WEST DUNBARTONSHIRE COUNCIL

Report by the Executive Director of Housing, Environmental and Economic Development

Housing, Environment and Economic Development Committee: 29 June 2011

Subject: Partial Stock Transfer - Pricing Model Outcomes/Packaging Implications

1. Purpose

1.1 The purpose of this report is to provide an update on the outcomes of the Stock Transfer Pricing Model and advise members of the current transfer price for the stock calculated for each of the four stock transfer areas.

1.2 The report also identifies a number of specific addresses identified which should be considered for exclusion from the partial stock transfer.

1.3 Finally the report seeks approval for the invitation to bidding Registered Social Landlords (RSL)s to submit their business plan proposals based on the price calculated for each transfer area

2. Background

2.1 In April 2009, the Scottish Government provided approval of the Council's Scottish Housing Quality Standard (SHQS) standard delivery plan which was predicated on the principle that 45% of the housing stock would be transferred to alternative social landlords.

2.2 Housing, Environment and Economic Development Committee, at its meeting of 2 September 2009, agreed that progress would be made at the required pace through the delegated powers of the Chief Executive and the Executive Director of Housing, Environmental and Economic Development. The Committee also approved that a Stock Transfer Steering Group, meeting quarterly, would be established to oversee the project.

2.3 At its meeting of 5 May 2010, Housing, Environment and Economic Development Committee approved the Partial Housing Stock Transfer Strategy.

2.4 At its meeting of 6 October 2010, Housing, Environment and Economic Development Committee approved the Stock Transfer Package areas of Vale of Leven, Dumbarton, Clydebank East and Clydebank West. The Committee also approved the inclusion of additional addresses prior to the submission of Business plan proposals by RSLs should it prove difficult to assemble a neutral price for each transfer area package.

2.5 At its meeting of 26 May 2011, Housing, Environment and Economic Development Committee reaffirmed the Council's policy of partial stock transfer.

2.6 Six expressions of interest were submitted in November 2010 by local Housing Associations to become the receiving landlord following transfer. Trafalgar Housing Association subsequently withdrew its interest. Clydebank, Cordale, Dalmuir Park, Dunbritton, and Knowes Housing Associations have all retained their interest as follows.

- Both Cordale and Dunbritton Housing Associations have expressed an interest in Vale of Leven, and Dumbarton transfer areas.
- Dalmuir Park and Knowes Housing Associations have both expressed an interest in Clydebank West.
- Clydebank Housing Association has expressed an interest in Clydebank East.

2.7 During 2011, the focus has been on building the evidence base that underpins each transfer package pricing model and which is required by Housing Associations and their funders in order that they can assemble and finance business plan proposals. These proposals will set out in detail how the transferring stock will be managed and maintained over a 30 year period.

2.8 The current planned timescales for the stock transfer project are in line with the delivery of an independent ballot of tenants in January 2012.

3. Main Issues

Pricing Model

3.1 A transfer price has been established for each stock transfer area by using the Scottish Government's Pricing Model.

This model is a discounted valuation model which profiles all income and expenditure relating to the management and maintenance of the stock over a 30 year period. The model sets out VFM benchmarks on management and performance standards and is based on a 7% discount rate.

The assumptions which inform the transfer price are based on a series of evidence-based and benchmarked financial assumptions which the Council will need to achieve. These assumptions will inform the transfer price only, i.e. the assumptions which underpin each RSL's business plan may be different as each organisation sets out their future vision as an investor in homes and communities and to meet the financial requirements of the Council.

The evidence gathered to support the pricing model has been rigorously tested to ensure it is fit for purpose. The initial stock condition and structural survey reports enabled changes in the classification of certain traditional and non traditional housing stock. This resulted in the need for additional surveys to be conducted across West Dunbartonshire. This required the additional time to be managed within the overall project plan to ensure the target of a January ballot remained achievable. Subsequently further structural and stock condition survey inspections have been conducted. On each occasion the pricing model was adjusted to take account of the latest survey outcomes.

At the point of transfer the price will be further adjusted to reflect 'changes in fact'. These amendments will relate to stock numbers as a result of sales/demolition, investment in the stock and inflationary measures. The changes in fact will be based on evidence based amendments recorded from the date the price is submitted to the RSLs to the point of transfer.

A key assumption which underpins the pricing model is the proposed rental increases which would be required if the proposed stock was to be transferred.

In order to establish the required future level of rental income to meet the SHQS the 2009/10 Housing Revenue Account (HRA) 30 year business plan was updated to reflect

- the 2011/12 budget,
- the updated stock condition and stage 2 structural survey and
- the current debt position.

The 2009 and 2011 proposed rental increases are summarised below:

Table 1: 2009 Partial Transfer Rent Increase (Inflation @2.5%)

Full retention	Inflation + 5% for 4 years
Partial retention	Inflation + 2% for 4 years
Variance in rent charged per annum	3% variance over 4 years = 12% By Year 6 - £390 more per annum

Table 2: 2011 Partial Transfer Rent Increase (Inflation @2.5%)

Full retention	Inflation + 4 5% for 5 years
Partial retention	Inflation + 2.25% for 5 years
Variance in rent charged per annum	2.25% variance over 5 years = 11.25% By Year 6 - £370 more per annum

The above diagrams illustrate that a West Dunbartonshire Council (WDC) tenant would require to pay **£370 per annum** more rent over the next 5 years should the Council retain 100% of the stock. This is marginally different than the position in 2009 where a tenant would require to pay additional rent of **£390 per annum.**

Business Plan submission

3.2 Throughout the stock transfer project there has been dialogue with participating RSLs. This has been to ensure that there is clear understanding and expectation about respective roles and responsibilities of the RSL and the Council. The dialogue has also enabled a clear understanding of the timescales involved. While the RSLs have played a very positive role in bringing the process to this stage, they have also from time to time expressed some reservations regarding the pace of the transfer process.

The most recent the feedback from four out of the five RSLs involved indicates that while they are fully committed to engaging in the stock transfer process they believe in particular that the timescales associated with business plan submission should be extended.

The RSLs had previously expected to have had sight of a significant amount of the data sharing information well in advance of the pricing model outcomes were presented to them. They believe that under normal circumstances the six week submission period would have been tight and demanding, but, given some delays, the dimension of the work involved, the significance of its impact on the organisations, the need to assess all the Data Sharing information as well as the pricing model information from the Council, gain funding support, meeting their Governance requirements and the statutorily required Risk Assessments which must be undertaken, they suggest that an extended timescale is essential.

The RSLs also indicated that they are fully committed to tenant participation in the stock transfer process and believe a delay in the process would enable them to better “articulate and show tenants that transfer will:

- Increase tenant involvement in how their homes are managed and maintained;
- Increase investment for major repairs and improvements;
- Enhance local services and control.”

One of the RSLs has indicated that they are fully prepared and are able to deliver to the business plan submission timescales that the Council is working to in order to achieve a January 2012 ballot.

3.3 Feedback from individual tenants, and the Transfer Area Panels, has provided similar views as those expressed above by the RSLs. While many tenants have welcomed their involvement in the stock transfer process they have in some instances indicated a preference for some delay in the process and an extension to some of the timescales involved, to allow for greater consultation with them on key aspects such as the levels of service and priorities associated with the RSL business plan proposals.

<u>Achieving a viable transfer price for the stock</u>

3.4 It has been confirmed with the Scottish Government that no cross subsidy between packages is permissible. The price determines what the RSL must pay for the stock and this will have an impact on the financial viability of the RSL's business plan and will also influence each RSL's prospective funder's interest in the transfer proposal.

A negative transfer price for the stock would require a dowry from the Council and would consequently affect the impact of debt write off on the Council's SHQS retention plan. The current aim of the Council is to achieve as near a neutral transfer price as possible.

At present the highest positive transfer price is £492,912 (see table 4 below) and whilst we believe this wouldn't have a major impact on the financial viability of the Housing Association's business plan, it does mean that the receiving landlord would require to pay this sum to the Council at the point of transfer. It is the case however, that transferring assets with a positive price are well positioned to stimulate funder interest.

In addition we would ask the UK Treasury to offset any positive transfer price against the administrative costs of the stock transfer. This process is set out in the 2006 Guidance by the Department for Communities and Local Government (DCLG) "Supplement to the Housing Transfer Manual" which specifies the qualifying transaction costs which can be redeemed by the Council. Otherwise, any positive receipt will not be retained by WDC but will be a transferred back to the Scottish Government.

At its meeting of 6 October 2010, Housing, Environment and Economic Development Committee agreed in principle and that the Executive Director of Housing, Environmental and Economic Development should bring forward specific and final recommendations for inclusion of additional addresses, prior to the submission of Business plan proposals by the RSLs in spring 2011, if required to achieve a neutral transfer price for the stock. The only additional stock that may be required in order to achieve a neutral transfer price for the stock would be in respect of Clydebank West (see below).

Outcome of the Pricing Model

3.5 The transfer stock profile is based on 44% of the Council's stock transferring to RSLs. The number of units which are contained within each transfer package is illustrated in the table below:

Table 3: Transfer stock profile

	Stock	**Green & Amber**	**Red**	**Multi's**	**Surplus / LTV stock . 6 mths**
Package 1 : **Alexandria**	931	70%	30%	0	51
Package 2 : **Dumbarton**	1653	58%	42%	4	399
Package 3 : **Clydebank West**	1174	63%	37%	8	131
Package 4 : **Clydebank East**	1211	56%	44%	3	137
Retained	6373	99%	1%	11	12
	11342	**83%**	**17%**	**26**	**730**

Based on the assumptions described above, the Transfer price for the stock for each Transfer package is as follows:

Table 4: **Transfer price for the stock**

Transfer Area	**Transfer price for the stock**
***Package 1* : Alexandria**	£213,787
***Package 2 :* Dumbarton**	£151,620
***Package 3 :* Clydebank West**	(-)£6.526,567
***Package 4 :* Clydebank East**	£492,912

Transfer price for the stock in respect of Clydebank West

3.6 Clydebank West is currently sitting at an extremely high negative price of minus £6.5m. This is a result of the higher than anticipated investment requirements associated with the 6 Multi Blocks in Dalmuir, comprising of six blocks in Burnside Court, Crescent Court, Dalmuir Court, Dunswin Court, Ellinger Court and Overtoun Court, as identified by the Stage 2 Structural survey.

A number of options were explored within the pricing model in relation to these units however these still did not elevate the negative transfer price for the stock in the package areas.

Option Appraisal for Clydebank West

3.7. The keys options for consideration are as follows.

- Do nothing

  Meeting the negative transfer price for the stock for Clydebank West, currently sitting at minus £6.5m would require a dowry being given to the receiving landlord from the Council.

  There is currently no provision for payment of a dowry as the strategy for stock transfer has until now been prefaced on achieving a neutral transfer price for the stock. This therefore is not a viable option.

- Include additional stock in the transfer package

  The number of houses in the Clydebank West transfer package would have to increase substantially to achieve a neutral transfer price for the stock. This would increase the number of houses in the transfer package by up to 30%.

  Such a major change would have an impact on those tenants directly affected. There would also be an impact on the operational arrangements for delivery of the housing service to those tenants who remain with the Council. The inclusion of this level of positively performing stock would also have a negative impact on the retention model. Furthermore such a major increase in transferring stock could result in a rate of growth for the receiving landlord that would increase risk to organisational capacity and service delivery post transfer. This therefore is not seen as a viable option

- Remove stock from the transfer package

  If the stock at the Dalmuir Multis was to be brought back into the retention model the Council would be retaining high demand stock and may have the ability to generate funding towards the structural investment costs.

  The level of stock transferring in Package 3 would reduce from 1,174 units to 658 units with the retained stock increasing to 6,889 units and the number of retained multis would increase from 11 to 17. The percentage of stock transferring would reduce from 44% to 40%.

Table 5: Transfer stock profile (Dalmuir Multis)

	Stock	Green&Amber	Red	Multi 's	Surplus & LTV
Package 1 : Alexandria	931	70%	30%	0	51
Package 2 : Dumbarton	1,653	58%	42%	4	399
Package 3 : Clydebank West	658	35%	65%	2	131
Package 4 : Clydebank East	1,211	56%	44%	3	137
Retained	6,889	99%	1%	17	12
	11,342	**83%**	**17%**	**26**	**730**

The removal of Dalmuir Multis would result in a transfer price for the Clydebank West stock of £91,000. It is therefore recommended to bring the six Central Dalmuir Multis, back into the retention model.

Impact on Retention

3.8 It was vital that not only the impact that this proposal has on the transfer price for the stock was assessed but that the impact on the Council's partial retention plan was also assessed.

There is a healthy demand for the Dalmuir Multis and the void rate is consistently low. Consequently bringing the Dalmuir Multis back into the retention model will have no impact on the proposed rental increases of inflation +2.25% for 5 years. As part of the retained stock the Council would also investigate receiving additional funding towards the structural investment that is required.

VAT Arrangement

3.9 The Council is also seeking to clarify the VAT arrangement associated with qualifying works following transfer. The Council is currently exempt from VAT for such works and would seek to enter into an arrangement whereby such works were still VAT exempt following transfer.

The pricing model focuses on the value of the stock as it stands today. The Council also cannot include any consideration of the potential VAT arrangement within the pricing model as this is viewed by the Scottish Government as a separate mechanism for achieving other objectives following the transfer. Those objectives include:-

- A VAT arrangement has the potential to enhance the business plans of the potential receiving landlords.
- It has the capacity to add potentially £5m (approx) to local investment which will further benefit the local economy.
- It creates capacity to achieve other Council objectives such as regeneration of communities.

It will be essential in this regard to create a framework to ensure that the full benefit of the arrangement is delivered by the RSLs and it is proposed that a formal agreement between the Council and each RSL be established stating the policy objectives to be achieved and the nature of the work to be carried out using the additional resources.

The VAT arrangement will support RSLs in achieving the objectives and investment strategies outlined in their business plans.

Key Milestones

3.10 Approval of the stock transfer packages proposed within this report will allow the stock transfer process to proceed towards the key milestones identified within the project plan.

The project plan aims for an independent ballot of tenants by January 2012. Transfer of the stock in each transfer package would happen later that year, if a majority of tenants vote in favour.

4. People Implications

4.1 The Stock Transfer project has potential TUPE implications for staff directly involved in the delivery of Housing Services. A key role for the Staff Issues Group is to ensure effective mechanisms are in place, to facilitate engagement with affected staff and their representatives.

5. Financial Implications

5.1 As transfer would occur during the financial year 2012/13 any budgetary impacts would require to been assessed and taken account of, which for example would include the recent Department of Work and Pensions (DWP) changes to Housing Benefit subsidy for people living in temporary accommodation.

6. Risk Analysis

6.1 A risk associated with the development of stock transfer packages is the failure to achieve a neutral price for the stock for each of the transfer packages. This would negatively impact on the key risks identified within the stock transfer risk register:-

- Failure to achieve a positive ballot for all or part of the potential stock transfer;

- Failure to obtain credible business plans from potential receiving landlords.

The action to mitigate the risk of not achieving a neutral transfer price for the stock is as outlined in this report and in the recommendation to bring the six Central Dalmuir Multis back into the retention model.

7. Equalities, Health & Human Rights Impact Assessment (EIA)

7.1 No significant issues were identified in a screening for the potential equalities, health and human rights impact of this report.

8. Strategic Assessment

8.1 The partial housing stock transfer is a key element of providing high quality housing, and positively contributing towards the Council's strategic priority of Social and Economic Regeneration.

How does this contribute to economic and social regeneration?

8.2 The partial stock transfer will facilitate rebalancing the overall supply and demand for social housing. This will be achieved through the removal of surplus housing stock, bringing transferred and retained stock up to the Scottish Housing Quality Standard while working alongside other housing regeneration activity.

The investment activity associated with this should transform the provision of social housing, create or sustain job and training opportunities, and enable greater stability within communities resulting in positive impacts on health and economic stability in the longer term.

How will this help make best use of our money?

8.3 The costs associated with the retained stock following a successful transfer would enable the rental increases for retained stock to be kept to inflation + 2.25% for 5 years as outlined in paragraph 3.1 above.

In the event of tenants voting for transfer in a ballot, the administrative set up costs for transfer will facilitate the HRA debt write off for transferring stock. This would result in an additional benefit for both the Council and the wider social housing community. A request would also be made to the UK Treasury to offset any positive transfer price against the administrative set up costs of the stock transfer as outlined in paragraph 3.4 of this report.

How does it make better use of assets?

8.4 Bringing both transferring, and all retained housing stock, up to the Scottish Housing Quality Standard is a legal requirement. This is important in order to provide high quality housing and positively contributes to meeting the Council's strategic priority of Social and Economic Regeneration.

The partial stock transfer will also contribute to matching the overall supply and demand for social housing in West Dunbartonshire by removing already identified surplus housing stock.

How does it change / impact on service provision?

8.5 As an absolute minimum service provision should at least meet the standard delivered by the Council at the point of transfer, and be planned to improve over time following transfer. The impact on service provision will be an important element of the assessment of the Housing Associations' business plan proposals. In addition the proposed service provision post transfer will be subject to scrutiny by tenants during the formal consultation process, and independent ballot. This should also ensure that the high standards of service required by tenants will be delivered.

9. Conclusions and Recommendations

9.1 Determining the outcome of the Pricing Model is essential before formally inviting the bidding RSLs for their business plan proposals.

9.2 The transfer package for Clydebank West is not a viable option without the including the Dalmuir Multis back in to the retention model,

9.3 Tenants and RSLs are being engaged in the process and dialogue between the Transfer Area panels and the bidding RSLs are well established and continuing.

9.4 It is recommended that the Committee:

(i) approves bringing the six Central Dalmuir Multis back into the retention model

(ii) notes the transfer price for the stock for each transfer area as outlined in the report, having taken into account the six Central Dalmuir Multis

(iii) instructs the issue of the invitation to bidding RSLs to submit their business plan proposals based on the price calculated for each transfer area

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Appendices:	None
Background Papers:	Standard Delivery Plan; Stock Transfer Strategy
Wards Affected:	All