

**Rochford District Council**

**Large Scale Voluntary Housing**  
**Transfer**

**The Transfer Price and Associated**  
**Financial Matters**

Prepared by: Graham Moody Associates

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## Contents

1	Introduction .....	3
2	The Stock Valuation .....	3
3	Valuation Assumptions .....	4
4	Overhanging Debt.....	7
5	The Preserved Right to Buy.....	7
6	VAT Shelter .....	8
7	Summary.....	8



## **1 Introduction**

- 1.1.1 As part of the Large Scale Voluntary Stock Transfer (LSVT), a valuation or Transfer Price must be agreed between the Council and Rochford Housing Association ("the Association").
- 1.1.2 In addition, the Association must also:
- Gain registration with the Housing Corporation as a Registered Social Landlord (RSL);
  - Pay the agreed Transfer Price valuation and while honouring all those commitments to tenants which were given by the Council as part of its formal consultation process with its tenants; and
  - Secure funding for its consequent Business Plan.
- 1.1.3 The purpose of this report is to present the proposed Transfer Price and to explain the assumptions which underpin it.

## **2 The Stock Valuation**

- 2.1.1 When stock is transferred from a local authority to an RSL, the price is determined using a method of valuation based on net income streams. The calculation methodology is prescribed by the Department for Communities and Local Government (CLG) and has been established for many years.
- 2.1.2 The income and expenditure relating to the stock are projected for a 30-year period and the net surplus (or deficit) for each year is calculated. These annual amounts are then expressed in present day prices ("present values"), taking into account the time value of money. The total of these annual present values over the 30-year period is known as the Net Present Value (NPV), and represents the Transfer Price.
- 2.1.3 The income and expenditure projections include the dwellings continuing as social rented housing, with the Association being registered with and regulated by the Housing Corporation, and fulfilling the promises made by the Council in its Formal Consultation with tenants in respect of its proposal to transfer.
- 2.1.4 In broad terms, the Transfer Price is the amount of money which a Registered Social Landlord purchasing the properties would be able to borrow to buy them and fulfil the Council's transfer promises, and then repay the loan by the end of year 30 using all the annual net income streams.
- 2.1.5 As a result, the income streams determine the price. The higher the income streams, the larger the loan which can be financed and the



higher the Transfer Price. Clearly, where rents are low and are must be kept low, the Transfer Price will be correspondingly low. Similar consequences for the Transfer Price follow where investment or running costs are high. This is why Council housing stock transfers have valuations which appear low to the casual observer.

- 2.1.6 One of the key reasons for Council stock transfers is to access the money to finance improvements in the stock and operational services for the benefit of tenants while rents are kept affordable and within the Government's policies. Consequently Transfer Prices for the last 5 years have averaged only £2,575 per unit.
- 2.1.7 The Transfer Price of the stock depends crucially upon the assumptions that are made about income and expenditure initially, and about the way in which they will change in the future.
- 2.1.8 The proposed Transfer Price is some £1.865 million (£1,072 per unit), which at the time of drafting has been submitted to CLG for their approval. This is based on the key assumptions set out below.
- 2.1.9 Members will note that the Secretary of State's minimum Transfer Price of £1.830 million, which was stipulated as a condition of granting the Authority a place on the Transfer Programme in view of the overhanging debt position (see section below), has been achieved.
- 2.1.10 As reported previously, the Transfer process has incurred a range of costs on the part of both the Council and Rochford Housing Association. These costs are a first call on the Transfer Price and are estimated to amount to £1.699 million. The net Transfer Price of approximately £166,000 must then be used to redeem HRA debt – see section on Overhanging Debt.

### **3 Valuation Assumptions**

#### ***Number of properties***

- 3.1.1 The number of dwellings included in the transfer is 1,740, and is all the Council's HRA dwelling stock. As is usual for the final month or so before completion of the Transfer, and in order to have certainty while details of the Transfer Contract and Price are being finalised, properties where tenants are buying their homes have not been processed to completion.
- 3.1.2 As has been reported previously, there is low demand for the Council's sheltered housing stock, and the Transfer Price assumes that as unpopular Schemes become vacant, they are removed from the stock. The Transfer Contract includes provisions for consultation with the Council on the future use of such Schemes to help meet the Council's then priority housing needs.



- 3.1.3 435 Housing Revenue Account (HRA) garages are included in the Transfer, together with most HRA land associated with the dwelling stock. Exceptionally, 6 open areas with development potential have been transferred to the General Fund and excluded from the Transfer.
- 3.1.4 The Transfer Price may change if differences from the Valuation assumptions are found in the final schedule of assets to Transfer, although any such differences are likely to have only a marginal effect.

### ***Stock Turnover***

- 3.1.5 This is the rate at which stock genuinely becomes vacant for a new letting to a person or persons not currently a tenant of the Association. It is based upon the Council's experience and excludes tenants moving between properties owned by the Council.
- 3.1.6 The rate of turnover is important because it determines the rate at which rents change from the transfer rent (for Council tenants who transfer) to the Government's target rent (for new assured tenants who take up tenancies for the first time after the transfer). The assumption used is 4.0% per annum based on the Council's experience over the last 5 years and modified in respect of anticipated loss of low demand sheltered stock.

### ***Rent Levels and rates of increase***

- 3.1.7 For all transferring dwellings the current Council rents are used as the starting point. Tenants who transfer with the stock will continue to pay the same rent at the time of the Transfer until the Association's first rent increase next April. In its annual rent increases the Association will implement the Government's rent convergence policies in the same way that the Council as landlord would have done if the Transfer had not taken place.
- 3.1.8 Exceptionally the rent for new tenants after Transfer will be at the Government's Target levels.

### ***Voids & bad debts***

- 3.1.9 For the retained dwelling stock, the assumptions are based upon the Council's recently achieved and low rates, the combined rate used being 1.75% of rent income throughout the projections.
- 3.1.10 Higher losses are assumed for the low demand sheltered stock, to allow for the gradual emptying of Schemes prior to their change of use.
- 3.1.11 Void and bad debt allowances for garages are assumed at the higher level of approximately 7.5%, in line with Council experience (see below).

### ***Other Income sources***



- 3.1.12 It is assumed that the following sources of other income (and the assets, which generate them) will transfer to the Association:

	£
<i>Garage Rents</i>	<i>163,090</i>
<i>Landlord-provided heating charges</i>	<i>132,500</i>
<i>Communal Lighting</i>	<i>46,450</i>
<i>Warden services (not Supporting People)</i>	<i>86,650</i>
<i>Supporting People</i>	<i>451,672</i>
<i>Total</i>	<i>880,362</i>

- 3.1.13 The current management and maintenance costs associated with these assets and all other housing related activities undertaken through the HRA are incorporated into the present valuation. Broadly, garage rents apart, the costs of the services are assumed met by their charges.

### ***Management & Service Costs***

- 3.1.14 These are based upon a detailed housing management budget negotiated with the Association. They reflect the Council's current costs, with additions in respect of costs that the Association needs to pay but the Council does not (e.g. VAT on bought in supplies and services). The costs have also been increased to pay for enhanced services in respect of dealing with anti-social behaviour as promised by the Council in its consultation with tenants.

### ***Repair and Maintenance Costs***

- 3.1.15 For the purposes of the stock transfer, the full stock condition survey undertaken by King Sturge in autumn 2004 has been updated and audited. The resulting expenditure requirements form the basis of the assumptions in this area.
- 3.1.16 There are various categories of repair and maintenance contained in the Transfer Price calculation. These are as follows:
- 3.1.17 **Responsive and void repairs:** This is the estimated cost of day-to-day repairs and repairs to void properties to prepare them for re-letting. Costs are based upon the Council's costs, with the addition of £35,000 pa to accommodate the improvements in services promised by the Council in its consultation with tenants, primarily for elderly and disabled tenants but including general improvements in the day-to-day repairs service.
- 3.1.18 **Cyclical repairs:** This is the estimated cost of items such as gas servicing contracts and external painting which are undertaken on a periodic basis. The budget is based upon the Council's costs allowing for servicing of new installations, such as controlled entry systems, and



also allows for the annual servicing of gas appliances, which is a statutory landlord requirement.

3.1.19 **Major Works:** These are works estimated to be required in relation to:

- Remedying existing disrepair;
- Improving the stock to the Decent Homes Standard and including those further improvements promised by the Council in its consultation with tenants;
- Maintaining the stock in its improved condition, and covering the periodic replacement of the building elements as they are estimated to reach the end of their useful lives.

3.1.20 Additionally, the Association will incur professional fees and VAT on contract costs.

3.1.21 The estimated 30-year profile of Major Works expenditure (excluding VAT and fees) at current prices is as follows:

<i>Years</i>	<i>Average annual Programme (£m)</i>
<i>1 to 5</i>	<i>4.345</i>
<i>6 to 10</i>	<i>1.915</i>
<i>11 to 15</i>	<i>1.474</i>
<i>16 to 20</i>	<i>2.061</i>
<i>21 to 25</i>	<i>2.279</i>
<i>26 to 30</i>	<i>1.170</i>

3.1.22 The total spend over the 30 year period is £66.228 million.

## **4 Overhanging Debt**

4.1.1 The Council's current HRA debt is approximately £13.445 million, much of which is in the form of old fixed interest rate loans, taken out when rates were higher than currently and where redemption would incur early redemption premia (to compensate the lender for loss of interest).

4.1.2 As reported previously, subject to CLG scrutiny, on whole stock LSVT taking place central government will repay the HRA debt plus early redemption premia less the net Transfer Price. These arrangements are being put into place and are necessary for the HRA to become debt free and to be closed in due course.

## **5 The Preserved Right to Buy**

5.1.1 The Transfer Price as above has been based on the assumption that no RTBs take place in the stock after Transfer completion. Transferred



tenants have a preserved Right to Buy, and the agreement with the Association is that such receipts, after deductions for the cost of sales and to compensate the Business Plan for the net rent income foregone, are paid to the Council.

- 5.1.2 These receipts are exempt from National Pooling arrangements (where 75% of RTB receipts are paid to CLG), and are for use at the Council's discretion. In the early years after Transfer the Council's share of RTB receipts is estimated at an average of £90,000 to £100,000 per sale.

## **6 VAT Shelter**

- 6.1.1 The Transfer Contract is to be entered into in parallel with a Development Agreement, under which the Association is able to recover VAT paid on most of its major works expenditure over the first 10 years following Transfer completion. Since this recovery is dependent upon current VAT rules and is subject to change at short notice, it is not included in the Transfer price. Instead the proposed arrangement is to share the recovered VAT, 50:50 between the Association and the Council, yielding a Council share estimated at some £3.2 million.

## **7 Summary**

- 7.1.1 As can be seen, the Transfer Price relies on assumptions, some of which are controllable by the Association and some of which are not. In particular the Association needs to be able to deliver the Council's promises made to tenants in the face of adverse economic circumstances, such as real growth in building works costs.
- 7.1.2 The Council can be assured that the Association's Business Plan, which has been "stress tested" by independent consultants and considered in detail by the Housing Corporation, provides the wherewithal to deliver the Council's promises to tenants and to maintain a high standard of housing management and maintenance throughout the valuation period.
- 7.1.3 The Transfer price itself yields no monetary value to the Council, as it is used fully to cover setting up costs and a small part of the HRA debt. Nevertheless, the Council can expect to benefit considerably from its share of post-transfer RTB receipts and VAT recovered by the Association under the Development Agreement.
- 7.1.4 We believe that these financial arrangements taken together with the other conditions of Transfer, and in particular the improvements to the stock and services, and the continued ability to meet housing need in the District:
- Provide good value for the Council's tax-payers; and





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- Allow the Association to function as promised and with adequate financial security.

Graham Moody Associates  
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