an opening 2004-05 Capital Financing Requirement of £2.9m.

7. MANAGEMENT AND SERVICE EXPENDITURE

- a. The Council has provided details of the variability of management and service costs with dwelling numbers and these have been reflected in the modelling throughout the projections. Management costs are assumed to be 95% fixed and 5% variable with changes in stock numbers. Service costs are assumed to be 100% fixed.
- b. Real growth in costs has been included at the rate of 0.5% per annum.

8. REBATES

- a. Rent rebates are now accounted for outside the HRA.

9. MAINTENANCE AND INVESTMENT EXPENDITURE

- a. The Council's investment expenditure is based on the Council's stock condition survey, updated by Cyromany in 2003/4. The programme of works allows for Decent Homes Standard and the continuation of the Council's other current investment programmes
- b. The investment programme is split over a number of categories and reflects the need to spend not the available resources. Real growth has been included in the modelling at the rate of 1% per annum for years 2 – 6 and nil thereafter.
- c. Funding for the programme is based on the Council's current practice for the HRA. Future year's programmes where necessary (and feasible) will use revenue contributions to help fund the programme as required where these resources are available.

10. ASSETS AND BALANCES

- a. Valuations have been produced in line with Government guidance to inform the authority of the value of its HRA assets. This has been reflected in the plan as an average unit value of £38,430 for the stock as a whole. The real rate of increase in values has been assumed to be 0.75% per annum. This information is then used to calculate the 3.5% capital charge to the operating account in accordance with the requirements of resource accounting.

- b. The Council's target level of working balance for the HRA of £1m in 2004/05 has been converted to an amount per property to reflect stock loss through RTB sales and inflation.
- c. Interest on balances is calculated at 1.85% in 2004-05, 3.73% in 2005/06 and 2006/07, and 4% thereafter.

APPENDIX III

STOCK RETENTION – DETAILED PROJECTIONS (BASE SCENARIO)

APPENDIX IV

RENT CONVERGENCE PLAN

APPENDIX V

STOCK TRANSFER VALUATION ASSUMPTIONS AND CASHFLOW

APPENDIX VI

ODPM LEVY CALCULATION

APPENDIX VII

COMPARISON OF STRATEGIC OPTIONS

	Council	ALMO	PFI	Transfer
Affordable Rents	Yes	Yes	Yes	Yes
New affordable dwellings	No additional resources for new dwellings	Possibly: New guidelines indicate possibility for high performers	Possibly: New guidelines indicate possibility	Probably
Meet Decent Homes Standard	Yes	Yes	Yes	Yes
Deliver Salisbury Standard	No	No	No	Yes
Maintain Service Standards	No: Savings required to balance HRA	No: Savings required to balance HRA	No: Savings required to balance HRA	Yes
Increased tenant participation	Yes	Yes	Yes	Yes
Same Rights	Yes	Yes	Yes	No, but All main rights including RTB would be contractually protected
Maintain Council's strategic role	Yes	Yes	Yes	Yes