

**SOUTH KESTEVEN DISTRICT COUNCIL
RESOURCES SCRUTINY PANEL
7TH JUNE 2006**

**VALUATION OF THE HOUSING STOCK
(revision to the report made on 17 May 2006)**

Report of Alan Johnson, Enterprise BWNL

1. Introduction

The purpose of this report is to remind Members of the basis by which the Council's housing stock is valued for stock transfer purposes and to explain the latest position with regard to the valuation.

2. Recommendations

Members are asked:-

- to note the principles that apply to the valuation of the housing stock for stock transfer purposes;
- to consider the latest position in terms of the valuation of the housing stock and the assumptions that underpin the valuation.

3. Basis of the Valuation

In accordance with the guidelines issued by the Office of the Deputy Prime Minister (ODPM), the housing stock must be valued on the basis of market value, subject to tenancy (which is known as Tenanted Market Value or 'TMV').

When calculating the TMV of the stock the following factors must be taken into account:

- The new landlord will be required to keep the stock permanently available for letting at affordable rents;
- The new landlord will be legally required to honour the guarantees which were given to the tenants as part of the consultation process;
- The new landlord will be required to carry out a major programme of works to the stock over the next 5 years and to manage and maintain the properties to a high standard for the foreseeable future.

TMV is calculated using a complex financial model which values the future net income that the new landlord will receive from the stock over

the next 30 years after deducting management and maintenance costs and takes account of the above factors.

Thus there will need to be a very close relationship between the assumptions used to value the housing stock and those which will be used in the new landlord's business plan.

4. The Key Assumptions

The key assumptions upon which the valuation calculations are based include the following:-

- Numbers of properties transferring
- Rents – Transferring Tenants
- Rents – New Tenants
- Allowance for Voids and Bad Debts
- Stock Turnover Levels
- Other Income
- Management Costs
- Repairs and Maintenance Costs
- Additions to Repair Costs
- Interest Rate

5. The initial estimates of the stock valuation

As part of the work associated with the housing options appraisal an indicative valuation of the housing stock was carried out. This showed that the valuation was estimated to be in the range of £18 million to £45 million depending on the levels of investment made in the stock over the coming years.

6. The Latest Position.

Since the initial set of valuations were prepared a number of key assumptions have been adjusted to reflect changing circumstances. The basis of each of the key assumptions used is shown in the following paragraphs.

Further details of all the current assumptions that underpin the valuation model are shown in the attached Appendix to this report.

6.1 Stock numbers

The latest valuation is based on the assumption that 6,331 properties will transfer in the summer 2007. This takes account of on-going right to buy sales up to the point of transfer.

6.2 Rent Levels

It is assumed that rents for both existing and new tenants will be the same and that rents will increase in equal instalments until the target rent as prescribed by Government is reached in 2012. The position as predicted for July 2007 is:

Average rent	£54.03 per week
Target average rent	£60.31 per week

The rent increases will be the same regardless of whether the stock transfer proceeds. The level of increase for individual tenants will vary but will be subject to a cap of no more than RPI plus 0.5% plus £2 per week.

Once compliance with target rent has been achieved in 2012 all rents are assumed to increase each year by RPI +0.5%.

6.3 Allowance for voids and bad debts.

It has been assumed that 1.75% of the rent income will be lost through voids and 0.25% through write off of bad debts. This is consistent with recent Council experience.

6.4 Other Income

Other income is based on current Council budgets as follows:

	<u>£ pa</u>
Non housing assets (garages, shops, etc)	269,600
Service Charges	559,160
Other Charges	53,840

Other income is assumed to increase by 0.5% per year above the rate of inflation.

6.5 Management Costs

The assumption for management costs is based on current Council budgets plus an uplift to reflect the additional costs that the new landlord is expected to incur (eg diseconomies of scale, VAT, service improvements).

The level of uplift assumed is consistent with other stock transfers and is:-

General management costs	22.5%
Special management costs	10%

Management costs are expected to increase by RPI plus 0.5% for each of the first ten years and thereafter at RPI only.

6.6 Repairs and Maintenance Costs

The current valuation reflects the results of the stock condition survey which was very recently completed by Rand Associates. The figures include provision to meet the costs of achieving the decent homes standard, carrying out other essential repair works and meeting key aspirations as identified by the tenants.

The stock condition survey figures are now based on July 2007 prices.

6.7 Growth and Inflation.

With the exception of rental and other income and management costs as described above all other costs are assumed to increase in line with RPI.

6.8 Additions to repair and maintenance budgets.

The figures derived from the stock condition survey have been increased by 6% to bring them to the July 2007 price base and have then been increased by the following:

	Fees	VAT
Catch up / major works	8%	17.5%
Improvements	8%	17.5%
Response /cyclical	8%	11.0%

7. Comparison with the previous (maximum) valuation

Based on the latest assumptions as described in the report the stock would have a value of £32.1 million. This is within the range previously reported to the Council.

When compared with the previous maximum valuation (£45 million) there are a number of factors that have had an adverse effect on the valuation e.g

- Reduction in stock numbers (6,583 reduced to 6,331)
- Increased management costs (£4,736,000 increased to £5,350,000) to reflect planned service improvements.
- Increases of 7% plus in building cost assumptions.

- Bringing forward some elements of investment to improve the offer to tenants
- Inclusion of some repair and maintenance expenditure on non-housing assets that had not been sufficiently provided for in the previous stock condition data

8. Net Receipt to the Council

The latest estimate of the net receipt to the Council is as follows:

	£m
Valuation	32.1(a)
Less: Set up costs	3.0(a)
: Government levy	2.8
: repayment of HRA debt	2.0(b)
Net receipt	24.3

- (a) Government have recently announced that they will no longer allow loan arrangement fees to be treated as a set up costs but they will allow them to be offset against the valuation. In practice this adjustment will reduce both set up costs and the valuation by some £1.1 million but will not affect the net receipt to the Council.
- (b) In addition to the costs of repayment of HRA outstanding debt the Council may also incur a penalty as a result of premature repayment of this debt. The Public Works Loan Board will be asked for an estimate of this but it will depend on the actual loans repaid by the Council and the interest rates prevailing at the time of repayment.

In addition to the net receipt the Council will also benefit from:

- a share in future right to buy sales income (which will not be subject to pooling) (See below)
- A share of the VAT Shelter
- Any unspent balance on the Housing Revenue Account.

9. Future income from RTB sales

The table below showing the latest estimate of the share of future RTB income that the Council will receive in the first 5 years after transfer.

Year	No. of sales	Total receipts £m	RSL share £m	Council share £m
1	60	3.0	1.2	1.8
2	55	2.8	1.1	1.7
3	50	2.6	1.0	1.6
4	45	2.4	0.9	1.5
5	40	2.2	0.8	1.4

As mentioned before, the RTB receipts received by the Council will be outside the Government's pooling arrangements

10. Next Steps

Work is continuing in finalising the offer to be made to the tenants taking account of the level of resources available through the latest position on the stock condition survey.

Work is also underway to produce a detailed operating costs budget for South Lincolnshire Homes to ensure that this is consistent with the provision for management costs included within the latest valuation calculations.