Housing Revenue Account
Business Plan 2024/25 and 2025/26

Specimen stock transfer valuation

Review Summary

Final report

27 January 2025

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Introduction and background

Shropshire Council and its Arms' Length Management Organisation (ALMO) Shropshire Towns and Rural Housing (STaRH) have requested Savills Affordable Housing Consultancy to provide a high level external review of the Housing Revenue Account (HRA) Business Plan.

The principal elements of this work were undertaken during the autumn of 2024 prior to the Government's Budget of 30th October (and subsequent announcements) around future social rent policy and changes to the operation of the Right to Buy, and the level of Right to Buy discounts.

The work was undertaken to provide assurance to the Council around the existing business planning assumptions being made in the light of the planning period that the proposed business plan now forms a part.

Savills provided a draft advice note in September 2024 which was followed by a discussion with officers from the council and STaRH where a small number of points of clarification were discussed and addressed.

Further work was then undertaken to refine the modelling we have undertaken, which set the outputs contained within this report in a wider context in order to provide assurance around the approach towards HRA business planning that the Council and STaRH are adopting. The outcomes from that discussion and refinement process are reflected in this paper.

Our work on the HRA business plan has been undertaken alongside a parallel report to the Council around assurance on the Cornovii Developments Business Plan and approach to the assessment of development and viability appraisal. This is the subject of a separate paper although it is noted here that there are no specific concerns around the approach being taken within and on behalf of the company.

Savills were also asked to carry out a specimen analysis on the possible financial implications of the Council pursuing an alternative option for the ownership of the Council's housing stock, specifically a transfer of stock to a housing association. An outline of this analysis was reported to officers last autumn and a short commentary set out in section 3 of this report. As set out below, our conclusion is that a stock transfer is not a feasible financial option available to the Council at this time, given both the likely valuation of the stock would be much lower than current levels of debt (or likely negative) and the absence of a formal programme set out by the Government.

Methodology

The work on the HRA business plan (and specimen work for the purposes of stock transfer) has been based solely on a review of the Council's HRA business plan model as at the early autumn of 2024 and subsequent discussions with officers.

The model contains a comprehensive breakdown of all necessary and relevant inputs and assumptions. Whilst the assumptions made, in the main, require no additional explanation, it has been important for us to establish that we have not misinterpreted or misrepresented any of the inputs. For example, our discussions with officers in relation to the treatment of "decarbonisation" works within the business plan was instructive in helping us to understand the nature and basis of this assumption.

The results of our external review are set out below in turn.

2. Commentary on findings

Model functionality

The HRA business plan model is based on the Abovo platform, which is in turn built upon the original government backed format for business plan modelling which has subsequently become the proprietary brand for Housing Finance Specialists (formerly provided by Capita). The Abovo model is a well-established and comprehensive platform for HRA business planning, and is in use at several authorities nationally.

The model appears to have been subject to a series of bespoke changes for Shropshire which allows, for example, detailed scheme by scheme development modelling, and allocation of costs to STaRH (i.e. ALMO fees) outside of the standard HRA operating costs descriptions.

Whilst the model is comprehensive, and there are no gaps, we note that there are many tabs that are empty or otherwise unused and, if anything, it might be that the model could benefit from some rationalisation in order to focus attention on the key inputs and outputs.

Nevertheless, there are no concerns around functionality from an external perspective.

It is assumed that the opening year inputs were fully reconciled to 2024.25 budgets, or some other basis which is known, understood and approved by officers and members of the Council.

Properties

HRA properties are split appropriately between social rented, shared ownership and affordable rented totals, though core rent, service charges and cost data is applied to a breakdown of stock by bedroom numbers.

It is noted that the key factors influencing the future behaviour of the plan are not affected by the breakdown by different bedroom archetypes, and whilst this level of detail offers the capability of detailed analysis by property type/archetype and is no doubt useful to the Council and STaRH for management information purposes, the breakdown does not affect the cashflow and financial projections within the model.

Right to Buy

Right to Buy (RTB) sales assumptions are 27 properties annually for the first half of the plan (although it is not clear why they stopped after year 18) representing c0.7% of the stock lost annually in those years. Given the previous RTB arrangements, this assumption is above the national average proportionate reduction but consistent with the West Midlands as a region. Conventionally, many authorities have modelled a reducing level of RTB sales (although not ceased completely) as sales unmatched with cost reduction tend to result in a drag on net income.

In the Shropshire context, whilst not a significant financial impact, this does mean that the ALMO management fee was not reduced in line with stock numbers – our experience is that this is the majority approach from local authorities, albeit that those with higher RTB volumes may be more likely to reduce repairs expenditure in line with property numbers.

RTB policies have changed significantly following the 30th October Budget and subsequent consultation on future operation of the scheme. The main implications for business planning have been:

- The potential to reduce volumes of sales given the reduction in maximum discounts introduced on 21st November 2024
- Conversely, a "spike" in applications in the run up to 21st November 2024 may cause a temporary increase in volumes in the remainder of 2024.25 and early part of 2025.26 (though many authorities are making the assumption that the conversion rate will be lower than average for this temporary increase in applications).

The Government has extended its approach to the retention of RTB receipts to cover all receipts to March 2026. The implications for the level of receipts (lower sales volumes but higher receipts per sale) should be reflected in the business plan with 100% of receipts available for capital finance to March 2026.

We understand the Government's intention that the 100% retention of all receipts by local authorities is the likely direction of travel for future government policy for 2026.27 and beyond, and therefore all of our client local authorities are projecting the 100% availability of RTB receipts for reinvestment in the business plan on this basis.

Rent increase policy assumptions

Social rents are between 3.4% and 5.8% below formula or target rents for general needs units up to 4-bed homes and much higher for the small number of 5-bed homes. Given that formula rents rose 11.1% in 2023.24 whilst actual rents rose 7.0% in the same year as a result of the cap on rent increases, this suggests that there was some residual outstanding convergence gap as at April 2023, which is in line with the overwhelming majority of local authorities with HRAs.

The Government consulted on future Social Housing Rent Policy following the Budget, a process which closed on 23rd December 2024. Policy towards future rents is expected to be confirmed in the forthcoming Spending Review due to be announced in June 2025.

For completeness here, the proposals within the consultation suggested a policy of maximum increases up to CPI+1% for 5 years from 2026 to 2031 in addition to CPI+1% increases in 2025.26 (already announced), with the Government asking for responses in relation to setting out a stable increase policy for longer (for example up to 10 years) and/or a rolling 5-year settlement from 2027. Our understanding is that the overwhelming majority of social landlords have proposed a 10-year settlement at CPI+1% on the basis that this would provide for significant predictability and additional capacity for investment and that MHCLG officials are not unsupportive of that position. In other words, many have interpreted the consultation process as a signal to set rent policy at CPI+1% for 10 years.

In the Shropshire business plan that we reviewed, inflation is applied to rents and service charges at CPI+1% in all years with CPI at 2.5% pa from year 2 (2025).

Whilst this is matched by equivalent CPI+1% increases in the STaRH management fee and some other service expenditure areas, this approach does provide for an in-built drive towards higher net rent income in cash terms arising from both projecting CPI+1% and from CPI at 2.5%.

Whilst it has been more usual for business plans to model CPI at 2% (following the immediate term) and CPI-only beyond 2025 in line with known policy guidance, modelling rent increases at CPI+1% has not been uncommon, and the Council has protected the downside somewhat by matching this increase within the management fee.

In response to the recent consultation, our sense is that a significant number of authorities have projected CPI+1% rent increases for 5 years, reverting to CPI-only from 2031, and modelled a further 5 years as "upside". It should be stressed that these authorities had previously applied CPI-only increases in all years. However, a greater number are projecting CPI+1% rent increases for 10 years on the basis of the perceived Government's direction of travel, and also usually in response to need to meet higher expenditure needs within the plan.

It should be noted that a significant minority of HRA authorities continue to model CPI+1% rent increases in all years.

Irrespective of the approach taken to the business plan, future rent policy (certainly beyond 5 years) remains uncertain and most authorities are aiming to understand the impact of a downside scenario in which rent increases return to CPI only from 2036 if they have assumed higher increases for a longer period, or an upside if they have assumed CPI+1% for a shorter period.

Application of rent and income policies in Shropshire

Within the Shropshire business plan, we noted that there did not appear to be any route to convergence to formula rents. In our experience it is much more common for reletting at target rents to be modelled within business plans to reflect such a policy. If applied, the reletting of void properties at target/formula rents would add significant financial value into the business plan.

It should be noted that the social housing sector is pushing for a policy of achieving convergence to formula rents over a set period in order to generate additional financial capacity for investment. Savills' work[1] for the CIH, LGA and NHF indicates that this could be a significant addition to resources and capacity. All trade and professional bodies have raised this as an issue within their responses to the Government's social rent policy consultation. It might be worth understanding what the implications of such a policy might be for the Shropshire HRA business plan as a possible upside scenario.

Service charges via STaRH total c£800k per annum and it is assumed that this represents the full de-pooled amount that is able to be charged and reflective of service costs, as there is no inclusion of any increase in charges other than via inflation.

The void loss rate was modelled at 2.0% throughout. We note the national average reported is nearer 1% pa and considerably lower for southern and London authorities.

Conversely, the Shropshire bad debt provision was 0.5% pa which is around half the national average, and amongst the lowest we have seen modelled in the current climate.

It is noted that service costs (represented by "S&M Special") and what we assume to be the equivalent service charges rise at CPI only and are aligned, although there is an imbalance between the totals and further review work may be required to clarify the difference (and if it is as a result of a need for further service charge de-pooling).

Operating cost assumptions

The overwhelming majority of operating costs are contained within the STaRH Management Fee and therefore subject to CPI+1% annual increases.

Total operating costs excluding depreciation and net of non-rent income, expressed as a "pence in the £" of rent income start at 58p and rise to 65p by the time the business plan has RTB sales modelled out. Whilst by no means out of kilter with the sector as a whole, the increase to c2/3rd of rent income is on the high side of benchmarks in overall terms.

This suggests that in previous years the Council has tended towards prioritising investment in service delivery and protecting the resources allocated to services (via the management fee mechanism) irrespective of net stock losses. The impact is not material in overall terms, but may become an area for review should more resources be required to be allocated to stock capital investment (see below).

One point to note is that any pressures around the delivery of services provided by STaRH are contained within the ALMO's budgets and accounts. We note that many authorities are experiencing significant financial and spending pressures relating to repairs, damp and mould, and otherwise unfunded National Insurance increases.

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[1] *https://cih.org/news/cih-responds-to-the-government-s-consultation-on-future-rent-policy/#:~:text=20%20Dec%202024-,CIH%20responds%20to%20the%20government's%20consultation%20on%20future%20rent%20policy,the%201.5%20million%20homes%20ambition*

For non-ALMO authorities these pressures are directly visible in HRA budgets, whereas with an ALMO management fee mechanism in place, there is at least the need to determine the extent to which pressures on ALMO expenditure budgets are reflected in the management fee charged to the HRA.

One area we would note is that it is becoming more common, even in ALMO authorities, to project management and repairs separately as there are differing drivers towards cost behaviours within these expenditure areas.

Depreciation

Depreciation transfers to the Major Repairs Reserve are c£1,250 per unit in the first year (2024.25), representing c22-23% of rent income. This is on the low side compared to benchmarks, the amount reflects an allocation of minimum investment in the existing stock via revenue of c£37,000 over 30 years (at today's prices) which is broadly in line with the financing structure established within the self-financing settlement of 2012.

Overall net operating income

Taken together, the cost base of management, maintenance and depreciation results in an operating surplus of c£3.8m in the early years, a margin of some 21% of turnover.

Principally due to the lower level of depreciation than average, this is a higher margin than we typically see. Whilst we have not seen the STaRH financial position, it is noted that any budget pressures may be being borne within STaRH and therefore the margin may have been (and continue to be) overstated in the HRA business plan.

A key additional impact of a relatively low level of depreciation is that the HRA has a tendency towards in-year revenue surpluses after financing costs in all years of the business plan, starting at £1.6m and rising to £2.4m by year 7. This therefore generates revenue headroom with which to determine the optimal way to invest resources – put another way, by generating net surpluses the Council can determine how to deploy the headroom… either through revenue contributions to top up the resourcing of the capital programme (which is what the plan is based on now) or to borrow against these surpluses should the need arise in the future.

Generally speaking, the underlying revenue financial position is relatively positive compared to many HRA business plans that we prepare and/or review. It is likely that the ALMO model within Shropshire is at least in part contributing to this relatively positively financial position within the HRA by placing emphasis on the ALMO to manage revenue budgets effectively.

For ALMO authorities in this current business panning round, we are seeing detailed discussions around how the financial pressures affecting service delivery are being articulated within the overall business plan.

Capital cost assumptions: existing stock

The total investment in the existing stock is £278million over 40 years for just over 4,000 rented properties. This is the equivalent of around £1,740 per unit per annum, or – for benchmarking purposes – around £51,000 per unit at today's prices over a 30 year planning period.

These totals include £21m for EPC C works to 2030, representing the equivalent of c£5,300 per property across the entire stock, which is by no means out of kilter with benchmarks or expectations, especially for predominantly rural and dispersed stock that did not previously benefit from additional ALMO investment.

Recent work undertaken by Savills for the local authority trade and professional bodies[2] strongly suggests that stock investment needs, in particular those arising from life cycle and elemental replacements have been subject to significant inflation in recent times, and a broad estimate of the weighted average cost of investment needs has climbed above £62,000 per unit over 30 years.

We might expect Shropshire to be lower than average given the absence of high rise flats, but higher as a result of the dispersed nature of the stock. On balance, the level of £51,000 per property would appear to be within benchmarks, albeit that it is essential that stock condition data is kept up to date and regularly validated against current rates and condition factors.

It is noted that in the version of the business plan that we reviewed, the capital cost profile increases by CPI inflation only This is therefore out of alignment with rent increases within the projections, also the majority of revenue service costs via the management fee, implying an in-built drive towards rising future net income.

Given the extensive work being undertaken within Shropshire and across the country to better understand stock condition, and inflationary pressures within the repairs, maintenance and capital investment markets, the Council should keep under regular review whether there is a need to apply real inflation drivers across all income and expenditure lines, particularly in the short-term.

Capital investment: Development programme

The investment into new developments are limited to a small number of schemes totalling £10.5million from 2024 to 2026, with only just over £1million from 2025 onwards.

There are no issues to raise in relation to new development, other than to note that the plan is defaulted to provide for no additional operating costs via the management fee, therefore the *de facto* assumption is that additional properties would be absorbed within the STaRH management fee.

Whilst not material in the plan give the very low numbers, as a matter of principle, this appears equitable given that RTB stock reductions also do not impact the core level of fee.

[2] *https://www.local.gov.uk/publications/housing-revenue-account-research-update*

We note that the Council's HRA investment programme for development and acquisition is relatively low compared to other authorities, including those with smaller stocks in rural areas.

Conversely, given pressures on investment needs for the existing stock, we find many authorities have reviewed their development programmes with a view to a combination of some or all of the following:

- Deferring investment to future years
- Scaling back direct development in favour of development partnerships or similar agreements
- Switched parts of their development programmes for acquisition
- The availability of Local Authority Housing Fund grant has been a key driver for acquisitions as well as the contraction in the appetite of housing associations in the section 106 market leading to some authorities picking up some of these allocations.

Our advice to authorities around HRA development schemes continues to focus on the critical importance of financial viability and sustainability for schemes. Inflationary pressures and challenges with developers contractors, and their supply chains, have been significant leading many authorities to scale back their ambitions. Our view remains that, notwithstanding financial pressures on the existing stock, there is no reason not to pursue financially viable development or acquisition schemes that would contribute positively to the future of the HRA whilst not drawing on existing HRA resources. We note that Shropshire and STaRH have an extensive understanding around development viability through the work with Cornovii Developments and that therefore the scope to develop and acquire within the HRA should be kept under regular and detailed review.

Additional capital investment

The capital investment profile totals within the business plan supplied to us for this review are supplemented by a substantial amount of additional investment termed "decarbonisation". The total of £320million is added to years 2048-2052. Whilst appreciating that the Council might want to model a scenario in which net zero is achieved, the approach is unusual from three perspectives:

- Its inclusion at all and the associated assumption made around the availability of grant
- The years over which it is included
- The total, which seems very high at £75k/property.

The conventional approach to decarbonisation, such as it might exist within HRA authorities, has tended to be towards the following:

- Include known programmes of pilot work e.g. Social Housing Decarbonisation Fund (SHDF) funded programmes – these tend to form a core part of a baseline HRA business plan
- Model a scenario with an average of c£20-25k across all stock and years from 2031 to 2050 when the focus will be 0n new technology as opposed to a "fabric first" approach for EPC C to 2030
- Test the deficit financing within the plan as a means of identifying the additional resources required to be raised (through grants, additional income etc).

As it was applied in the plan, the approach at Shropshire renders the plan unfundable but it is the only element of the plan that causes it to be unfundable as in all other material respects the business plan demonstrates a relatively positive financial position (albeit founded on long-term above inflation rent increases offset by similar above-inflation increases in the STaRH management fee).

Debt, interest and financing costs

Opening debt of £92.2million is close to the original self-financing total of £90.48million indicating that the Council has not needed to rely on significant borrowing to support investment since self-financing.

In the plan we reviewed, there was a small need to borrow in the first 5 years of the plan to help finance the completion of investment in EPC C within the stock to 2013. We note this is able to be paid down during the middle years of the plan. The modelling here appears sensible and proportionate.

Interest costs average c3.5% of debt which is below the national average (3.9%-4.0%) and no doubt reflects the nature of the debt take-on in 2012.

Loans which come up for repayment are refinanced, as is conventional within HRA business plans, and at broadly similar rates. Notwithstanding recent volatility in the capital markets at the time of writing (early 2025), most authorities are modelling interest rates settling to c3.5% over the long term. There is no provision for voluntary repayment unless applied to borrowing within the plan term.

Managing reserves and debt

The metrics supporting a view of prudence within the HRA business plan and adopted within the plan model and which are modelled and reported as key outputs have become standard for HRAs, including interest cover, loan to value and other covenant equivalents. These form a sound basis for the management of debt and the reporting of HRA Prudential Indicators.

The plan contains a notional (optional) debt ceiling which appears to be an input figure of £122million. The source of this figure was not clear and we highlighted this in feedback to officers earlier in the review process.

As a matter of principle, the plan might benefit from a more dynamic approach to determining borrowing headroom by reference to the metrics referenced above. For example, an interest cover "golden rule" of 1.25 at year 30's net operating income of c£10m might suggest a long-term affordable debt ceiling nearer £200million.

Taken together with (for example) the Operating Margin metric and an analysis of the "£ of rent income" mentioned above, monitoring borrowing headroom in this way might provide the Council with a more flexible sense of how resources could be invested over the long term. We would be happy to further advise on the adoption of an appropriate and supportable Investment Framework as part of the conclusion of this review process, however we feel confident in stating that there the underlying financial position of the plan is likely to mean that the Council could bring forward further investment.

3. Specimen stock transfer valuation

Introduction

In order to further inform decision making around the future investment into the housing stock in Shropshire, we have generated a specimen valuation of the housing stock for a prospective whole stock transfer.

It should be noted that this does not represent a formal valuation but is an estimate based solely on the business plan information and data discussed in the section above and illustrative only of the approach and potential financial position. This enables a comparison with both existing debt and the self-financing debt applied in 2012 and which is relevant in the context of the Government's fiscal rules.

Commentary on approach

The basis of the calculation is as follows:

- The cashflows from the business plan are expressed in real terms (at 2024.25 prices)
- Property numbers relate to the existing stock only
- There is no provision for uplifts or reductions in property numbers, income or costs other than via real terms inflation; this is consistent with the approach within the HRA business plan
- The valuation for private finance incorporates an assumption of VAT – applied at 20% for repairs and capital investment, 7.5% for housing management (on the basis that c2/3rd of management costs are employee related)
- A small uplift to represent the diseconomies of moving to a stand-alone organisation is applied at 2.5% to management costs

The discount factor applied to the cashflows is 6.5% over 30 years - this is to mirror the 2012 self-financing settlement and is intended to reflect the time value of money based on prevailing financing costs at that time. Since then, there had been a prolonged period of very low PWLB and debt interest rates where such a discount rate would have been over-stating the cost of borrowing; however the recent trends towards higher financing costs are probably more reflective of the financing position in early 2025.

Whilst guidance towards stock transfer has not been updated since 2015, the Treasury "Green Book" approach to assessing value for money is explicit in making a comparison with the 2012 self-financing settlement as this was the valuation applied to the housing stock at that time based on a series of assumptions relating to future income and future costs.

In effect any transfer at a value below the level of the self-financing settlement would be regarded as a "cost to the public purse" and require justification in the context of the economic, management and financial benefits to the wider economy and public sector.

The inflation drivers within the 2012 settlement were based on 0.5% increases annually in rent on top of the measure applied at the time (this was the Retail Price Index or RPI) but no real increase for expenditure items such as management, maintenance and major repairs.
Conversely, the Shropshire business plan provides for rent increases and increases in the majority of day to day operating expenditure (via the management fee) at 1% real increases annually, on top of the current measure of inflation applied, which is CPI). It should be noted that for the purposes of estimating stock valuation, it is the fact that 0.5% per annum increases above inflation were applied to rents and not costs in the settlement, and the move from RPI to CPI as the core measure since then does not impact the estimate. We have compared the differential basis of the assumptions between the settlement and Shropshire's current business plan below.

Illustrative valuation outputs

The actual cashflows within the Shropshire business plan are tighter than the original settlement. This is for many reasons relating to changes over the last 12 years, including:

- Reduced rent increases since the settlement – particularly the 4 years of 1% rent cuts between 2016-2020.
- Increased costs, especially capital costs arising from higher investment standards such as energy efficiency, fire and building safety and on damp on mould, all of which are included within Shropshire's current plan bit which did not form part of the assumptions within the settlement.

The table below shows the initial outputs.

Table 1: illustrative valuation outputs compared

Description	Settlement inflation drivers (0.5% on rents, 0% on costs)	Settlement inflation drivers (0.5% on rents, 0% on costs)	Shropshire inflation drivers (1% on all income and costs)
	2012 settlement	Shropshire BP cashflows	
Self-financing settlement	**£90.481m**		
Valuation of HRA cashflows		**£43m**	**£33m**
Valuation for stock transfer		**£6m**	**Negative £8m**

The following are the broad conclusions of this exercise:

- The original 2012 self-financing settlement for Shropshire was £90millon.

- A valuation of the Shropshire stock based on current projected income and expenditure from 2024 using the inflation drivers from the 2012 settlement is £43million. This highlights how net income pressures on rents and costs have risen in the last 12 years as the cashflows generated by the stock are now only able to support £43million and not £90million based on the settlement inflation drivers.

- Applying the inflation drivers in the Shropshire business plan – aligned to CPI+1% for income and costs results in a further reduction of the valuation of £33m. The principal driver to a lower valuation here is the application of 1% real increases to capital costs so that both rents and income increase by 1% annually over inflation, rather than rents increasing by 0.% more than costs as assumed in the settlement.

- The estimated valuation of £33million is lower than the settlement of £90million by £57million – this is in effect the additional "cost to the public purse" implied by what Shropshire will generate in net income in future from now on, compared to what it was envisaged the stock would generate in new income back in 2012.

- The addition of VAT and other premiums for stock transfer via private finance reduces the valuation to around zero - £6million positive when applying the real inflation assumptions from the settlement, or £8million negative depending on real inflation assumptions. The further reduction in valuation arising from private finance is the "premium" that would be paid by the public purse in order to lever in private finance to deliver a longer-term more sustainable business plan as a housing association.

It should be noted that the estimated transfer valuation is on the basis of underlying "like for like" rents and costs. If the transfer proceeded at negative £8million, this would not in itself enable an assumption of greater investment than the current HRA business plan. In order to incentivise a stock transfer, there might be a need to promise further investment into the stock – this would further reduce the valuation.

What happens to the valuation of the stock

The transfer valuation would become a capital receipt (if positive) to the Council but would be insufficient to repay HRA debt (currently £92m). If the valuation is negative, the entire HRA debt would need to be written off and additional subsidy would be required to be found.

In the former stock transfer programme which ran from the late 1980s to 2012, investment was increased in order to incentivise tenants to vote to move to a housing association, added to the costs within the valuation which reduced the valuation and drew on support from the government in the form of debt write-off and dowry funding for negatively valued transfers.

There is no additional investment provided for in the above illustrations and the sources of subsidy required would be substantial, particularly if further investment is brought forward into the valuation.

Broadly speaking therefore, for a transfer to be viable, similar and extensive subsidy support would be required, either from the government, or from an acquiring housing association, or from the Council, or most likely a combination of all of these.

- There is currently no programme for funding the debt write-off and/or negative valuations for stock transfer. We are not aware of any proposals for such a programme at this time or within the forthcoming Spending Review.

- A housing association purchasing the stock could theoretically subsidise the acquisition on the basis that its overall business plan might grow and there may be economies of scale with current operations and financing. However, at this time, housing associations are under similar financial pressures as councils.

- The rationale for the Council to subsidise such a transfer would be far from clear – quite the opposite, the Council would be looking to increase value from the disposal of assets.

Other issues

Central and corporate recharges are made to the HRA and via STaRH from the General Fund.

Following a transfer, these may not be able to be charged tot the HRA. The most clear implication is c£400k of Corporate and Democratic Core costs that would no longer able to be recharged to the HRA as the HRA would be closed following transfer.

Summary

Without a clear route to subsidy, a whole stock transfer on the basis of the above would not be viable.

Were sources of subsidy to be found, the Council would also need to address the diseconomies of transferring the stock which may in turn imply a higher need for subsidy overall.

4. Summary

In general, the business plan modelling and projections reviewed are characterised by a sensible and proportionate approach to inputs and outputs.

At the time of our review, there were however three “outlier” assumptions – our comments are set out above in relation to the following…

- Decarbonisation
- Potential de-risking of the plan by reducing inflation assumptions to 2% and CPI-only from year 11
- Aligning capital inflation to all other inflationary drivers.

In overall terms, and setting aside the decarbonisation inputs, the business plan overall therefore is characterised as one providing for: revenue surpluses, rising reserves, stable debt with revenue contributions to capital expenditure affordable when required.

On these general assumptions, and subject to the specific comments on “outliers” above, there is likely to be some headroom for further investment into either services, the stock or new build/acquisition or a combination of all of these areas. As for all authorities, this is subject to ongoing data analysis on stock investment needs, and subject to confirmation of expected rent increase and Right to Buy policies in the forthcoming Spending Review.

Our central estimate of valuation for a stock transfer to a housing association is negative even before additional investment to benefits tenants is included. There would be no receipt to the Council and no realistic route to subsidy to pay off HRA debt and cover the negative valuation.