Gloucester City Council
Transforming Your City

LARGE SCALE VOLUNTARY STOCK TRANSFER

BUSINESS CASE

CONTENTS

Additional supporting evidence:

Annex A: Application Pro Forma

The application should be signed by the lead local authority officer/project leader, the Council's Chief Executive and the Leader of the Council.

(1) Introductory Information

Local authority submitting proposal	**Gloucester City Council**
Full name and address, including e-mail of the lead Authority officer/project leader	Martin Shields Corporate Director of Neighbourhoods and Services Herbert Warehouse The Docks Gloucester GL1 2EQ Telephone 01452 39674 martin.shields@gloucester.gov.uk
Full name and address, including e-mail of the Council's Chief Executive	Julian Wain Chief Executive Gloucester City Council Herbert Warehouse The Docks Gloucester GL1 2EQ Telephone 01452 396200 julian.wain@gloucester.gov.uk
Full name and address, including e-mail of the Leader of the Council	Paul James Leader Gloucester City Council Herbert Warehouse The Docks Gloucester GL1 2EQ Telephone: 01452 396151 paul.james@gloucester.gov.uk
Full names and where possible, email addresses, of local MPs whose constituencies fall within the transfer area	Richard Graham MP St Peter's House 2 College Street Gloucester GL1 2NE Telephone:01452 501167 richard.graham.mp@Parliament.uk
Is this a whole stock or partial stock transfer proposal?	Whole
If partial stock, give the name of area or that by which transfer proposal is known AND % of total housing stock that would transfer	Not applicable

Local authority submitting proposal	**Gloucester City Council**
How many units would transfer?	Estimated at transfer (after pre transfer RTB's): Main stock = 4,454 Shared ownership = 51 * Sub-total – valuation base **4,505** Leasehold = 261** Total = 4,766 *Shared ownership homes = 51 actual buildings but equivalent ownership of 26. **Leasehold properties are not included in the valuation as these are all properties that have been sold under RTB and are within blocks. The freehold cannot be sold in these cases but the Council no longer owns the properties - leases are peppercorn. Income from communal service charges on these properties is included in "other income".
Of these how many leasehold homes would transfer?	261
Of these how many units that are currently tenanted would transfer?	All
How many non-decent rented units would transfer?	0
How many of these were non-decent on 01 April 2012 (i.e. Decent Homes Backlog as defined within the Decent Homes Backlog programme)?	0
Proposed sale price	£20.393 million (excluding reduction for market debt premia). Market debt premia is estimated at £7m but funding of this is not yet decided assume initially that £7 million is used so available receipt is £13.393 million.
Estimated attributable housing debt at date of transfer:*** PWLB debt Non PWLB debt Total	 £35.15 million £27.60 million £62.75 million
Estimated overhanging debt payment required, excluding debt redemption premium **** PWLB debt Non PWLB debt Total	 £35.15 million £14.207 million £49.357 million

Local authority submitting proposal	Gloucester City Council
Estimated PWLB debt redemption premium payment required	£3.777 million
Estimated HRA balance following completion of transfer	£4.37m – but pension deficit and residual GF costs need to be met out of this figure
Current Major Repairs Reserve balance	0 - Zero
Current HRA Reserve balance	£3.517m at 31st March 2013 (last audited accounts)

*** Note overall debt total is expected to be £62.75m, but split of Market v PWLB may vary depending on loans that are due for repayment pre transfer but will require refinancing. The current split is based on the HRA percentage (92%) of the long-term market loans and the balance assumed to be PWLB.

**** Assumes that remaining estimated transfer receipt (13.393m) after deducting market debt premia is used to pay off market loan principle first – confirmed by HCA that OHD will be applied to PWLB first. Also, amounts relate to previous point about refinancing pre transfer.

Supporting evidence: Annex A Part 1

(2) Confirmation of compliance

In submitting this application the Authority certifies that the following conditions are met:

(i) That the transfer is supported by councillors. (Please also provide a copy of resolutions regarding transfer passed by the Council, stating the extent of support for these.)

Gloucester City Council certifies that on the 17th October 2013 a Special Meeting of the Full Council **unanimously** resolved that:

(1) The Co-Co Plus model for stock transfer be approved in principle, subject to the financial business case being satisfactory and subject to subsequent approval of the offer to tenants.

(2) That the Customer Forum's recommendation that Gloucester City Homes (GCH) be selected as the preferred new stand alone landlord in the event of a transfer be endorsed.

(3) Approval is given for an application to be submitted to the Government for inclusion in the 2014/15 Transfer Programme, subject to Cabinet finalising the detailed application prior to submission.

(4) Approval is given for commencing expenditure against the Stock Transfer budget.

(ii) That the proposed transfer is on freehold terms.

The Council certifies that the proposed transfer is on freehold terms.

(iii) That tenants have been instrumental in developing the transfer proposal and there is a place for continued active tenant involvement throughout the proposed scheme design and delivery stages, including considering and choosing landlord options and, where there is a competition for the prospective new landlord, that tenant representatives will be included on the assessment panel.

Gloucester City Council certifies that tenants have been instrumental in developing the transfer proposal and that there will be continued active tenant involvement throughout the proposed scheme design and delivery stages.

The Council further certifies that tenants have been included in considering and choosing landlord options and when choosing the prospective new landlord, tenant representatives formed the assessment panel which then made its recommendations to Cabinet and Council; (i) above confirms that the tenants' recommendations for their preferred landlord were approved in full by Council.

(3) Assessment Criteria and Evidence

3a. EXECUTIVE SUMMARY

1. Why is Transfer needed?

1.1 Self Financing

In April 2012 the Government replaced the previous Housing Revenue Account (HRA) system, which redistributed money from councils assumed to be in surplus to councils assumed to be in deficit; with a new self-financing HRA system. The Council now no longer pays a calculated sum over to the Government each year, but is allowed to keep its rental income in order to manage and maintain its social housing to the Decent Homes Standard for at least 30 years. In exchange for these freedoms, the Council was allocated an additional £2.143m of housing debt at 1 April 2012, and is expected to service the loan and interest payable on it using tenants' rents.

The Council was given a maximum borrowing level ("debt cap") of £62.75 million which is based on the net present value of the expected income and expenditure arising over 30 years and was based on a set of assumptions of values and circumstances prevailing during 2011/12. The Council is expected to manage and maintain its properties within the borrowing limits set and manage real changes in the assumptions as they arise.

This effectively puts the Council on a similar footing to housing associations, managing its own housing income and expenditure, but unlike housing associations, the Council's ability to borrow to invest in its homes is capped by the Government and the Council's loans are not secured against the housing stock specifically. Housing Associations, in contrast, can borrow to invest, based on the income they receive and the assets against which the loans can be secured. In Gloucester City's case, the debt cap prevents the Council from borrowing the amount of money that it requires to ensure that all of its properties are of a lettable standard, even if it can demonstrate that it can repay those loans within 30 years.

1.2 The Council's current HRA position from 1 April 2014

The Council charges and collects income to fund the HRA Business Plan and this arises from Council rents and management service charges, rent from garages and shops integral to the estates. Tenants' weekly rent charges are set by a formula for social housing by reference to the value of their home taking into account its locality and condition and the local average earnings to ensure that rents are affordable in the relevant authority area. These rents have been increasing in line with the Government's Rent Restructuring policy, which meant that rents would aim to converge to the target (or formula) rent by 31 March 2016. This was the assumption made within the Self-Financing calculation of debt. However, in the Spending Review in July 2013 it was announced that the Government would expect rent convergence to cease after 31 March 2015 and that rents should rise by CPI + 1% thereafter. The Council will receive less income than it had expected to as a result of this change.

The Council's ability to generate revenue resources is capped by Government rent policy, to ensure that social housing rents remain affordable for those tenants who pay their own rent and nationally to minimise the Housing Benefit expenditure. Service charges can only be made to those tenants who receive a service and cannot exceed the cost of providing those services, so effectively the cost of the services should be neutral and no additional resources can be generated from this source.

Expenditure arises from the need to manage and maintain the properties and estate assets on a daily basis and to provide additional services to tenants for which they pay a service charge (to cover the cost), but also to maintain the homes within the Decent Homes Standard. The Decent Homes Standard influences the amount that should be spent on the properties and the Council is responsible for achieving and maintaining this standard. This standard influences the minimum spend on the homes.

The Self-Financing debt settlement assumed notional annual allowances to be spent on management, maintenance and renewals, but this does not, in Gloucester City's case, reflect the actual spend needed on the properties. Gloucester's own stock condition surveys, provided by Michael Dyson Associates, relate to the actual properties in the Council's HRA and show that a much higher level of expenditure is required in earlier years rather than a smooth annual spend profile.

Work on stock option appraisals from 2010 onwards identified that Gloucester City Council was likely to be faced with severe financial difficulties in maintaining its homes at the Decent Homes Standard, despite the freedoms of Self-Financing.

The HRA Business Plan assumptions have been reviewed and updated during 2013-14 to take account of changes to Government rent policy from 1 April 2015, inflationary rates based on September 2013 annual RPI rates, the impact of Welfare Reform measures introduced from April 2013 and predicted to arise based on the experience of the initial reforms, and the impact of rising Council house sales under the Government's Reinvigorated Right to Buy (RTB) Policy. The prospects for the HRA and the Council's ability to maintain its homes have not improved and in fact are predicted to worsen.

The HRA Business Plan from 2014-15 is based on known income and costs from the Council's HRA budgets for 2013-14 and uplifted in line with known and reasonable inflationary impacts. The repairs and maintenance requirements are based on the Michael Dyson Associates stock condition survey and the extended survey of the non-traditional properties. Further detail on this is shown below.

For 2013-14, GCH have employed, using their own resources separately from the Management Fee this year, an additional 2.5 FTE posts in Income Collection and one FTE post in Finance & Admin to address the issues of rent arrears and direct payment administration forecast by Government Pilot exercises prior to the introduction of Welfare Reform. In the first eight weeks after the introduction of the under-occupancy subsidy, arrears rose by £30,000.

The enhanced team have been able to work with tenants and as a result, the increase in arrears in 2013-14 as at 30 September 2013 has not increased above £30,000 since those first eight weeks. This shows that investment in time spent working with tenants to educate them in budgeting will result over time in improved collection rates. For 2013-14 as at 30 September, the overall arrears rate was 1.46% compared to 1.18% for 2012-13.

It has been estimated that when Universal Credit is introduced and tenants receive their benefits directly, the equivalent impact would be £200,000 increase in arrears over eight weeks (based on a 10% non-payment rate), which is the equivalent of a 1.1% increase in arrears if it can be managed effectively using the additional staff. The Council does not have the resources within the HRA to employ these additional staff beyond 2013-14 and as a result is expected to experience a large and ongoing increase in arrears from 2015-16 as Universal Credit impacts on payments. Uncontrolled, the arrears are expected to be around 4% per annum or around £800,000 at 2014-15 prices.

GCH have also been notified of a rise in pension contribution payments due from 1 April 2014. The Pension Fund has advised that GCH's employer contributions will increase from 16.2% to 18.4% and will also require a £80,000 per annum lump sum to be made to achieve this rate. This is in addition to past underfunding payments being made directly via the HRA. This has increased the management costs of GCH by more than would have been expected under Self-Financing.

In order to verify that the structure in place to manage Gloucester City's housing function in future is appropriate and can be benchmarked with other providers, Capita have been commissioned to carry out an independent market pay review for GCH which comprised the following aspects:

- Executive team market pay review of salaries for the:
    - Chief Executive
    - Director of Resources
    - Director of Housing and Organisational Development
- Market pay review of 53 staff posts operating at various levels across GCH
- Provision of information relating to what other housing organisations are doing with regard to salary structures, bonus schemes and pensions
- An overview of pay and the economy

This review has been undertaken in the context of continued changes and challenges in the housing sector and against a backdrop of continuing financial uncertainty in the economy with the added pressure of the impact of the Welfare Reform Act.

The results of that review show that:

- The pay for members of the executive team is significantly below the market median
- For the 53 staff posts, salary benchmarking indicated that the majority of posts were within +/- 10% of the market median, which would suggest that most salaries are broadly in line with the market, however it was indicated that 52% of posts are positioned below the median and there are two posts significantly below the market median salary in Finance, that may lead to future retention and recruitment problems for GCH.
- Pensions – the current employer contribution rate paid by GCH is broadly in line with that paid by other employers into the Local Government Pension Scheme.

Given that staffing makes up around 53% of GCH's management fee, this review indicates that GCH has the correct level of staff for the service required and that they are paid at rates typically below the median for the industry. The management cost is not therefore above that expected.

The results of the HRA business planning show:

Council debt at 1 April 2014 = £62.75 million (i.e. at debt cap)

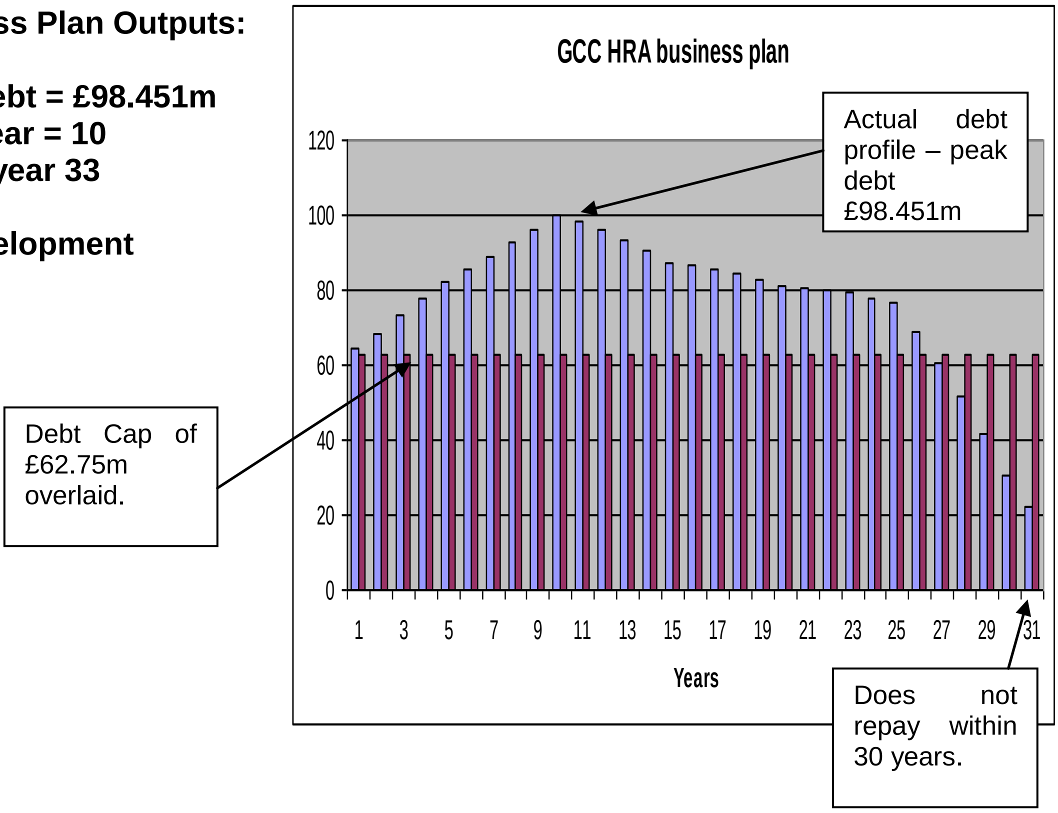
Average CRI = 4.31%

Assume that there is no cap in place to determine the level of borrowing that would be required

Business Plan Outputs:

Peak debt = £98.451m
Peak year = 10
Repay year 33

No development



The blue graph reflects the annual debt outstanding within the HRA if the Council could borrow without limit to fund the works required at the right time. This assumes that where there is excess income over expenditure in any year, then debt would be repaid to identify whether the debt could be repaid within 30 years. This is a prudent business planning assumption (per Self-Financing) and also allows comparison with the transfer business plan.

The red graph is the debt cap limit of £62.75 million, imposed on the actual debt levels to show the gap in borrowing required.

This shows that if the Council tried to do the works that are required per the stock condition survey at right time, and continue to manage the housing service to the current standard, whilst taking account of challenges arising from Welfare Reform and in changes to rent policy, it does not have sufficient borrowing capacity to achieve all that is within its responsibility as a Registered Provider.

Without transfer, the level of investment required in the properties could not be sustained and / or the level of service provided currently would need to be reduced in order to keep the HRA in balance and stay within the debt cap. Jobs would be lost. **“Stay as we are” without transfer would NOT be an option.**

The table below shows how much the Council would need to save each year either by cutting management expenditure, day-to-day maintenance work or delaying the necessary investment in the stock as determined by the stock condition survey.

GLOUCESTER CITY COUNCIL - HRA V1 SURVEY LIKELY OUTCOME 191113
BUSINESS PLAN
REPAIRS AND MAINTENANCE REPHASING

Peak Loans Balance	Peak Yr	Repay Yr
£62,750	1	32
	2014/15	2045/46

Max Debt £'000,000 62.75

Description	Archetype	Cost Category	Year	Increase / (Decrease) £'000	Debt £'000
Rephasing	All stock	Planned	1	-1,399	62,750
Rephasing	All stock	Planned	2	-3,180	62,750
Rephasing	All stock	Planned	3	-3,316	62,750
Rephasing			4	-3,054	62,750
Rephasing			5	-2,959	62,750
Rephasing			6	-1,819	62,750
Rephasing			7	-1,726	62,750
Rephasing			8	-1,634	62,750
Rephasing			9	-1,542	62,750
Rephasing			10	-1,451	62,750
Rephasing			11	2,255	62,750
Rephasing			12	2,352	62,750
Rephasing			13	2,449	62,750
Rephasing			14	2,546	62,750
Rephasing	All stock	Planned	15	2,642	62,750
Rephasing	All stock	Planned	16	998	62,750
Rephasing	All stock	Planned	17	1,093	62,750
Rephasing	All stock	Planned	18	1,188	62,750
Rephasing	All stock	Planned	19	1,283	62,750
Rephasing	All stock	Planned	20	1,377	62,750
Rephasing	All stock	Planned	21	639	62,750
Rephasing	All stock	Planned	22	734	62,750
Rephasing	All stock	Planned	23	828	62,750
Rephasing	All stock	Planned	24	921	62,750
Rephasing	All stock	Planned	25	775	62,237
Rephasing	All stock	Planned	26	-0	53,989
Rephasing	All stock	Planned	27		44,979
Rephasing	All stock	Planned	28		35,161
Rephasing	All stock	Planned	29		24,485
Rephasing	All stock	Planned	30		12,899
					3,580

Total gap in net works cost required to stay within debt cap = £22.08 million over 10 years

Debt level does not reduce below debt cap until at least year 26, so there is no headroom to borrow for new development.

From year 11, cash would be available annually to try to catch up work that has been delayed, but this would take until year 26 to do.

This profile of delayed expenditure and recovery when cash becomes available also assumes that the measures taken to make savings in the first ten years have no other detrimental effect on the financial situation. Any impact that results in increased costs, would increase the amount required to be delayed and would take longer to recover, thus requiring further savings to be made – a downward spiral. This is demonstrated in the commentary below.

This also shows that the HRA borrowing throughout this time is held at the debt cap of £62.75 million as every penny generated is going toward trying to keep up to the expenditure required. This means that the Council cannot pay debt down, cannot borrow and has no spare cash with which to consider any development work.

The HRA Business Plan above shows that if the Council could spend the money it needs to do at the right time (i.e. the net £22 million that needs to be pushed back to stay within the debt cap), then it would need to borrow £35.7 million more than the debt cap allows. The £35.7 million is made up of:

Additional works over 10 years (net £22 million)	
including 8% fees and inflation over that time	£29.3 million
Less	
use of opening balances above minimum	
assumed working balance of £1.5 million	(£2.0 million)
Plus additional interest on extra borrowing	£8.4 million
Total	£35.7 million

1.3 Consideration of cuts in revenue expenditure

If the Council chose to do the works required to the properties then it would need to look to save the money elsewhere. It can be seen from the table above that in the first five years, around £3 million per annum would need to be saved to stay within the debt cap, followed by a further £1.5 - £1.8 million per annum up to year 10.

Annual housing management costs (net of service costs) are £5.89 million, of which £0.5 million per annum relates to historic pension payments arising from the set up of the ALMO. The savings required in the first five years would account for around 57% of the annual management costs. As demonstrated above, a review of the structure and cost of the ALMO as a housing management service has shown that the structure is correct and the salaries paid are on average lower than the median, leaving little scope for saving.

Annual maintenance costs are £3.54 million and hence would be virtually wiped out by the required savings. The charges made are based on the provision of day-to-day maintenance provided by an external supplier under a tendered contract, again leaving no scope for reducing these costs.

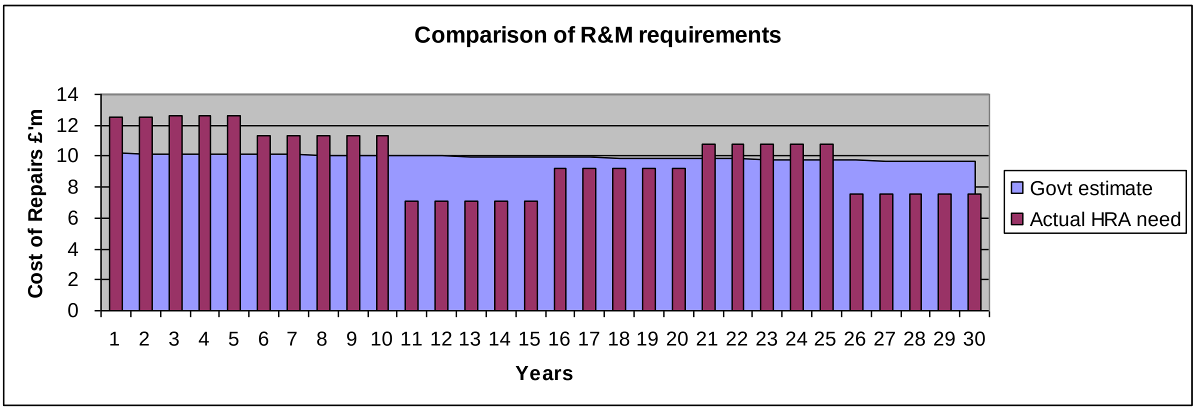
1.4 Consideration of stock condition and investment

The main driver for the problems arising within the HRA is the stock condition work required being at a higher level than self-financing assumptions allowed for particularly in the first 10 years.

The stock condition survey for 4,509 properties in Gloucester City Council’s stock shows the following expenditure is required on that stock at 2014-15 prices throughout and including inflation uplift, preliminary costs and professional fees but no VAT:

Year	Catch Up Repairs £'000	Planned Maintenance £'000	Contingencies £'000	Structural & Thermal £'000	Non-trad £'000	Disabled adapts £'000	Environmental works £'000	Day-to-Day £'000	Total £'000
1	168	3,928	277	1,003	2,778	463	348	3,538	12,503
2	168	3,928	277	1,003	2,778	463	348	3,538	12,503
3	168	3,928	277	1,003	2,858	463	348	3,538	12,583
4	168	3,928	277	1,003	2,858	463	348	3,538	12,583
5	168	3,928	277	1,003	2,858	463	348	3,538	12,583
6	0	2,239	216	424	4,481	463	0	3,538	11,360
7	0	2,239	216	424	4,481	463	0	3,538	11,360
8	0	2,239	216	424	4,481	463	0	3,538	11,360
9	0	2,239	216	424	4,481	463	0	3,538	11,360
10	0	2,239	216	424	4,481	463	0	3,538	11,360
11	0	2,369	187	39	470	463	0	3,538	7,066
12	0	2,369	187	39	470	463	0	3,538	7,066
13	0	2,369	187	39	470	463	0	3,538	7,066
14	0	2,369	187	39	470	463	0	3,538	7,066
15	0	2,369	187	39	470	463	0	3,538	7,066
16	0	4,419	251	56	99	463	348	3,538	9,173
17	0	4,419	251	56	99	463	348	3,538	9,173
18	0	4,419	251	56	99	463	348	3,538	9,173
19	0	4,419	251	56	99	463	348	3,538	9,173
20	0	4,419	251	56	99	463	348	3,538	9,173
21	0	5,983	292	368	106	463	0	3,538	10,750
22	0	5,983	292	368	106	463	0	3,538	10,750
23	0	5,983	292	368	106	463	0	3,538	10,750
24	0	5,983	292	368	106	463	0	3,538	10,750
25	0	5,983	292	368	106	463	0	3,538	10,750
26	0	3,304	209	33	14	463	0	3,538	7,562
27	0	3,304	209	33	14	463	0	3,538	7,562
28	0	3,304	209	33	14	463	0	3,538	7,562
29	0	3,304	209	33	14	463	0	3,538	7,562
30	0	3,304	209	33	14	463	0	3,538	7,562
	838	111,211	7,162	9,613	39,978	13,876	3,477	106,151	292,307

The total of £292.3 million (at 2014-15 prices) for 4,509 properties to be spent on capital and revenue repairs and maintenance in total compares to the total of £297.9 million (at 2012-13 prices) for 4,504 in the self-financing assumptions. The difference can be seen more markedly however, if the the profile of the works required is considered:



The blue shading shows the amount available in the self-financing assumptions annually and can be seen to be based on equal annual sums reducing only for losses in stock due to RTB sales. The red columns show the actual total R&M expenditure required on Gloucester City's stock.

The survey shows that in terms of the split between capital and revenue spend:

- The amount of capital investment works actually required over 30 years is £186.156 million compared to £143.962 million per the notional self-financing assumption, so an increase of £42.2 million, but £35.3 million of that difference arises in the first 10 years;

- The revenue spend associated with the capital investment at that level and at the right time is £47.8 million less over 30 years than the self-financing assumptions.

Homes need investment at different points in their lifetimes, depending on when components like roofs, kitchens, central heating systems etc. were first installed and the life-cycle for replacement of these various elements. Additionally, in non-traditionally built homes, which account for a third of Gloucester's council housing, the main structural elements such as concrete and steel deteriorate more quickly than homes built using traditional building material and are in need of repair or replacement.

Following the most recent general (2011) and specific non-traditional (2012) stock condition surveys, despite changes to the financing of the HRA through self-financing it has become clear that whilst over 30 years, the stock requires approximately the assumed amount of investment that was included in the self-financing debt settlement, the bulk of that expenditure is required sooner. A more detailed appraisal of the issues surrounding the non-traditional stock is given in section 2d of the Strategic Case below. This means that there is a need to spend more in the early years than currently there is income to pay for and the Council does not have capacity to borrow beyond its debt cap.

In order to accommodate the limit on borrowing, the Council's HRA is £22 million short over the first 10 years and this would take a further 15 years to recover if delaying expenditure could be done without any other detrimental effect. The table below compares the amounts that need to be re-phased to the amounts required to maintain Decent Homes (planned maintenance) and the structural, thermal and non-traditional works required:

Year	Planned Maintenance £'000	Total Structural, Thermal & Non-Trad £'000	Delayed Expenditure Req'd £'000
1	3,928	3,781	1,399
2	3,928	3,781	3,180
3	3,928	3,862	3,316
4	3,928	3,862	3,054
5	3,928	3,862	2,959
6	2,239	4,905	1,819
7	2,239	4,905	1,726
8	2,239	4,905	1,634
9	2,239	4,905	1,542
10	2,239	4,905	1,451
11	2,369	509	- 2,255
12	2,369	509	- 2,352
13	2,369	509	- 2,449
14	2,369	509	- 2,546
15	2,369	509	- 2,642
16	4,419	154	- 998
17	4,419	154	- 1,093
18	4,419	154	- 1,188
19	4,419	154	- 1,283
20	4,419	154	- 1,377
21	5,983	473	- 639
22	5,983	473	- 734
23	5,983	473	- 828
24	5,983	473	- 921
25	5,983	473	- 775
26	3,304	47	0
27	3,304	47	-
28	3,304	47	-
29	3,304	47	-
30	3,304	47	-
	111,211	49,591	0

£22 million net works pushed back and re-done over next 15 years.
Amounts equivalent of either planned maintenance budget or non-trad + structural and thermal budget.

This also assumes in this example that in the meantime, there is no knock-on effect arising from the delay in the investment. In reality if the investment is delayed, it will inevitably result in escalating costs. GCH will be required to either do more day-to-day repairs to keep homes habitable for as long as possible, or the homes will go void and thus rental income will be lost. The use of reactive repairs in the long run is more expensive than planned investment in the homes and ultimately it will use even more resources, leaving less available to do the investment works which will still be required.

Delaying expenditure also increases pressure on the business plan as things get more expensive in business plan terms in later years due to the effect of inflation. RPI at September 2013 was 3.2%, whereas RPI in September 2012 was only 2.6%, so there can be wide variations in years. It is assumed that underlying RPI would be 2.5% in future years. GCH are also already being told by their development agency partner Ark, that the increase in activity in the construction industry is leading to a shortage of materials and a lack of trained staff (legacy of the poor economic climate) and that inflation in that sector is currently running at about 8%.

The Council and GCH have worked hard using ALMO funding awarded from the progress made by GCH since becoming an ALMO, to meet the Decent Homes Standard. Looking at the amounts of work that would need to be deferred, the Council is faced with either decimating its Decent Homes budget and falling into non-decency again, or within current HRA budgets restrictions, to have a capital programme that tries to maintain the Decent Homes Standard for the majority of its stock, but without actively addressing the structural and thermal problems associated with the non-traditional stock. The Council will have to rely on its stock out-performing structural surveyors' expectations for as long as possible and remaining lettable.

Many of the non-traditional homes are built in blocks and so whole blocks of homes may become unlettable at the same time, rather than individual units. There would be no additional money available to help regenerate housing estates in accordance with local community wishes or build additional new homes to meet growing housing demand, until at least year 25 of the 30 year plan.

The potential loss of these homes would require GCH to re-house the existing tenants, reducing the amount of homes available to other applicants on the Housing Register. This would result in waiting times for social housing becoming even longer and adding to an increasing demand for social and affordable housing, as newly arising need continued to add to the numbers of households on the register.

The surveyors, Michael Dyson Associates, have provided an analysis of the likelihood of these 1,732 properties becoming void as a result of becoming structurally unsound (80%) or hard to let as a result of the properties being in blocks and being an undesirable place to live given the amount of empty properties. This is given in detail in section 2d of the Strategic Case below.

In order to consider the additional impact of delaying expenditure, it is assumed that the Council does not undertake the structural, thermal and non-traditional works required. MDA's data has then been used to show the HRA with an increase in void rates arising as the work is not completed. The alternative would be to assume that day-to-day repairs and maintenance increase to keep the properties lettable and/or a combination of both, but the effect would be similar to assuming total void loss.

The revised HRA Business Plan assuming a gradual increase in void rates arising from non-traditional stock would show:

Peak Debt = £428.967 million

Peak Year = 40

Repay Year = 40+

Given that this would break the debt cap significantly, then expenditure would need to be re-phased per the table below:

GLOUCESTER CITY COUNCIL - HRA V1 SURVEY LIKELY OUTCOME 191113 - WORSEN	Peak Loans Balance	Peak Yr	Repay Yr
BUSINESS PLAN	£72,092	40	40+
REPAIRS AND MAINTENANCE REPHASING		2053/54	#N/A

Max Debt £'000,000 62.75

Description	Archetype	Cost Category	Year	Increase / (Decrease) £'000	Debt £'000
Rephasing	All stock	Planned	1	-1,399	62,750
Rephasing	All stock	Planned	2	-3,180	62,750
Rephasing	All stock	Planned	3	-3,316	62,750
Rephasing	All stock	Planned	4	-3,054	62,750
Rephasing	All stock	Planned	5	-2,959	62,750
Rephasing	All stock	Planned	6	-2,964	62,750
Rephasing	All stock	Planned	7	-2,877	62,750
Rephasing	[illegible]	[illegible]	8	-2,790	62,750
Rephasing	[illegible]	[illegible]	9	-2,704	62,750
Rephasing	[illegible]	[illegible]	10	-2,619	62,750
Rephasing	[illegible]	[illegible]	11	-2,739	62,750
Rephasing	[illegible]	[illegible]	12	-2,667	62,750
Rephasing	[illegible]	[illegible]	13	-2,594	62,750
Rephasing	[illegible]	[illegible]	14	-2,521	62,750
Rephasing	[illegible]	[illegible]	15	-2,450	62,750
Rephasing	[illegible]	[illegible]	16	-5,198	62,750
Rephasing	[illegible]	[illegible]	17	-5,133	62,750
Rephasing	[illegible]	[illegible]	18	-5,068	62,750
Rephasing	All stock	Planned	19	-5,004	62,750
Rephasing	All stock	Planned	20	-4,940	62,750
Rephasing	All stock	Planned	21	-5,752	62,750
Rephasing	All stock	Planned	22	-5,689	62,750
Rephasing	All stock	Planned	23	-5,626	62,750
Rephasing	All stock	Planned	24	-5,563	62,750
Rephasing	All stock	Planned	25	-5,501	62,750
Rephasing	All stock	Planned	26	-2,790	62,750
Rephasing	All stock	Planned	27	-2,728	62,750
Rephasing	All stock	Planned	28	-2,667	62,750
Rephasing	All stock	Planned	29	-2,605	62,750
Rephasing	All stock	Planned	30	-2,544	62,750
					72,092

Total gap in net works cost required to stay within debt cap = £107.64 million over 30 years

Debt level does not reduce below debt cap at all even beyond 40 years, so there is no headroom to borrow for new development.

There are not enough resources in any year to try to recover works pushed back.

In terms of what this would mean with regard to the capital budgets required for planned maintenance and non-traditional and structural works:

Year	Planned Maintenance £'000	Total Structural, Thermal & Non-Trad £'000	Delayed Expenditure Req'd £'000
1	3,928	3,781	1,399
2	3,928	3,781	3,180
3	3,928	3,862	3,316
4	3,928	3,862	3,054
5	3,928	3,862	2,959
6	2,239	4,905	2,964
7	2,239	4,905	2,877
8	2,239	4,905	2,790
9	2,239	4,905	2,704
10	2,239	4,905	2,619
11	2,369	509	2,739
12	2,369	509	2,667
13	2,369	509	2,594
14	2,369	509	2,521
15	2,369	509	2,450
16	4,419	154	5,198
17	4,419	154	5,133
18	4,419	154	5,068
19	4,419	154	5,004
20	4,419	154	4,940
21	5,983	473	5,752
22	5,983	473	5,689
23	5,983	473	5,626
24	5,983	473	5,563
25	5,983	473	5,501
26	3,304	47	2,790
27	3,304	47	2,728
28	3,304	47	2,667
29	3,304	47	2,605
30	3,304	47	2,544
	111,211	49,591	107,643

£107 million pushed back for 30 years.

Amounts equivalent beyond year 10 of both planned maintenance budget or non-trad + structural and thermal budget together, leaving little or no investment at all.

Of course, if this scenario were allowed to happen, then there would be further detrimental impacts arising through non-compliance with the standard of homes, rising cost of repairs and rising cost of managing tenants into alternative accommodation: this is effectively a downward spiral.

Over 30 years, the Council would need to take out £107 million of expenditure, but transfer could do this at the right time. Effectively with transfer, GCH could deliver £107 million more works to properties and deliver the associated benefits of spending that money locally on refurbishment and construction.

Stock transfer means that GCH would be able to afford to do all of these works at the correct time and as such deliver over £107 million worth of works more than the Council without transfer. ***"Stay as we are" without transfer is NOT an option as large cuts are inevitable and the business of housing for Gloucester City will become undeliverable. The closest thing to "Stay as we are" is a transfer of the stock to GCH as a new private registered landlord.***

1.5 The price of drifting back through lack of investment

It is important to note that investment of over £38 million has been funded by the Government in Gloucester City Council's stock in recent years and this would be wasted if the transfer does not take place to allow the maintenance of the stock. The level of cuts indicated above and the implications of making those cuts will mean that the stock and the management of the stock will deteriorate. The progress made since 2005 by the Council and GCH can only be maintained if the investment in the stock continues at the level required to ensure it is decent and sustainable. This would protect the investment already made.

The Council clearly understands from its past experience what a lack of investment in its stock and services means and how much effort and investment it has taken to improve standards for tenants. The decision to consider transfer has not been taken lightly, but the Council wants to ensure that tenants can continue to get at least the standard they are currently getting and the Council cannot expect to achieve that in future. The Council also wants to ensure that new homes can be built for tenants and without transfer is cannot do that.

Prior to 2005, the Council's homes were managed by the Council's own Housing Department, which according to an Audit Commission report in November 2005 provided a poor zero-star service, which had promising prospects for improvement.

The Audit Commission commented: "With the exception of supported housing and leasehold management, the current housing service is generally poor. Tenants are not getting repairs attended to within target. There is a high failure of compliance with the Decent Homes Standard. The Council is failing to adequately service gas installations and appliances. Re-letting of properties is taking too long. Rent collection, although improving, is below average. There are inadequate resources to tackle anti-social behaviour. There is no overarching vision for resident involvement in Gloucester and tenants are not involved in high level decision making. There is weak customer focus within service delivery. There are no comprehensive service standards and limited use of customer feedback. The service has not comprehensively profiled its customer base and cannot meet the diverse needs of its customers. In the main, services are failing to provide value for money."

It was clear to see why it was a zero-star service. The reason for the promising prospects was because the Council had plans to introduce GCH, which within 18 months had achieved a good two-star service with promising prospects for improvement, thus releasing borrowing approvals from the Government totalling £38m. By the time the Audit Commission returned in 2010, much of the necessary investment had been made to improve homes to the Decent Homes Standard and GCH had risen to a three-star excellent service with excellent prospects for improvement.

GCH has also accumulated a clutch of other awards and commendations since its inception including Investors in People Gold, ISO 9001:2008 Quality Management, the highest ever scored Customer Service Excellence award from the Cabinet Office and is now in the Sunday Times Top 100 not-for-profit companies to work for, to name a few.

If the transfer were not to proceed then all of this success and previous public investment of over £38 million could be wasted. “Stay as we are” is not an option without transfer and the Council does not want to drift back to the 2005 position so quickly after receiving the ALMO funding.

As a housing association, GCH would be able to borrow to pay for investment at the time that it is needed and repay the loans in the later years of its plan. Investment at the right time will guarantee that the homes remain decent and sustainable and that they will be thermally and structurally sound. This will ensure that the investment in recent years is protected and the service tenants receive can be maintained and improved.

1.6 Increase in RTB sales

The Council is currently also selling more homes than the self-financing assumptions assumed, as a result of the reinvigorated Right to Buy Scheme. This is generating one-for-one replacement receipts. It cannot use these receipts to build as it cannot borrow to fund the remaining build costs and would need to give these to another housing provider or return them to the Homes and Communities national pot, potentially for redistribution to other parts of the country. Selling the homes also continues to put pressure on the HRA as it tends to be the better quality housing that is sold leaving behind the homes that require more investment.

1.7 Delivering new affordable homes and regeneration

As a housing association, GCH would be able to borrow to fund the building of new homes and regenerate estates bringing additional benefits from the improved health and well being of the City’s residents.

Of course the Council has had plenty of previous experience building homes. Its oldest homes, 3-bed family homes, were built in Tuffley Avenue and Linden Road, Linden, in 1920 and the newest homes, a sheltered housing scheme for rent, general needs homes for rent and shared equity homes for part sale / part rent, were built in Badger Vale, Podsmead in 1991.

Since then the City Council has been completely reliant on partnerships with other social landlords to meet increasing demand. Whilst this has certainly provided much needed high quality social housing for rent and shared ownership it has never been enough to fully meet demand.

This has resulted in increasing numbers of people on the Housing Register and higher house prices and private sector rents in the City and surrounding areas, as demand outstrips supply, making it impossible for many people to afford to buy or rent on the open market at a sustainable cost.

The Council needs to find a sustainable financial solution that will meet the needs of the existing council homes, allow it to regenerate the City's housing estates and build additional new homes.

2. What options have been considered?

2.1 First Options Review

Prior to the Government changing the Housing Revenue Account (HRA), the Council had already given serious consideration to how best to manage and maintain its homes in the future and provide much needed new homes in the City, in order to meet the strategic aim to "Build a Better Gloucester".

In 2008, a report by Sector Weedon Grant concluded that the management and maintenance of the existing homes should remain with the City Council's ALMO, GCH which was successfully making the homes decent and winning awards for its excellent services.

At the time, helped by additional Government borrowing approvals, there was sufficient money available to make all Gloucester's council housing decent, although it took until April 2012 to finally achieve this due to reducing Government borrowing approvals.

The Council, for its part would continue to work successfully with private developers, the City's urban regeneration company and registered providers of social housing to regenerate other areas of the City and build new homes.

The recommendations were adopted in early 2009 with a commitment to review the situation again in two years' time.

2.2 Second Options Review

By the end of 2010, the Council had initiated a further comprehensive *Options Review* to ensure that it could continue to successfully manage and maintain the homes, begin to regenerate the housing estates and provide additional, affordable homes to meet growing demand.

The final Government borrowing approval to make the City's council homes decent was not available and so it took until 2012 using only Council resources and environmental grants to achieve making all of the homes decent. The challenge now is to keep them decent, including improving their energy efficiency and tackling any structural deterioration.

This review, which was being conducted at the same time that the Government was proposing its changes to the HRA system, concluded that the Council needed to create a new vehicle for managing and maintaining the homes, which would not be prevented from raising the necessary investment to keep the homes decent, regenerate the estates and provide much needed new homes.

With the help of Trowers and Hamlins and the National Federation of ALMOs, the Council and Community Owned (CoCo) model was created. The new landlord would have a Board consisting of one-third tenants, one-third Council nominees and one-third independents; and they would own the company – the same as many previous stock transfers.

However, the fundamental difference was that it would become the owner of the Council's homes in return for agreeing to pay off the Council's existing housing debt over a 30-year period. This would still have allowed the CoCo some financial headroom to raise additional loans to continue investing in existing homes, regenerate estates and build some new homes.

After serious consideration, the Government concluded that the proposed CoCo would still be caught by the Government's borrowing restrictions as it would be classified as a public company paying off, largely, public debt.

2.3 Final agreed option

In December 2012, in preparation for further meetings with the Government's Homes and Communities Agency (HCA), the Council commissioned Capita (formerly Sector Housing & Consultancy) to assist it and GCH. As part of Capita's initial work they undertook a complete revision of the tenanted market valuation of the properties and prepared an indicative business plan based on this valuation. They also prepared a 30 year HRA business plan using the equivalent assumptions which demonstrated that the HRA could not afford to keep the stock to the standard required. This has been subsequently updated given changes in Government policies introduced in 2013/14 and expected to be introduced in future years and this has not improved the HRA position.

In May 2013, the Government expressed a willingness to consider Gloucester for a more traditional stock transfer, where the Government would be prepared to write off the Council's remaining housing debts, after the Council had sold its homes to another social landlord, providing that this offered good value for money.

Following a comprehensive assessment of local social landlords, in September 2013, tenant representatives selected GCH as their preferred future social landlord. The process is described in more detail below.

Shortly afterwards, in October 2013 the Council unanimously resolved to ask the Government to allow it to sell its homes to GCH, subject to the Government agreeing to write off the remaining housing debt and a majority of their Council tenants voting in favour of the proposal.

Under the proposal GCH would be re-constituted as a not for profit, charitable, social landlord, regulated by the HCA. This change would allow it to take out loans to purchase the homes from the Council, make the necessary investment in existing homes to keep them decent, commence the regeneration of the housing estates and start building additional new homes.

The Board of GCH would remain, as now, one-third tenants, one-third council nominees and one-third independents; and they would be responsible for setting rents and service charges, making future spending and investment decisions; and setting the policies and strategies, which would determine how services would be provided and how the organisation would develop.

3. What outcomes can be achieved?

The detailed outcomes are set out in GCH's own draft Business Plan, but they are specifically designed to support the aims set out by the City's Local Strategic Partnership (LSP) which includes the City Council, other public sector organisations, private businesses and voluntary organisations, operating in the City.

In 2011, the LSP sought the views of over 1,000 residents, visitors and partner organisations before developing its **City Vision 2012-2022 - 'A city ambitious for its future and proud of its past'** which was launched at the beginning of 2012. The vision has two key aims based on the feedback received:

1 **Your Prosperity.** The Vision is to deliver a:

- Flourishing economy and City Centre.
- Vibrant evening economy.
- City which improves through regeneration and development.

2 **Your Community.** The Vision is to deliver a:

- City where people feel safe and happy in their community.
- Healthy City with opportunities available to all.

This provides the framework for the City Council's own key plans including:

- the Council Plan **"Transforming Your City 2011-2014"**;
- the City Plan, currently going through consultation, which sets out the City's plans for development up until 2031; and
- the Joint Core Strategy, which sets out the strategic planning framework for Gloucester, Cheltenham and Tewkesbury sub-region.

In particular:

"We will work to encourage sustainable economic growth for the City's expanding population by driving forward its regeneration programme. This will strengthen the City, particularly its centre and make the most of our infrastructure."

Paul James, Leader of Gloucester City Council

The Council's Plan focuses on three key strategic aims:

- Strengthening the City's economy,
- A City for everyone and
- Creating pride in the City

3.1 Strengthening the City's economy

Gloucester has seen significant growth and investment in the City over the last few years. The regeneration of Gloucester Docks and the Old Cattle Market site have started to transform the City. Over £700 million of private sector investment has been secured.

- Most recently an agreement was signed with Stanhope for a £60 million redevelopment of Kings Quarter in the heart of Gloucester.
- Work is underway on a £34 million high-quality retail and business park at Triangle Park.
- The Peel Group is spending £60 million on a leisure development including a new health and fitness club, 10-screen cinema and restaurants.
- In the last two years, strong investor demand has seen over 350 businesses start-up, relocate or expand their existing operations in the City.

Whilst there has also been significant investment in the council housing, this cannot continue under current Government borrowing restrictions. There has also been little regeneration of the estates to meet the changing needs and aspirations of the existing tenants and insufficient new affordable homes are being built to meet the needs of existing applicants.

The Council sees the transfer of the housing stock to GCH as an opportunity to build on existing private sector investment in the City, increase local economic activity and support and strengthen the community's health and safety by providing 21st century homes and communities.

3.2 A City for everyone & creating pride in the City

It's clear that both the Council and GCH are working hard to stimulate the local economy. If the Council can help its residents to meet their full potential whilst regenerating the City it will have helped to create a city for everyone and one which has a great deal to be proud of.

There are still almost 30,000 Gloucester residents who experience significant deprivation, and many of these are living in council housing. Five areas of the City are in the national top 10% of deprived areas. These are Podsmead, Matson & Robinswood, Kingsholm & Wotton and two areas of Westgate, all areas including significant numbers of council housing. One area of Podsmead has the highest levels of deprivation in Gloucestershire.

Additionally Barton & Tredworth, two areas in Barnwood and Coney Hill, three in Moreland and one in Tuffley also rank in the top 10 most deprived areas in Gloucestershire. Again, these areas include significant amounts of council housing.

Research clearly shows that residents living in these deprived areas are much more likely to:

- Be long-term unemployed and have a low income;
- Have poor access to education and do less well academically making them more likely to leave school with no work, education or training to go to;
- Suffer health issues including admission to hospital in an emergency, low-birth weight babies, coronary, pulmonary and mental health conditions, making them more likely to be dependent on health, community, adult and childcare services;

- Become a victim of anti-social behaviour, crime or be a young offender; and
- Have a poorer living environment compared to the rest of the county.

GCH is already a key partner on the Community Legacy Partnership which is focused on supporting communities to help themselves through sustainable projects.

One such project is developing a cardboard and textile recycling facility in Matson, run by a local community group and providing employment and training opportunities to local people as well as fulfilling important environmental objectives. Another project has seen the development of a Community Café in Podsmead with the support of two GCH contractors and ongoing mentoring provided by the GCH Financial Inclusion Officer for the volunteer Café manager. The Café aims to provide local employment, healthy low-cost meals and snacks and opportunities for training and workshops for local people.

This and similar projects have been supported by a number of GCH's contractors, with the ability to offer larger, longer term building and maintenance contracts GCH would be able to extend this type of support and really start to see these areas pulled out of deprivation.

Much more could still be achieved if GCH was free to raise additional resources to support more social enterprises and local partnerships. GCH commissioned Baker Tilly to undertake a fundamental impact assessment of the wider long-term financial benefits of transfer, looking particularly at the increased employability and training opportunities and the physical and mental health benefits of investment in residents' homes. They have identified potential financial benefits split down into benefits arising from building new homes, benefits arising from improvements to sustain non-traditional existing homes and enhanced organisational flexibility. These benefits have been included in the Cost/Benefit Analysis provided in this business case.

The un-inflated annualised cash flows for each type of benefit provided by Baker Tilly based on the work in their report have been used to populate examples of additional benefits.

Supporting Information: Annex A Part 4c Additional data inputs - Baker Tilly cash flow benefits

3.3 Conclusion

Stock transfer elsewhere has already had a profound impact on social housing in England. Since 1988 around 1.3 million former council homes have been transferred to the ownership of private registered providers.

It has allowed billions of pounds of extra investment to be made in bringing homes up to a decent standard and the delivery of thousands of new affordable homes by newly created private registered providers of social housing.

In turn, housing regeneration has created much needed community regeneration by providing additional employment, training and apprenticeship opportunities in the most deprived areas.

Housing Associations lever in private investment – matching every £1 of public investment with £6 of their own resources to build new affordable homes. Every home built creates 2.4 jobs in total for the UK economy.

The Council strongly believes that it can replicate these benefits in Gloucester by releasing GCH to significantly invest in the City Council's homes and communities, outside of the constraints of Government borrowing.

Stock transfer will also protect over £38 million of investment made in recent years via ALMO funding and allow the properties to be improved from a decent base rather than risk decline which is more costly to put right.

GCH has attained a significant number of national awards, accreditations and high levels of customer satisfaction confirming the organisation's status as cutting edge in the fields of housing and tackling anti-social behaviour, but there is so much else GCH could do to help the Council and communities of Gloucester. If converted into a charitable social enterprise that owns and manages its own homes it can at least maintain the current standard of services to tenants but also be free to provide a range of complimentary services to help tenants and residents across the City. The Council cannot achieve this given the debt cap restriction.

GCH could reduce homelessness, improve tenants' and residents' health, protect their environment, increase their independence, reduce crime and anti-social behaviour, help them to reach their full potential and reduce unemployment.

Tenants would significantly benefit from living in properties that are structurally and thermally sound, helping to maintain their health and reducing their energy bills.

For the Government, this would improve tax income, reduce Government expenditure and most significantly of all, improve the quality of life of its citizens in Gloucester.

3b. THE STRATEGIC CASE

Growth case

The Council and Gloucester City Homes (GCH) have been working on options for effectively maintaining the existing homes and the potential to deliver much needed new homes in the City for nearly five years.

Whilst undertaking the option appraisal, GCH have worked with a local development agency, Ark Consultancy, to assess and understand the development potential of HRA Land. The City is not large in size and is land-locked to a certain extent, which means that development will need to be based around small numbers of new build on vacant areas of land or disused garage sites and/or redevelopment of existing estates to improve the sustainability and desirability of the areas. Ark identified that there appeared to be approximately 10 hectares of land within the City's HRA that may be suitable for development. These sites are still subject to tenant consultation and formal Council approval.

More recently, in order to provide a more focused view of the development potential on sites, the Council procured (at risk) a further study of the sites. Ark undertook a detailed development appraisal of six exemplar sites which covered a range of opportunities including social rent and / or market sales. These sites covered a selection of each of the types of land available – cleared land, garage sites and redevelopment of existing hard-to-let properties. Development appraisals and example plans have been developed, but to date there has not been any direct consultation with tenants and residents, as without transfer, the Council is highly unlikely to be able to develop new homes.

The six exemplar sites cover around 1.8 hectares of land and could support the provision of 80 new homes in total (these specific examples would include some replacement of existing stock).

Land Areas

		Hectares
1.	Site A	0.12
2.	Site B	0.12
3.	Site C	0.77
4.	Site D	0.3
5.	Site E	0.21
6.	Site F	0.30
	Total land area	**1.81**

Note **-** A further site was judged not to be suitable for development. This equates to around 0.2 hectares so this was deducted from the test sample of 2 hectares and the total 10 hectares is reduced to 9.8 hectares.

Dwelling density

Ark applied the results of the exemplar sites to the total land available. They advised that on the sites studied the dwelling production is 80 across 1.81 hectares so an average development density of 44 units/hectare. So, if allowing only for the loss of one site across the whole portfolio of sites this achieves:

9.8 hectares @ 44 units/hectare = 431 units

Allowing for a 10% attrition rate:

9 hectares @ 44 units/hectare = 396 units

Ark advised GCH to adopt a simple modelling number of 400 units which is closer to the lower production level and therefore more prudent.

Copies of the draft plans developed for the exemplar sites have already been provided under separate cover. These sites are also still subject to tenant consultation and formal Council approval.

For the purpose of the application to transfer, the business plan assumes that 100 new build homes at affordable rents would be built over the first four years after transfer at 25 per year. The individual schemes would be subject to consultation and the usual formal approval processes once an application to the Disposals Programme is accepted and a "Yes" vote is secured. GCH and the Council would want to avoid incurring any further costs at risk and raising tenant expectation or concern in advance of a ballot.

Whilst in reality, there is a desire to have mixed tenures, the plan is based on provision of 100 homes at affordable rents (80% of estimated market rent) in order to consider the facility required and to request an expression of interest from funders.

As discussed below in Section 12 (VAT shelter), the current valuation and business plan includes 50% of the VAT shelter to increase the price paid and reduce debt write-off. The commentary explains that the proposal for the use of any remaining VAT shelter income after taking into account any pre-transfer liabilities would be to support new build beyond that included in the present business plan. For prudence to reduce the risk of non-generation of income over 15 years, this has not been included in the business case. The work on development shows that there is sufficient capacity to be able to utilise these funds in future to provide additional development and/or regeneration of areas. Use of VAT shelter in this way will result in future flows of additional irrecoverable VAT to HMT.

1a. Additional market homes

1a(i). Annex A Part 4 asks for a profile of the additional new market homes built as a result of transfer (i.e. which would not be built without transfer) split between homes for private rent and homes for sale.

The six exemplar sites identified for detailed development appraisal were planned looking at either social rent levels (not affordable rents) or a mix of market sales and social rent. The mix of tenures considered by Ark was 66% social rent and 33% market sale. The market sale element was to be delivered on a low-risk basis for GCH by sale of the land required for the market sale homes to a developer with the developer taking the risk of actual development. Whilst it is desirable to promote tenure diversity in the various neighbourhoods where the sites are located, given the limitations on land availability, it is essential that resident consultation is undertaken before plans are fully developed and subject to formal approval processes.

There is, in the longer term (post four years), considerable scope to embark upon comprehensive estate regeneration particularly in Podsmead and Matson. Both these areas have been subject to some preliminary thinking on a vision for renewal and this envisages a substantial physical change and rebalancing of tenure to introduce more market sale and market rent opportunities.

There is also an opportunity to be part of the future development requirements as set out in the current Joint Core Strategy document which identifies the need for a further 12,015 new homes to be provided over the remaining 18 years of the 20-year strategy, of which 7,798 would be for market sale, 745 for shared ownership and 3, 472 for affordable / social rent.

At this stage, GCH have not included any market sales, but wish to consider market sale and shared ownership options for developments on land beyond year 5 subject to the availability of finance and detailed development appraisals at that time. The work undertaken by Ark has identified the possibility of a further 300 homes that could be built on the transferring land available alone. This would form part of a medium-term plan for development arising once GCH has established itself as a landlord and successful developer of new homes. Funding is more likely to be available if GCH can achieve this in the short-term and look to negotiate further loan facilities relying on its reputation and credit status.

1a(ii). Why are these homes not deliverable without transfer (e.g. through disposal of land, a joint venture etc.)? Explain your response.

The Council has reached its debt ceiling and given the cost of works required to maintain the existing stock (particularly the non-traditional homes), it is estimated that it cannot borrow to build its own homes for at least 25 years.

1a(iii). What is the current ownership of land which will be developed?

The identified 9.8 hectares is all City Council owned. The wider estate regeneration covers largely City Council owned land but also includes County Council Highway and some open space.

1a(iv). What is the delivery assurance for homes planned?

- **For those planned in the near term (e.g. years 1 – 5) please give evidence of certainty of delivery (e.g. that planning permission is in place, that the land is identified in the local plan).**

  Three of the identified exemplar sites are cleared and have existing planning consents for residential development. Other sites are already developed land that is in the Council's ownership and where services have been carefully plotted and service capacities and other physical development dimensions investigated. A sample of the identified development sites have been subject to design feasibility and costing studies.

  Detailed development appraisals have been provided by Ark, and if the application is accepted and tenants vote in favour of transfer, the Council plans to commence visioning exercises with tenants and residents to progress these sites. It would be the Council's intention to provide details in the offer document to improve the offer to tenants beyond that deliverable by the Council. Whilst there are no market sales in the current plans, where they can be integrated in the plans developed with the visioning group, these would hopefully be additional to the affordable rented homes assumed in the plans.

- **For those planned in later years indicate your view of the likelihood of delivery**

  The regeneration sites form these later years' opportunities. Although the Council owns these sites it fully recognises that there is a need for close consultation with the local communities and a proactive promotion of the potential benefits of regeneration. There is a strong appetite for improvement and likelihood is realistically 60%.

  The risk of delivery in a changing financial and economic climate limits the reliability of including estimates in the transfer business plan. For the purposes of demonstrating viability to the housing regulator, GCH would want to limit its development borrowing facility to £10m. With this in mind, at this stage, it has not included any market sales or shared ownership homes beyond Year 5, but wishes to consider further options for developments on land beyond Year 5 subject to the availability of finance and detailed development appraisals at that time.

1b Additional affordable homes (note that Government assumes any homes built with Government grant through any future affordable homes programme would displace new build elsewhere) in areas where there is continuing need and demand, in the context of current government policy in the first five years following the transfer and across a full 30 year business plan.

1b(i). Annex A Part 4 asks for a profile of the additional new affordable homes built as a result of transfer (i.e. which would not be built without transfer)

As described above, the plan assumes that 25 units for affordable rent will be built in each of the first four years after transfer. There is no assumption of any Social Housing Grant, and the plan would require an additional facility of £10m from funders.

GCH may however seek to deliver through a consortium which could provide an additional funding resource to build even more homes. The land already identified which is 9.8 hectares would provide for at least 400 homes. There is also considerable potential for developing a range of housing on additional sites identified in the City Plan, which identifies land for over 7,500 homes and the Joint Core Strategy which identifies land for just under 4,500 homes on the urban fringe of Gloucester in Tewkesbury Borough Council's district.

1b(ii). What is the evidence of need and demand for the number and type of homes in the context of current government policy?

There are two key sources of housing demand information. Both show a strong and continuing demand for affordable homes in Gloucester.

The first is the choice based letting Gloucestershire-wide housing register, known as Gloucestershire Homeseeker, run collectively by all the Gloucestershire District Councils. This identifies 4,448 households (Oct 2013) wanting social or affordable rented homes in Gloucester.

The housing of families remains a high priority for the Council and the shortage of family housing is acute. Smaller flatted accommodation is also required to meet the needs of an increasing number of smaller households and to help people needing to downsize to avoid having to pay more rent resulting from the removal of the spare room subsidy.

The table below shows the various bands of need. Emergency, Gold and Silver bands are deemed to be in need of moving – this equates to 2,103 households. The Bronze band represents people with a wish rather than a need to move. Over 90% plus of monthly lettings are regularly made to people currently living within Gloucester and the remainder to applicants from outside Gloucester.

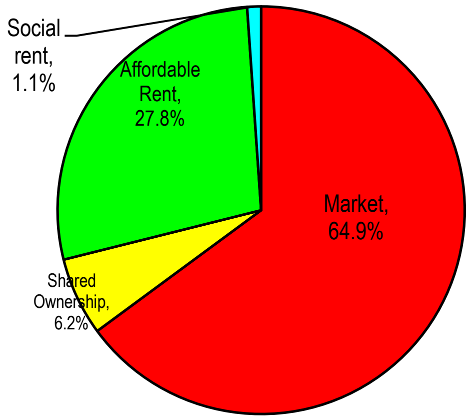
Band	Number of Households	Percentage of Households
Emergency	187	(4%)
Gold	383	(9%)
Silver	1,533	(34%)
Bronze	2,345	(53%)
Total	**4,448**	**100%**

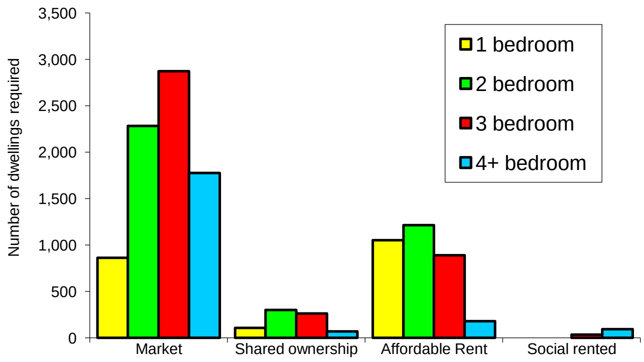
The second major source of housing demand information is the Gloucestershire-wide **Strategic Housing Market Assessment** carried out on behalf of the Gloucestershire District Councils by HDH Planning & Development Ltd. These figures underpin the **Joint Core Strategy** (between Gloucester, Cheltenham and Tewkesbury Councils) and Gloucester's own **City Plan**.

These documents identify the need for 13,100 new homes to be provided between 2011and 2031**.** 1,085 homes have already been provided in the first two years. This leaves 12,015 new homes to be provided in the remaining 18 years up to 2031.

As the table shows below, 3,342 homes need to be for affordable rent, 130 for social rent and 745 for shared ownership. GCH would also hope to be involved in providing some of these much needed new homes and has made provision in its Business Plan for providing up to 100 new homes in the first four years, after purchasing the Council's homes.

New housing required over 18 years		**One bed**	**Two bed**	**Three bed**	**Four bed**
Market	7,798	863	2,286	2,873	1,776
Shared ownership (SO)	745	110	302	263	70
Affordable rent	3,342	1,053	1,217	891	181
Social rent	130	0	0	35	95
Total	**12,015**	**2,026**	**3,805**	**4,062**	**2,122**





The first table that follows shows how affordable, new homes will be to those in housing need, as identified by the Gloucestershire Housing Market Assessment Update 2013. The second table shows how affordable, new homes will be to those, on the Gloucestershire Homeseeker housing register.

The figures are presented cumulatively, so that any household that can afford a more expensive version of affordable rent are included within the figures for the cheaper versions. For example, households able to afford Affordable Rent at 80% are included within the number of households able to afford Affordable Rent at 70%.

Size and type of Affordable Rent home required by those households in Housing Need, identified by the Gloucestershire Housing Market Assessment Update 2013.				
Affordability	**One bed**	**Two beds**	**Three beds**	**Four beds**
Affordable Rent at 80%	28.7%	10.8%	16.5%	0.0%
Affordable Rent at 70%*	30.9%	15.2%	31.2%	0.0%
Affordable Rent at 65%*	30.9%	30.9%	52.4%	0.0%
Affordable Rent at 60%*	30.9%	30.9%	65.1%	0.0%
Social rent	33.2%	30.9%	66.8%	70.4%
Require subsidy	66.8%	69.1%	33.2%	29.6%
Total number of households (per annum)	**1,219 (100%)**	**1,046 (100%)**	**344 (100%)**	**158 (100%)**

* Not all sizes tested depending on cost relative to social rent,
Source: Gloucestershire County Strategic Housing Market Assessment, 2013

The second table is based on Housing Register applicants and the type of property they need, however this indicates that no applicants can afford rents at social rent levels or higher, without the aid of subsidy (formerly Housing Benefit, now the Local Housing Allowance).

Size and type of Affordable Rent home required by those on the Housing Register in Gloucester (figures presented cumulatively) Source: Gloucestershire Homeseeker				
Affordability	**One bed**	**Two bed**	**Three bed**	**Four bed**
Market housing	6.4%	5.7%	2.9%	0.0%
Affordable Rent at 80%	19.5%	4.9%	23.8%	0.0%
Affordable Rent at 70%*	28.8%	15.6%	30.7%	0.0%
Affordable Rent at 65%*	30.5%	30.2%	30.7%	0.0%
Affordable Rent at 60%*	30.5%	30.2%	40.0%	0.0%
Social rent	32.6%	30.2%	40.0%	0.0%
Require subsidy	61.0%	64.0%	57.1%	100.0%
Total number of households	**2,329 (100%)**	**1,542 (100%)**	**595 (100%)**	**149 (100%)**

*Not all sizes tested depending on cost relative to social rent.
Source: Gloucestershire County Strategic Housing Market Assessment, 2013

This is an iterative process and discussions are continuing between Strategic Housing Officers, Planners, GCH, the development consultant and the architect to fine tune the proposals for future consultation with local residents and for submitting to the normal formal approval processes.

1b(iii). Are these homes deliverable without transfer (e.g. through disposal of land, a joint venture, etc.)? Explain your response.

The Council has reached its debt ceiling and given the cost of works required to maintain the existing homes (particularly the non-traditional homes), it is estimated that it cannot borrow to build its own homes for at least 25 years. Under the Reinvigoration of the Right to Buy scheme introduced in 2012, Gloucester City are selling more properties than their HRA debt settlement assumed and as such have last year and this year generated receipts to be used within three years for the provision of new built properties, or be returned to the Government.

This funding can only count as 30% towards the cost of new provision, so the Council needs to find the other 70% either from its own resources or a partner. The receipts cannot be used in conjunction with any Social Housing Grant which makes a development less attractive to partners. It would not wish to see the provision returned to the national pot and the community would not want to see a net loss of social housing in Gloucester as a result.

The smaller scale identified sites are complex and in the midst of other established City Council assets. In some cases the Council needs to work closely with its existing tenants to realise the development opportunity. The larger scale regeneration will only release land as a result of redevelopment and re-planning of assets in the City Council's ownership, which include tenanted homes. The land that could be redeveloped on the Matson and Podsmead estates surrounds the large blocks of non-traditional stock and has traditionally been for recreational purposes. The land cannot be developed without redevelopment of these blocks.

The ALMO currently manages the homes on the estates and given the limitation on land and the integration of new homes, the introduction of other landlords on the estates would affect the quality and cost effectiveness of managing the estates and could be confusing for residents.

There are potentially other routes that might be considered, but transfer, it is believed is the quickest and most certain. The procurement process requires to put in place a joint venture or some form of development agreement is likely to require an OJEU procurement route and as such but would take much longer to implement, and could potentially be more expensive than the transfer option. New homes for people in Gloucester are required immediately and work on new building could begin immediately after transfer. If the application to join the Disposals programme is agreed, GCH could start to work on development consultation and plans for new build in Spring 2015.

These homes are planned to be affordable homes and as such will require a Registered Provider to manage and maintain them. Some new provision will involve replacement of existing hard-to-let stock and may require decanting. GCH know the tenants and tenants have trust in GCH to manage this process in a compassionate and caring manner. Transfer provides a solution to the financing, managing maintaining and speed of delivery of new homes.

1b(iv). What is the current ownership of land which will be developed?

The currently identified 9.8 hectares of potentially developable land is all City Council owned. The wider estate regeneration covers largely City Council owned land but also includes County Council highway and some open space.

Whilst Gloucester is relatively land locked, the draft Joint Core Strategy also outlines a range of strategic allocations within the City Boundary and urban extensions around Gloucester, where concentrated development is proposed.

Post transfer, GCH could be a key strategic developer or facilitator of development in partnership with other housing organisations and developers to meet the demand for 12,015 new homes, just over 7,500 homes within the City and just under 4,500 in the urban extensions.

1b(v).What is the delivery assurance for homes planned?

- **For those planned in the near term (e.g. Years 1 – 5) please give evidence of certainty of delivery (e.g. that planning permission is in place, that the land is identified in the local plan).**

  The Council have clearly identified 9.8 hectares of potential development land. This land has the potential to provide up to 400 homes. However it is important to be realistic about what can be achieved quickly and 100 homes is considered to be realistically achievable within four years.

  Three of the identified exemplar sites are cleared and have existing planning consents for residential development. Other sites are already developed land that is in the Council's ownership and where services have been carefully plotted and service capacities and other physical development dimensions investigated. A sample of the identified development sites have been subject to design feasibility and costing studies.

  Detailed development appraisals have been provided by Ark, and if the transfer application is accepted and tenants vote in favour of the transfer, the Council plans to commence visioning exercises with tenants and residents to progress these sites. To ensure certainty in delivery early discussions with planners is proposed to ensure that proposals are in line with the planning authority's requirements. Consultation with tenants and local residents will begin tentatively in early 2014, with more intensity if the application is approved.

  GCH has its framework development agency Ark available to provide further assistance and can also look to other larger providers such as Capita Property & Infrastructure to provide development support, particularly in the short term. It is the Council's intention to provide details in the offer document to improve the offer to tenants beyond that deliverable by the Council. GCH intend to extend the current senior management structure to provide a Director of Asset Management and Development to effectively manage the internalised property service and development in future.

The Council is holding a fund of around £600k for re-provision of new homes arising from RTB sales. It would like to consider the use of these receipts to part-fund the new build within the transfer business plan to ensure that the maximum amount of benefits from new build can be achieved. However, until the Council has more certainty around the success of its application to transfer, then it cannot consider how it will use the receipts. If the Council is successful, then it may be able to use its receipts generated for new build provision to fund early planning work (post ballot and pre transfer) to ensure the required planning consents are at an advanced stage for transfer. GCH would then be able to make a very early start on delivering new homes.

There is significant local political pressure and support in Gloucester for the early start on site for building new homes after transfer. This provides an added impetus for GCH to make a prompt start on new build.

- **For those planned in later years indicate your view of the likelihood of delivery and associated risk, with any backing evidence.**

The risk of delivery in a changing financial and economic climate limits the reliability of including estimates in the transfer business plan. For the purposes of demonstrating viability to the Housing Regulator, GCH would want to limit their development borrowing facility to £10m. With this in mind, at this stage, GCH has not included any affordable homes beyond Year 5 in its Business Plan, but wishes to consider further options for developments on land beyond Year 5 subject to the availability of finance and detailed development appraisals at that time.

The work undertaken by Ark has identified the possibility of a further 300 homes that could be built on the transferring land available alone. The redevelopment of estates at Matson and Podsmead would also form part of the desire to deliver more and better more efficient and sustainable housing beyond Year 5.

This would form part of a medium-term plan for development arising once GCH has established itself as a landlord and successful developer of new homes. Funding is more likely to be available if GCH can achieve this in the short term and look to negotiate further loan facilities relying on its reputation and credit status.

2 Decent Homes and other capital works

Please note that for the purposes of this business case, it has been assumed that whilst delaying works to non-traditional properties could be deemed to allow them to fall into non-decency, the Council has chosen to show the effect as being an increase in long term voids. As such, the entries in Appendix 4c (30-year cash flows) are shown as benefits in avoiding long term voids rather than non-decency. The benefits of doing the non-traditional work have therefore only been included once in that appendix to avoid duplication.

The sections below are completed on that basis.

2a. For an Authority which has a <u>Backlog</u> of non-decent homes (i.e. homes non-decent at 1 April 2012) which is more than 10% of their stock: what is the estimated cost to bring that Backlog to 10%?

At 31st March 2012 there was no backlog of Decent Homes work. The Council's stock was deemed 100% decent following the investment of Decent Homes funding. However from 1st April 2014 the underinvestment will mean that some stock will start to slip behind the Government's decency standards. This is because the Council will not able to afford the necessary structural repairs to its non-traditionally built homes.

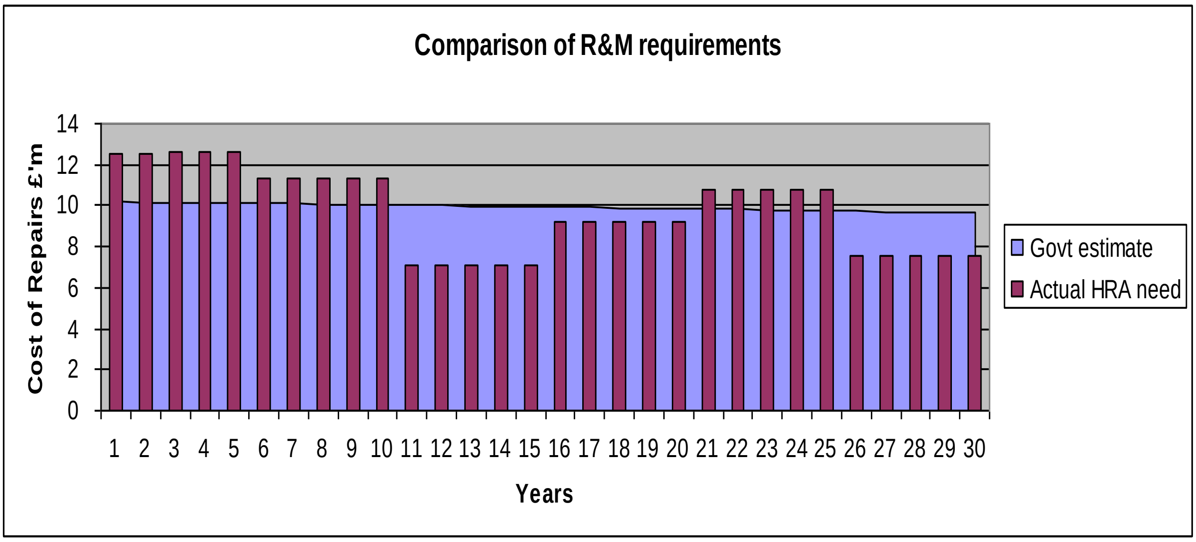
2b. Annex A Part 4 asks for a profile of additional non-decent homes in the absence of transfer. Please include here a comprehensive narrative explanation of why homes can be brought to/ kept at the Decent Homes Standard as a result of transfer, and this cannot be achieved in the self-financing scenario; referencing respective business plans as necessary. What is the estimated cost of the additional Decent Homes works?

It is important to emphasise that before GCH was established there had been significant under investment in the Council's homes. Creating GCH, unlocked the necessary borrowing approvals of around £38 million to bring all the homes up to the Decent Homes Standard. Now there is a necessary requirement to continue to provide high levels of investment, to maintain the homes and ensure they remain fit for purpose and decent over the next 30 years.

The stock condition survey from Michael Dyson Associates shows the following expenditure is required on the stock at 2014-15 prices throughout and including inflationary uplift, preliminary costs and professional fees but no VAT:

Year	Catch Up Repairs £'000	Planned Maintenance £'000	Contingencies £'000	Structural & Thermal £'000	Non-trad £'000	Disabled adapts £'000	Environmental works £'000	Day-to-Day £'000	Total £'000
1	168	3,928	277	1,003	2,778	463	348	3,538	12,503
2	168	3,928	277	1,003	2,778	463	348	3,538	12,503
3	168	3,928	277	1,003	2,858	463	348	3,538	12,583
4	168	3,928	277	1,003	2,858	463	348	3,538	12,583
5	168	3,928	277	1,003	2,858	463	348	3,538	12,583
6	0	2,239	216	424	4,481	463	0	3,538	11,360
7	0	2,239	216	424	4,481	463	0	3,538	11,360
8	0	2,239	216	424	4,481	463	0	3,538	11,360
9	0	2,239	216	424	4,481	463	0	3,538	11,360
10	0	2,239	216	424	4,481	463	0	3,538	11,360
11	0	2,369	187	39	470	463	0	3,538	7,066
12	0	2,369	187	39	470	463	0	3,538	7,066
13	0	2,369	187	39	470	463	0	3,538	7,066
14	0	2,369	187	39	470	463	0	3,538	7,066
15	0	2,369	187	39	470	463	0	3,538	7,066
16	0	4,419	251	56	99	463	348	3,538	9,173
17	0	4,419	251	56	99	463	348	3,538	9,173
18	0	4,419	251	56	99	463	348	3,538	9,173
19	0	4,419	251	56	99	463	348	3,538	9,173
20	0	4,419	251	56	99	463	348	3,538	9,173
21	0	5,983	292	368	106	463	0	3,538	10,750
22	0	5,983	292	368	106	463	0	3,538	10,750
23	0	5,983	292	368	106	463	0	3,538	10,750
24	0	5,983	292	368	106	463	0	3,538	10,750
25	0	5,983	292	368	106	463	0	3,538	10,750
26	0	3,304	209	33	14	463	0	3,538	7,562
27	0	3,304	209	33	14	463	0	3,538	7,562
28	0	3,304	209	33	14	463	0	3,538	7,562
29	0	3,304	209	33	14	463	0	3,538	7,562
30	0	3,304	209	33	14	463	0	3,538	7,562
	838	111,211	7,162	9,613	39,978	13,876	3,477	106,151	292,307

The total of £292.3 million (at 2014-15 prices) for 4,509 properties to be spent on capital and revenue repairs and maintenance in total, compares to the total of £297.9 million (at 2012-13 prices) for 4,504 in the self-financing assumptions. The difference can be seen more markedly however, if the profile of the works required is considered:



The blue shading shows the amount available in the self-financing assumptions annually and can be seen to be based on equal annual sums reducing only for losses in stock due to RTB sales. The red columns show the actual total R&M expenditure required on Gloucester City's stock.

The survey shows that in terms of the split between capital and revenue spend:

- the amount of capital investment works actually required over 30 years is £186.156 million compared to £143.962 million per the notional self-financing assumption, so an increase of £42.2 million, but £35.3 million of that difference arises in the first ten years;
- The revenue spend associated with the capital investment at that level and at the right time is £47.8 million less over 30 years than the self-financing assumptions.

Without transfer, the Council would need to consider its priorities for investment in its stock – does it use the resources it has to undertake planned maintenance to all properties as they require it, or does it attend to the structural deficiencies in its stock? Stay as we are is not an option.

As components reach the end of their lifetime, without replacement this will lead to some of the Council's homes becoming non-decent. In accordance with the stock condition survey, it is anticipated that to continue to keep the homes decent the Council will need to invest over the first ten years to pay for 5,414 component renewals in the homes i.e. kitchens, bathrooms etc.

In addition other components are likely to fail but whose failure would not immediately make the home non-decent. If this additional work is not carried out, the homes will continue to deteriorate ultimately leading to those homes falling into non-decency as the number of components failing continues to increase. The intention would be for this work to receive priority. If the Council does not replace these components in a planned programme it will inevitably have to replace them piecemeal in a less cost effective way through response repairs, leading to increases in those budgets.

In accordance with the surveys carried out, the Council has received clear advice from specialist structural engineers, Michael Dyson Associates, on the need to fund necessary **structural repair and improvement works to the concrete constructed flats and non-traditional homes,** which together account for 1,732 homes, or 38.9% of the stock. A further intrusive survey of the non-traditional stock has been undertaken to identify what specialist investment will be required over the next ten years.

This work will require £36.50 million (including fees but excluding VAT) over the next 10 years with a further £2.35 million in years 10 -15, giving, in total, an investment need of £38.85million. Without transfer the Council, in order to try to maintain Decent Homes Standard for as many properties as possible, would have to make the choice to delay the expenditure required on the non-traditional stock. This would be in the hope that the decay is not as rapid as advised. If the survey predictions are correct then the decision not to spend on the non-traditional stock in favour of trying to maintain Decent Homes will result in long term voids arising. The effects of this have been included in section 2d below in commentary on the effects of void properties.

It has been demonstrated above that if the properties do become void, then this will have a knock-on impact on the HRA's ability to achieve its Decent Homes Standard from Year 16 onwards where over £5 million per annum would need to be saved, which is the required spend on planned maintenance. Properties from year 16 onwards will eventually fail the Decent Homes Standard. It has been shown that without transfer then there is a scenario where the £107 million of works over 30 years could be lost.

Year	Planned Maintenance £'000	Total Structural, Thermal & Non-Trad £'000	Delayed Expenditure Req'd £'000
1	3,928	3,781	1,399
2	3,928	3,781	3,180
3	3,928	3,862	3,316
4	3,928	3,862	3,054
5	3,928	3,862	2,959
6	2,239	4,905	2,964
7	2,239	4,905	2,877
8	2,239	4,905	2,790
9	2,239	4,905	2,704
10	2,239	4,905	2,619
11	2,369	509	2,739
12	2,369	509	2,667
13	2,369	509	2,594
14	2,369	509	2,521
15	2,369	509	2,450
16	4,419	154	5,198
17	4,419	154	5,133
18	4,419	154	5,068
19	4,419	154	5,004
20	4,419	154	4,940
21	5,983	473	5,752
22	5,983	473	5,689
23	5,983	473	5,626
24	5,983	473	5,563
25	5,983	473	5,501
26	3,304	47	2,790
27	3,304	47	2,728
28	3,304	47	2,667
29	3,304	47	2,605
30	3,304	47	2,544
	111,211	49,591	107,643

£107 million pushed back for 30 years.

Amounts equivalent beyond year 10 of both planned maintenance budget or non-trad + structural and thermal budget together, leaving little or no investment at all.

Additional non-decent homes arising as a result of not transferring have not been quantified in the Appendix, as the Council would seek to delay non-traditional works to avoid non-decency in the short to medium term. This is likely to result in long terms voids arising which have been included in full and discussed below in 2d. It should be recognised however, that eventually the amounts that may need to be saved will result in a downward spiral which will ultimately lead to a complete failure of business and as such the Council as a landlord.

Accessibility improvements (sometimes referred to as disabled adaptations) were allowed for in the self-financing assumptions but the level required in the first five years is higher than that included in the debt settlement. The nature of the Council's housing stock (in blocks) increases the need to respond to individual tenant requirements for improvements to their homes, allowing them to maintain their independence for longer and take the pressure of more costly supported housing, local care homes and in acute cases, hospital wards; and the public purse that often funds these more intensive forms of support and accommodation. It also helps us to help the National Health Service alleviate bed blocking.

Accessibility works also include improving parking facilities so that more tenants can park their cars closer to their homes, both to improve access to the home for tenants with restricted mobility, improve security for the cars that are either parked within the garden of the home or at least close by where they can be seen; and to improve the flow of traffic around the estates, in particular for emergency vehicles such as ambulances and fire engines, if they are required to visit council homes or other homes on the estate.

The Council have up until now been spending around £670,000 per annum on such works as a result of need, and the current estimate including fees and inflation at 2014/15 prices is £462,500 which is less than the current level of demand. The self-financing allowance at 2012-13 prices was £307,000 per annum.

The transfer business plan shows that it can meet all required expenditure to meet the Decent Homes Standard per the stock condition survey provided, and ensure that the necessary non-traditional, structural and thermal works are completed at the right time within the facility available from funders.

2c. Are there any other (non-Decent Homes Standard) capital works required for sustainability of your stock?

There are a range of environmental works which the Council would wish GCH to carry out to the stock to ensure their sustainability.

Environmental works help to ensure the surrounding environment, and internal communal areas, for example, to the blocks of flats make them attractive to prospective tenants and avoid them becoming harder to let. This includes providing communal garden areas, improved security access systems, lifts where these did not previously exist and more pleasantly decorated interiors with new non-slip flooring and low energy lighting.

The communal areas would also benefit by installing fencing to reduce opportunities for anti-social behaviour. Additional energy efficient lighting has been installed to help reduce the fear of crime in internal and external communal areas. This has demonstrated that improvements in security for the tenants reduce anti-social behaviour and all its attendant costs.

If yes:

2c(i) What is the estimated cost of these works?

The estimated costs in the survey for environmental works is £347,750 including fees at 2014-15 prices per annum in Years 1-5 and years 16 – 20 (shown separately in the table shown in 2b above).

2c(ii) Is delivering these works possible without transfer (e.g. within your Housing Revenue Account business plan or through an alternative approach to the problem)? Please explain.

No. The Council is at its debt cap and cannot borrow to meet the anymore than its priority investment in attempting to maintain Decent Homes.

2c(iii) How will the transfer business plan address these works?

The transfer business plan demonstrates that borrowing to achieve this level of sustainability of the stock is achievable within the borrowing facility available.

2d. Annex A Part 4 asks for a profile of long term voids prevented because of additional investment. Please state your view of the external costs of these issues if not addressed. Please show the difference in the number and profile of long term void homes between the transfer and non-transfer scenarios.

There are many reasons why rented homes become void, including the real or perceived social characteristics of a certain area, the suitability of homes to meet local demand, the "attractiveness" of the homes and the affordability of rent. However the likelihood of homes becoming harder to let and eventually unavailable to let is heavily influenced by their condition.

The condition of the key components of a property is measured against the Decent Homes Standard; and Part A of the Standard, the Housing Health and Safety Rating System (HHSRS), requires the risks presented by a property to tenants and others to be assessed and either removed or reduced to an acceptable level, in order to comply with the Standard as a whole.

A significant proportion of the homes were built in a "Non-Traditional" or "System Built" way. This building technique presents a range of different issues which need to be monitored on a regular basis. Consequently the Council have commissioned regular five-yearly surveys by specialist surveyors between 1995 and 2011 to monitor their condition.

The most recent surveys found that the non-traditionally built homes would shortly require a combination of remedial and preventative work to halt the effects of carbonation of the concrete. Following the last full stock condition survey, GCH were concerned about the condition of the non-traditional properties, which form blocks of housing on the largest of the City's estates and requested more intrusive survey work to be undertaken. Michael Dyson Associates carried out these surveys. This identified almost £40 million (at 2011/12 prices and exclusive of fees and VAT) of work required over 30 years to these properties, with £33 million (net) of that work required in the first 10 years to avoid further deterioration.

Concrete is the major structural component of most of the non-traditionally built homes. Carbonation of concrete happens when exposure to carbon dioxide in the atmosphere reduces its alkalinity. It is that alkalinity which prevents the steel reinforcement (embedded in the concrete to give it strength) from rusting when the concrete gets wet. In carbonated concrete the metal then rusts and expands forcing the concrete to splinter and fall off, often known as spalling. If this process is not stopped it will inevitably lead to the metal and concrete losing strength and ultimately the homes become unstable.

The likelihood of concrete becoming carbonated and the rate at which this takes place depends upon a number of factors including the degree of exposure to air, the amount of cement used in the mix and the use of chemicals to speed the setting process.

In addition the relatively poor thermal efficiency of many non-traditionally built homes results in condensation happening inside the wall construction and this usually leads to carbonation taking place more quickly.

The degree of deterioration of non-traditional homes – particularly those constructed of concrete – is assessed under the Non-Traditional Homes Appraisal Scheme. Categories range from Category 1 where the home requires nothing more than an anti-carbonation paint to maintain the concrete's alkalinity; to a Category 5 which requires substantial rebuilding to completely replace failed components.

Homes with poor thermal efficiency will require measures to ensure condensation takes place outside the external wall and irrespective of categorisation the recommendation is generally to install insulation, usually external wall insulation. This preventative approach can be carried out without tenants having to leave their homes.

Only the protection or replacement of the concrete will ensure that the structure of the homes remain safe.

The rate of carbonation/moisture penetration is more difficult to predict. It depends on the characteristics and location of the concrete and, once compromised, the rate of moisture penetration tends to increase, accelerating the process. However, before a structure becomes too weak to support the home, the intrusive surveys will have identified the increasing risk and concrete will have started falling off exposing the rusted metal beneath. In addition there are likely to be high humidity levels in the home leading to damp and condensation, all of which increases the health risks to tenants, which ultimately impacts on community based NHS services such as GPs Health Visitors etc. and acute NHS services such as hospitals.

To prevent this structural deterioration from happening and to protect the tenants, the Council must target these homes for remedial work and external wall insulation. This will also avoid homes becoming un-lettable due to their worsening condition and avoid constantly increasing costs of repair if the remedial work is delayed.

The Michael Dyson Associates report included a recommended timetable for repairs based upon the type and condition of the homes with the recommended dates being the optimum to avoid unnecessary deterioration.

The tables and graph below highlight specific issues with each type of non-traditional property type, the recommended repair profile and the potential for homes becoming unviable.

Table 1 summarises the various property types against the three terms of reference considered by the surveyors. It will be seen that every property type exhibits at least one negative characteristic. Alongside these performance-related issues it is also germane to the viability of these properties that with the exception of the "Duplex", BL8 and Oolite properties a failure to maintain these properties will result in a marked deterioration in visual appearance as the symptoms of concrete spalling and moisture penetration manifest on the external walls.

Table 1: Faults by type of property

Property Type	Structure	Damp	Thermal	Year Band
"Duplex" House & Flat	X	✓	✓	6 - 10
BL8 House	X	X	X	11 -15
Laing House	✓	X	✓	1 - 5
Laing Flat	✓	X	✓	6 - 10
Oolite House	X	✓	X	6 - 10
Unity House & Flat	✓	X	✓	1 - 5
Wates House	✓	X	✓	1 - 5
Wimpey No Fine House & Flat	X	✓	✓	6 - 10
Reema Flat	✓	✓	✓	1 - 5

Source: Michael Dyson Associates

Table 2 summarises the recommended intervention dates for the various non-traditional property types within the stock. In meeting these recommended dates the properties will be protected in good time and therefore present no risk of further deterioration. In fact they are improved in terms of thermal performance and aesthetic appearance, making them far more attractive to existing tenants and potential future tenants.

Table 2: Renewal incidences

	CARRY OUT RECOMMENDED WORKS						1,732
	Y1-5	Y6-10	Y11-15	Y16-20	Y21-25	Y26-30	CHECK
DUPLEX	0	58	0	0	0	0	58
BL8	0	0	62	0	0	0	62
LAING HOUSE	294	0	0	0	0	0	294
OOLITE	0	75	0	0	0	0	75
REEMA HOUSE	0	0	0	0	0	0	0
UNITY HOUSE	59	0	0	0	0	0	59
WATES HOUSE	39	0	0	0	0	0	39
WNF HOUSE	0	52	0	0	0	0	52
DUPLEX FLAT	0	47	0	0	0	0	47
LAING FLAT	0	889	0	0	0	0	889
REEMA FLAT	16	0	0	0	0	0	16
UNITY FLAT	10	0	0	0	0	0	10
WNF FLAT	0	131	0	0	0	0	131
TOTALS	**418**	**1,252**	**62**	**0**	**0**	**0**	**1,732**

Source: Michael Dyson Associates

Whilst the rate of deterioration is difficult to predict it is not unreasonable to make the assumption that over a period of five years following the recommended dates homes will become unpopular due to the effects of increasing humidity, decreasing aesthetic appearance and no improvement in thermal performance. Furthermore the increasing risk of concrete deterioration is likely to result in homes requiring continuous reactive repairs which in turn make them unattractive to tenants.

Given that it is difficult to predict the exact number of properties that will become void strictly as a result of deterioration beyond usable limits and health & safety standards, Michael Dyson Associates have advised the Council that a prudent assumption is that some 80% of homes will become unlettable within five years of recommended repair dates if those repairs are not carried out at the advised time. The homes are in blocks and centred mainly on the largest housing estates. This means that if the structure of a block deteriorates to such an extent that it is unsafe, then there are a large number of properties affected by the same problem that become unlettable at the same time, as opposed to single properties being affected. The effect of this is more enhanced as a result.

Almost 1,400 empty homes in the same area will lead to increasing incidences of anti-social behaviour (as recognised by the Government's scheme to reduce the number of empty homes and prevent ASB arising through Empty Homes funding and Cluster funding). People do not feel safe living in areas where derelict properties are boarded up. It has been assumed therefore that the remainder of the properties in each area, that may not be void as a result of structural issues, would become void over the following five years, through being hard to let.

The cost and time taken to deal with anti-social behaviour cannot be understated. Ensuring that large estates do not become void and encourage incidences of ASB that take up valuable resources and affect tenants' lives is imperative. GCH has experienced ASB before is on the City's estates exist at Coney Hill. Houses on the Coney Hill North estate, when built in the 1930's, were highly sought after at the time. Yet social changes led to a totally different picture several decades later. By the late 1980's this area had developed notoriety in Gloucester as a hotspot of crime and anti-social behaviour.

The area further deteriorated into the 1990's until regular incidents of serious anti-social behaviour including buses pelted with stones, assaults, rival family disputes escalating into street battles, and tenants having to be moved following threats and violence. Empty properties would be raided and central heating systems and even electrical wiring were stripped out. It required intensive housing management from the mid 1990's and early 2000's to reverse the decline.

Resources diverted from property maintenance into intensive management of ASB issues will intensify the downward spiral effect of the business.

As a clear cause of ASB, avoiding the increase of empty homes is better value for money than dealing with the inherent management issues that would arise, and the experience gained above provides evidence to support this.

Table 3 bel illustrates this scenario where no homes are repaired and all are allowed to deteriorate without intervention. The property numbers here are newly arising voids within 5 year bands. The total properties becoming void have been split between those arising due to structural issues (limited to 80% but potentially 100%) and those becoming hard to let.

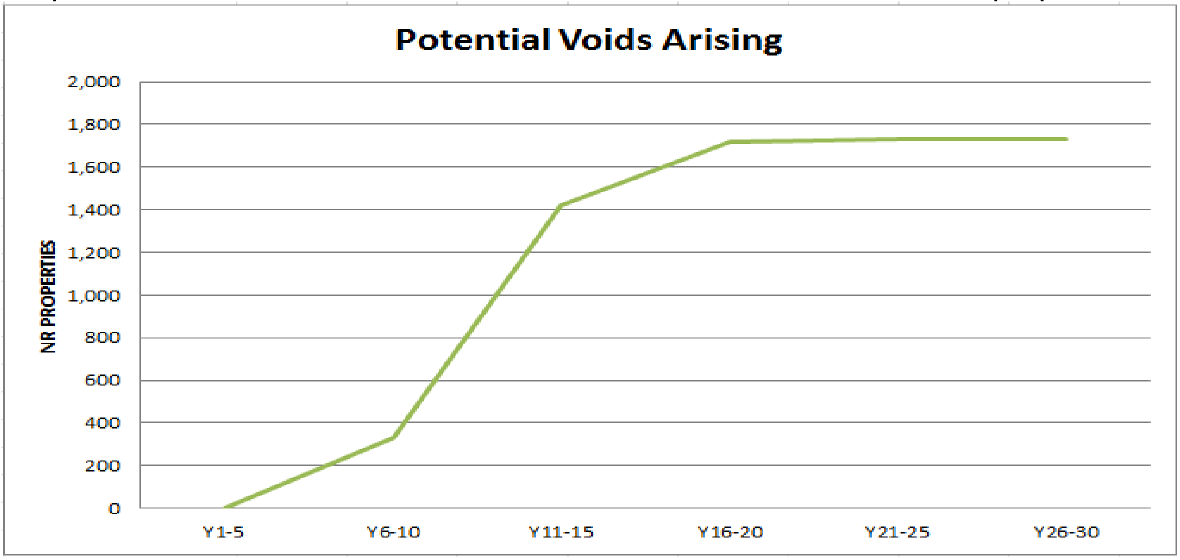
Table 3: Potentially unavailable properties

	ASSUMES 80% UNAVAILABLE IN 5 YEARS 100% IN 10 YEARS						1,732
	Y1-5	Y6-10	Y11-15	Y16-20	Y21-25	Y26-30	CHECK
DUPLEX	0	0	46	12	0	0	58
BL8	0	0	0	50	12	0	62
LAING HOUSE	0	235	59	0	0	0	294
OOLITE	0	0	60	15	0	0	75
REEMA HOUSE	0	0	0	0	0	0	0
UNITY HOUSE	0	47	12	0	0	0	59
WATES HOUSE	0	31	8	0	0	0	39
WNF HOUSE	0	0	42	10	0	0	52
DUPLEX FLAT	0	0	38	9	0	0	47
LAING FLAT	0	0	711	178	0	0	889
REEMA FLAT	0	13	3	0	0	0	16
UNITY FLAT	0	8	2	0	0	0	10
WNF FLAT	0	0	105	26	0	0	131
80% NEWLY ARISING	*0*	*334*	*1,002*	*50*	*0*	*0*	**1,386**
20% FOLLOWING	*0*	*0*	*84*	*250*	*12*	*0*	**346**
TOTALS	**0**	**334**	**1,086**	**300**	**12**	**0**	**1,732**
PROPERTIES REMAIN UNTREATED BEYOND RECOMMENDED TIMESCALES							

Source: Michael Dyson Associates

This scenario results in a profile of increasing potential vacancies between Years 6 and 20 which means, assuming the remaining 20% become void in each of the following relevant five year bands, all non-traditional properties may well become vacant over the next twenty years. If the transfer takes place, there are adequate resources available at the right time to undertake the works and avoid any unnecessary void properties.

Graph 1 – Cumulative void totals re non-intervention in non-traditional properties



Source: Michael Dyson Associates

The result of delays in the necessary work is clearly shown as a peak of 1,000 newly arising vacant properties at Years 11 to 15 with 1,732 vacant homes from years 21 to 25 onwards. That represents over a third of all the City Council's homes and would have a significant detrimental impact on GCH's ability to deliver basic housing requirements to the existing tenants, pose massive issues over decanting those tenants from their homes (particularly without any ability to build new homes), increase the likelihood of anti-social behaviour and also have a severely negative impact on the ability to meet housing need in a City where there are c 4,800 on the housing register.

The effects of re-housing all these tenants until their homes could be repaired and the loss of naturally occurring vacancies would significantly lengthen the time people in other types of unsuitable private and social housing would have to wait before being re-housed, leading to a significant increase in the number of households on the housing register as other newly arising need households joined the register.

This exercise ignores all other factors affecting vacancies but serves to illustrate the potential implications of failing to invest in the non-traditional stock. The increase in void rates has been modelled in the commentary above and results in the work that needs to be delayed increasing from £22 million to £107 million, of which none could be recovered within a 30 year business plan.

3 Local economic activity created through transfer, including employment opportunities, apprenticeships and support for Small and Medium Enterprises.

3a. Annex A Part 4 asks for additional long term economic benefits as a result of transfer. Please explain any activity which creates added jobs or apprenticeship opportunities, why transfer is a necessary condition for the activity, and why this is additional (based on the HM Treasury Green Book definition of additionality).

Background

Gloucestershire has a wealth of information stored within the “Maiden” database which pulls together information from Central and Local Government sources. This database has been used to provide evidence to support the case set out below.

Gloucestershire has a history of slow but steady growth in its working population and this is projected to grow for the rest of this decade. However the increase is only projected to be around 2.8% compared to an increase of 4.3% in the South West and 4.6% in the United Kingdom.

Although, at an average of 3.3%, unemployment rates in the City are falling, the wards containing council housing are experiencing much higher rates (4.3% – 7.9%).

Areas	2013 (%)	2012 (%)	2011 (%)	2010 (%)	2009 (%)
Barton & Tredworth	7.9	8.4	6.2	6.1	6.6
Westgate	6.9	8.3	7.7	8.8	8.9
Podsmead	6.4	6.2	6	7.0	7.5
Matson & Robinswood	5.2	6.0	5.4	6.5	6.6
Moreland	4.4	4.7	5	5.5	5.8
Kingsholm & Wotton	4.3	5.4	4.9	4.9	4.7

In addition, as at 31st October 2013, 243 (4.7%) of 16 – 18 year olds in Gloucester are “Not in Employment, Education or Training”.

The same wards also show high levels of limiting long-term illness and low rates of educational attainment with 11% of the Gloucester population being identified as having no skills at NVQ Level 1 and above.

It is clearly crucial that people's skills match the jobs available. In the 2011 National Employer Skills Survey, 20% of employers in Gloucestershire reported a skills gap, and 13% of existing staff were considered by their employer not to be fully proficient. This is the largest proportion in the South West and a clear indication of the need for further education and training in specific skills related to employment.

New home construction

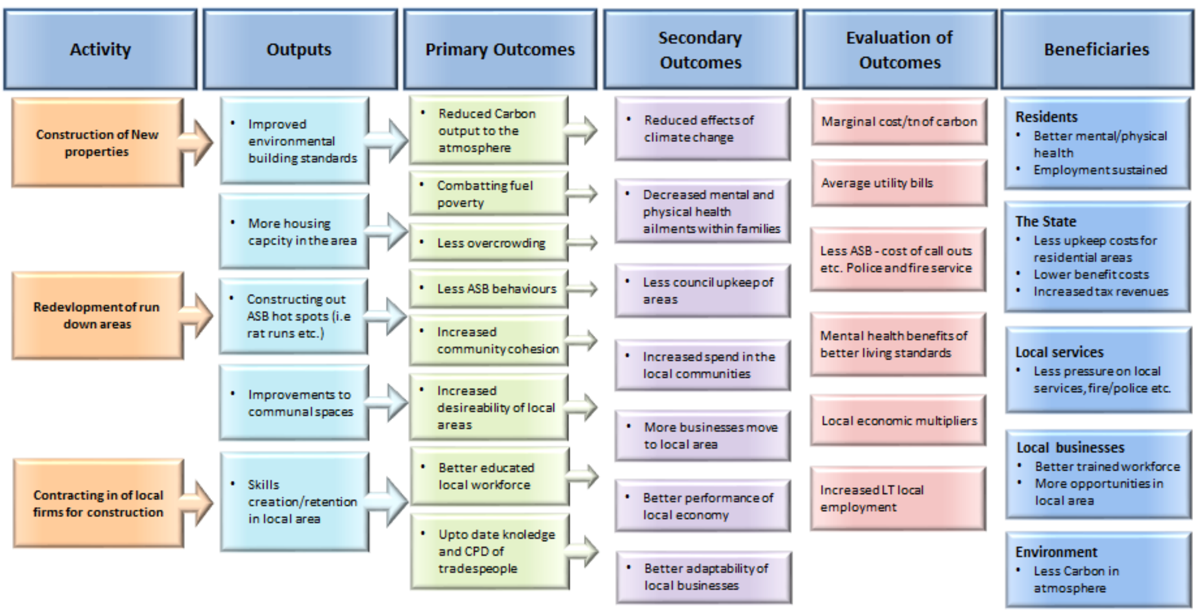
As part of the post transfer plans GCH forecast that they will be able to construct approximately 100 new homes as part of their plan to redevelop areas of its housing stock. This would be a "pepper-pot" approach as disused garages and other such areas are removed and replaced with valuable new housing.

Many benefits would arise from the creation of these additional, non-social housing grant-aided, new homes. In order to understand these more clearly, GCH commissioned Baker Tilly to distil and evaluate these benefits.

Their work splits the outcome maps into two. The first illustrates the impact of the house building whilst the second looks at the impact on the residents and their families from moving into these properties.

Baker Tilly have been able to identify a variety of valuable benefits to a range of beneficiaries. The first map identifies benefits accruing specifically from the construction of new homes, redevelopment of run down areas and contracting in of local firms for construction:

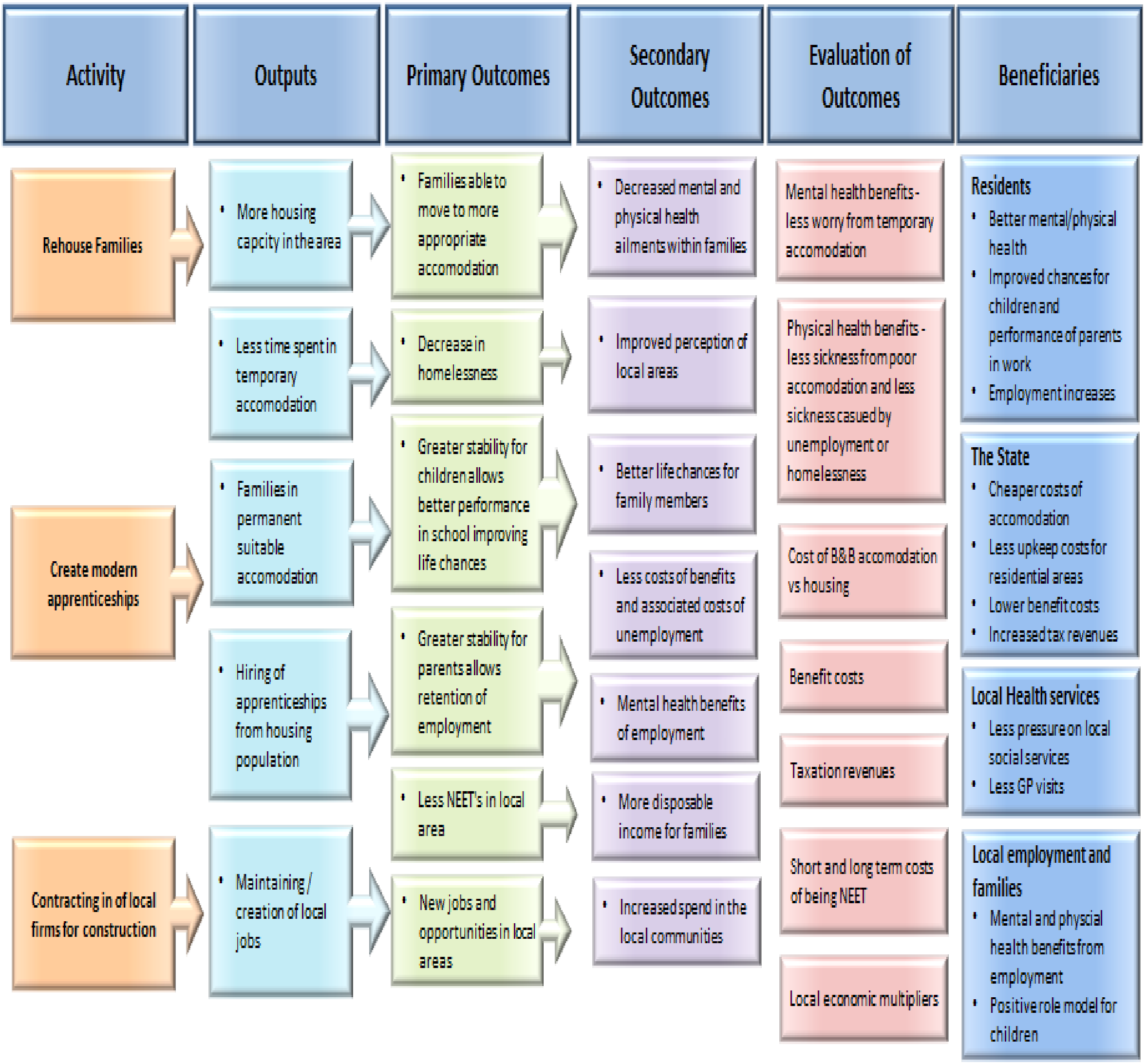
New Builds and associated environmental works



Source: Baker Tilly

The second map shows the benefits that accrue specifically from re-housing families, creating modern apprenticeships and contracting in of local firms for construction.

New Builds and associated environmental works



Source: Baker Tilly

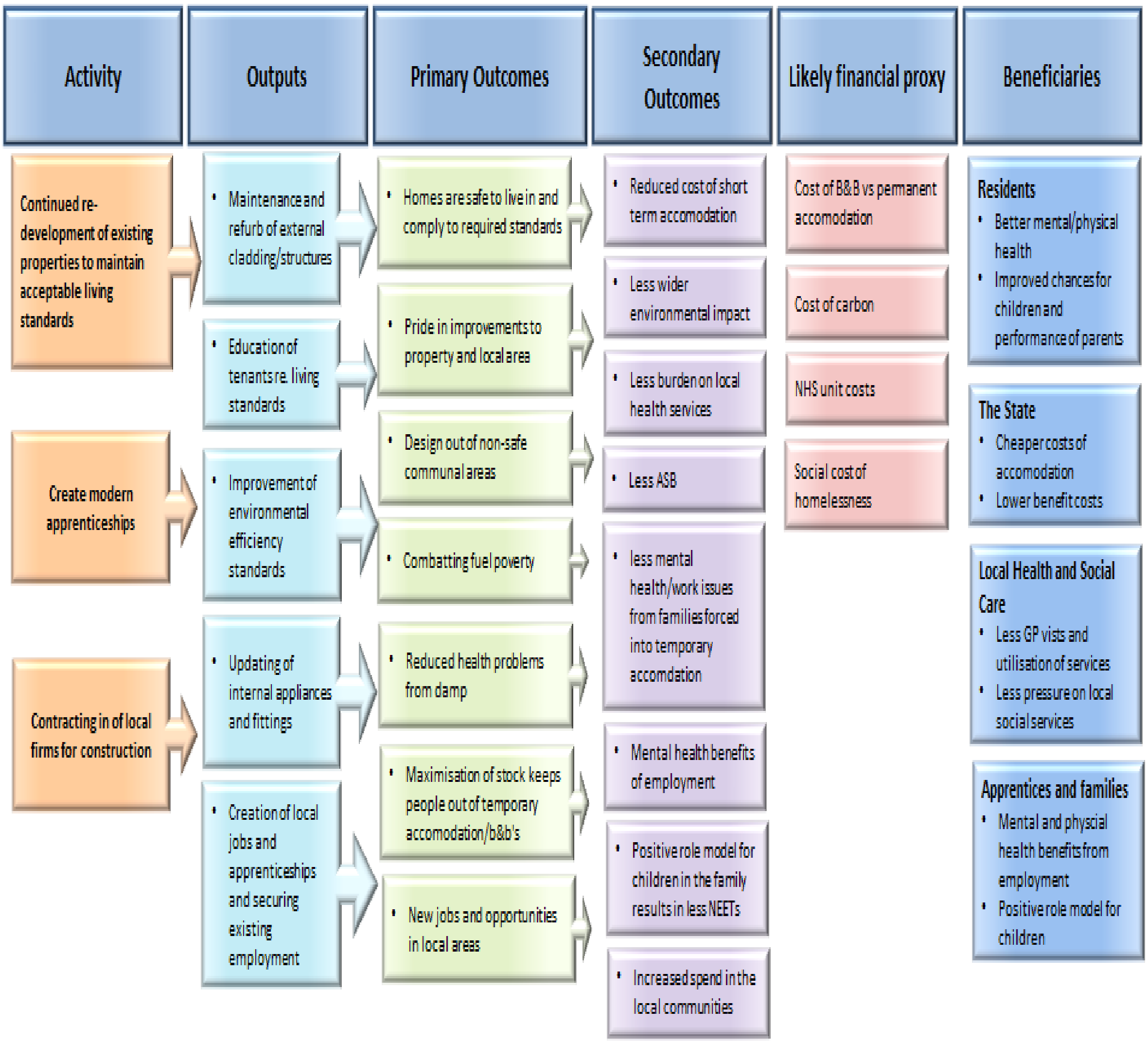
Long-term void avoidance

The transfer would also allow GCH to carry out all the necessary structural and thermal improvements required for homes to remain Decent and meet future energy efficiency requirements. However without the requested transfer the Council will not have the required funding, at the right time, to maintain decency, meet energy efficiency targets and prevent homes becoming unlettable.

The required improvements include; replacing key internal and external building components and fittings, major structural repairs or replacements and various energy efficiency measures. All of these actions will help to improve the homes and the lives of the residents.

Baker Tilly also looked at this and have identified the following benefits of the proposed improvement programme to the existing stock including the non-traditional stock:

Improvement Programme including non-traditional stock



Source: Baker Tilly

An independent GCH, following transfer, would be free to make the necessary investments in its housing, regenerate estates and build new homes, which would allow it to offer an extended range of new job opportunities and apprenticeships to unemployed tenants throughout the City, helping the local community to modernise and where required, rebuild its existing homes and neighbourhoods and build new homes and neighbourhoods to meet local housing need.

Building on GCH's existing excellent work through its SHINE Academy, tenants would also be helped to set up social enterprises which could help to deliver some of the existing maintenance services e.g. cleaning and grounds maintenance.

As part of any new contracts with private contractors GCH would agree a number of jobs and apprenticeships that must be provided to local residents, creating social value by offering opportunities for young individuals who otherwise may not be able to enter employment, education or training:

In connection with building 100 new homes over four years, Baker Tilly advised that there this level of activity would support two apprenticeship schemes each offering 5 apprenticeships lasting three years each. The first would cover Years 1-3, the second, Years 2-4. These have been included in Annex A Part 4c: Table of additional data. In addition, in connection with existing work, it is assumed that at least one new apprenticeship could be created every three years and two every third instance. Using the accepted indicator that £1 million of extra spend can create one new job, it has been assumed that the additional work that GCH can deliver over and above non-transfer to estimate the annual number of extra jobs that can be supported over 30 years. These are included in Annex A Part 4c: Table of additional data:

Year	Additional Expenditure over transfer £'000	Jobs per year
1	1,399	1
2	3,180	3
3	3,316	3
4	3,054	3
5	2,959	3
6	2,964	3
7	2,877	3
8	2,790	3
9	2,704	3
10	2,619	3
11	2,739	3
12	2,667	3
13	2,594	2
14	2,521	2
15	2,450	2
16	5,198	5
17	5,133	5
18	5,068	5
19	5,004	5
20	4,940	5
21	5,752	6
22	5,689	6
23	5,626	6
24	5,563	5
25	5,501	5
26	2,790	3
27	2,728	3
28	2,667	3
29	2,605	3
30	2,544	3
	107,643	108

Source: Capita

3b. What will be the benefit to local Small and Medium Enterprises of the activity under transfer described above?

Increased levels of building and regeneration activity will provide opportunities for investment in local business either through direct contracts or via the employment of local sub contractors. Every home built creates 2.4 jobs in total for the UK economy.

GCH will be able to build on its previous work with its key building and maintenance partners to increase employment of local people and local sub-contractors employing local people and offer high quality apprenticeships.

The greater flexibilities, available post transfer, will also allow GCH to build on its previous work to encourage greater use of local small and medium enterprises and allow GCH to support the creation of new social enterprises and small businesses to help them grow in a sustainable way, with longer term support also being provided by GCH's contractors.

GCH with assistance from existing contractors have already been able to kit out and upgrade a community café in Podsmead encouraging local people to spend money in their local area, providing local employment and training opportunities as well as access to affordable healthy food for a community suffering from employment, education and health deprivation. Arrangements such as this will be made in future contracts. Without transfer, the Council no longer has the ability to let contracts of a size that will encourage contractors to provide additional works within their bid. A sustainable investment programme will allow these benefits to continue.

The Council anticipates that GCH will be able to deliver many more examples of improving community facilities which can be used for a variety of uses including local education and training hubs to improve employability and health; and support for local businesses and social enterprises providing construction and maintenance services as well as shops to provide good quality locally produced goods and food.

Baker Tilly have been able to identify the monetary value of the likely benefits. As money is invested in local areas this has a multiplier effect in that it will be re-spent by local individuals and businesses, thus providing a boost to the local economy greater than the value of the initial investment.

3c. Provide a commentary on other local economic activity resulting from transfer (explaining why transfer is a necessary condition for the activity).

Helping those not in employment, education or training.

For a number of years GCH have been working together with a range of local Social Enterprises to improve employment, education and training opportunities for tenants.

Post transfer, an independent GCH would find it much easier to turn the current loose partnership arrangements into a formalised, collaborative partnership which will produce greater economies of scale and deliver the necessary support to specific local social enterprises to allow them to expand their activities to benefit even more unemployed or under-skilled tenants and other residents.

Key areas for growth include:

- Expansion of the existing training services to extend qualifications and numbers of learners.
- Link in and align apprenticeship and trainee programmes for tenants and residents, to provide an increased range of education and training opportunities.
- Combine GCH's Shine Academy with local social enterprise training services to extend their reach and cost effectiveness.
- Deliver GCH in-house training requirements through the local social enterprise's training services.
- Develop existing social enterprise's volunteering schemes to encourage tenant membership.
- Provide new and improved training facilities which would enable local social enterprises to expand their service and training offer.

This would certainly allow tenants to develop the necessary skills to allow them in the future to directly provide maintenance and support services for GCH or if they preferred, work for the range of partners who currently work for GCH, helping GCH's partners to meet their contractual commitment to employ local people.

If GCH remained a wholly owned subsidiary of the Council, there would be a range of issues to overcome including procurement; legal structure, vires issues, staffing; and practical legal matters, all of which make achieving all the benefits listed above more difficult to achieve.

Stock transfer will allow GCH the additional freedom to set up subsidiaries and enter into formal partnerships that will enable them to develop these services and create opportunities for residents.

More specifically, the increase in the maintenance of existing homes, particularly in the first 10 years, would create additional employment and apprenticeship opportunities, reducing the amount of young people who are not in employment, education or training.

Reducing the social and financial costs of homelessness

The additional investment released by transfer will allow GCH to build the much needed additional new homes that will re-house people currently living in less suitable temporary homes, such as bed and breakfast or unsupported hostels; and the additional investment in structural repairs and energy efficiency improvements will prevent a reduction in the social housing stock which would inevitably lead to increased levels of homelessness.

This will reduce the social and financial costs associated with being homeless e.g. increased reliance on financial benefits and increased use of health and social services. In addition it will also help to reduce the financial cost of using more expensive temporary accommodation.

Reducing the social and financial costs to health and social services

Significantly increased investment made possible by the transfer will:

- deliver new build homes to higher design, accessibility and environmental standards than existing homes;
- make existing homes safer, more accessible, more environmentally friendly, modernising them to at least retain the Decent Homes Standard and wherever possible the higher Gloucester Housing Standard; and
- allow GCH to design out crime and anti-social behaviour in existing housing areas through additional environmental / security improvements, remodelling or redevelopment.

All of this additional post transfer investment will continue to improve the mental and physical health and wellbeing of tenants by offering them safer and more accessible homes. In addition the improved energy efficiency rating of homes should prevent unhealthy living conditions like damp and mould, which in turn can lead to higher incidences of hypothermia and asthma. All of this will help to reduce financial and resource pressure on local NHS, local authority care home admissions and social care services.

Post transfer GCH's wide range of existing supporting people services could be extended to include the provision of services to a wider client group expected organisational efficiency savings will also help to provide wellbeing centres based on the existing sheltered housing facilities and outreach workers providing low level support and advice to vulnerable residents living in the surrounding communities. This in turn will make it easier for people to remain independent at home and reduce pressure on the NHS and social care services.

Reducing crime and anti-social behaviour and its associated costs

GCH has been at the forefront of very successful multi-agency initiatives which have already received national recognition.

By significantly increasing investment in regeneration of local communities and building new homes, they will be able to design ASB and crime out of the estates and drive down crime and the fear of crime.

GCH already jointly run the city-wide cross tenure ASB services in partnership with the City Council, Gloucestershire Constabulary, Probation Service and Gloucestershire County Council and this multi-agency service is co-located in the GCH offices.

Following transfer this considerable success could be built on and supplemented by additional charitable funding.

As areas are redeveloped GCH expect this to reduce ASB incidents as areas can be redesigned and traditional ASB "hotspots" can be removed. This will enable local services to save money as incidents are decreased.

Increasing environmental benefits and reducing environmental costs

Significantly increased investment in existing and new homes by GCH will also continue to produce more environmentally friendly homes, helping to reduce global warming, reduce the amount of energy and water used, increase locally produced sustainable energy, reduce tenants' costs of living, protect scarce resources and make more money available for spending in the local economy.

All of the above have been identified by Baker Tilly as arising as a result of being able to maintain the correct level of investment in the stock at the right time. The annualised benefits as identified by Baker Tilly are included at Annex A Part 4c: Additional data inputs.

Better public services case

4 Innovative forms of governance and public service delivery.

4a. Will your transfer deliver innovation in governance and delivery?

Yes. The added freedoms available to an independent GCH, post transfer, will allow it to continue and improve upon the work it has already started to deliver innovation in governance and delivery.

It is worth mentioning what GCH already been achieved as it could easily be at risk if a transfer was not approved as "stay as we are" without transfer is not an option. The level of cuts required to stay within the debt cap would mean that the level of service attained, partnerships and tenant involvement could not be sustained. Transfer would mean that the standards achieved since 2005 can be maintained and built upon to deliver further tenant involvement, empowerment and influence.

The current, committed GCH Board of Directors have an invaluable range of strengths including housing development, financial management, land management, community development and business management expertise. The Board operates with five tenant members, five Council members and five independent members. If transfer were not approved, some GCH Board members may not wish to remain responsible for a declining service.

The Board has helped to transform a zero-star service into an excellent service by taking tough decisions and providing strong challenge to under performance and service quality. It will build on this through the HCA regulatory framework on the economic standards and already operates within the National Housing Federation Excellence In Governance framework.

Since 2010 GCH have worked hard to maintain their reputation as a three-star excellent service organisation by ensuring they continue to deliver excellent services and by continuously improving and challenging the way services are delivered to the tenants and to the wider community through their supporting people and anti-social behaviour services. If transfer was not approved existing excellent services would be under severe financial pressure and may no longer be affordable at existing levels.

In the 2012-13 year, GCH were awarded the highest ever Customer Service Excellence rating for any organisation by the Cabinet Office. They have also been re-accredited with the prestigious Investors in People Gold Award and secured a place in the Sunday Times Top 100 companies non-profit organisation category. One of the reasons for GCH's success has been their ability to be innovative, creative and responsive to opportunities in both the way in which they work with the tenants and residents and the way in which they deliver services.

'Tenants are at the heart of what we do' is not just a glib statement for GCH. Since the Council created the ALMO they have worked closely with both active tenants and the wider tenant community to review and develop services and provide a wide range of platforms to allow tenants views to be heard and taken account of.

GCH have strengthened Customer Forum, launched and worked effectively with a challenging Tenant Scrutiny Panel; developed effective street and block representative groups to monitor communal services and worked closely with Tenants and Residents groups to ensure their sustainability.

Through their work with Tenants and Residents groups, GCH have sought to identify, develop and promote the skills and capacity of individual tenants and groups, as well as encouraging and supporting groups to access funding and develop social enterprise ventures such as the laundry service in Kingsholm, the community cafés in Matson and Podsmead and the Shopmobility Scheme in Westgate. Post transfer, this could continue to be built on to further empower and sustain local communities.

This innovative approach, whilst currently small scale, is providing opportunities for local groups to provide services to their local community and use their community assets. Transfer would enable GCH to provide support on a larger scale and look at recommissioning some of their current contracts in a different way, for example, their cleaning and void garden clearance contracts to provide local employment opportunities and business opportunities for tenants.

Linked to this, GCH is a key member of the Community Legacy Partnership which includes the City Council, the County Council, health, education and local partners working together to tackle areas of deprivation in Gloucester, in particular Podsmead and Matson where a large number of tenants live.

The partnership has been set up as a sub group of the Gloucester Partnership to meet the challenge of creating sustainable community regeneration as set out within the City Vision. The focus is on mapping current community assets in each of these areas and identifying innovative ways in which these can be supported and developed.

As a result of the work of this group the Gloucester Partnership agreed, in January 2013, to adopt an asset-based approach to community development (ABCD), or “strength-based” approach to community development which put residents at the very centre of change and encourages them to come together in their community so that they can use all of the skills that they have to get what they all need for the area.

This very much supports the Government’s Big Society ethos with a strong focus on identifying the capacities of individuals and communities, connecting them with the wider community and helping local people to develop the capacity of their community to become more self sufficient and autonomous. The additional investment and freedoms available to GCH, post transfer, would make them an even more important enabler and supporter of this work.

This is very much the approach GCH has adopted and developed since its launch in 2006, through a range of initiatives including their “Community Pride” work; Shine Learning Academy; a pro-active approach to worklessness and financial inclusion; supporting local agencies and community groups directly either by providing resources or financial support rather than delivering services directly themselves. This has been particularly successful in the area of youth engagement and the development of specialist support groups such as young carers and disabled groups.

GCH have already demonstrated their commitment to this approach by jointly funding a Community Builder in Matson and actively supporting the development of a cardboard and textile recycling facility in Matson which will help sustain the community group buildings and activities, offer employment and training to local people and improve the environment. Transfer would allow this to continue and be increased as described elsewhere in the bid.

In support of Gloucestershire County Council Supporting People Services, GCH have been developing five Wellbeing Centres (around existing sheltered housing schemes), and an outreach wellbeing service to the local community. They have also developed a volunteer base to deliver services to older and vulnerable residents, which provides training and experience that supports their longer term employment aspirations as well as enhancing existing service delivery.

A further example of innovation and commitment to providing training and employment opportunities to tenants is the development of a new 'Handylink' service which provides home and garden maintenance to residents, particularly vulnerable tenants, whilst providing employment and training opportunities for local people.

GCH has, over the last eight years, taken on additional services for the Council including anti-social behaviour for both private home owners and GCH tenants.

An independent GCH would have even greater opportunities to continue developing and expanding these approaches, resulting in enhanced capacity and capabilities for the local communities and increased development and regeneration of the local communities. However if transfer were refused some of these achievements would genuinely be at risk if money had to be redirected towards much needed home improvements that the Government's financial regulations are currently preventing from happening as and when they are required.

4b Do any monetary benefits arise from this innovation (and to whom)? including VFM savings (cashable and non cashable) and increasing capacity with community help.

A range of monetary benefits arise from expanding these innovations including savings to the Council, the Government and GCH, all of which will ensure that a more effective community led approach will deliver greater efficiencies and cost savings which can then be re-invested in developing further benefits for the local communities. Much of these benefits have been referred to elsewhere in this bid. It is equally important to note that in addition to increasing benefits, transfer would protect a loss of the current benefits arising from the standards and services achieved in recent years.

GCH has demonstrated that it has the experience to have delivered over £13.5m since it was set up in 2005. The money it has been able to spend on behalf of the Council over that time has been more effectively used to deliver services that directly meet the needs of the tenants, improving their life opportunities and quality of life in general e.g. improved communications, improved estate services and improved ASB services. GCH has been able to do this because it has had the structure and calibre of staff and ALMO funding to be able to work with tenants, develop their involvement and hence win the confidence that allows new ways of working to deliver efficiencies.

Without transfer, in order to achieve a balanced HRA, GCH will need to scale down the level of investment in properties to a minimum, and/or cut services. A reduced investment programme and reduced services is not an incentive for staff to remain at GCH and the those that have demonstrated their ability to deliver good quality services in the past are likely to seek jobs elsewhere, where their they can use their experience on larger schemes. The Council would be left with an ALMO that no longer could boast the standards it has achieved and as such the investment and efficiencies developed to date will quickly be eroded. “Stay as we are” without transfer is not an option – the service will deteriorate as a result of trying to keep the HRA in balance. The closest thing to “stay as we are” is transfer, where the private investment can protect the investment of the past and deliver more in future.

Future efficiency savings would be redistributed to provide further improvements to services or provide additional new homes, depending on priorities at the time.

The ability to maintain the existing services and staff that tenants are familiar with, together with developing further tenant involvement and empowerment will help new ways of working to be implemented more easily. GCH has included investment in new systems in its Business Plan to improve mobile working within the community which the Council cannot afford to implement without transfer. Repairs and maintenance staff will be able to update stock condition survey data whilst visiting tenants to undertake day-to-day repairs. Not only will this save costs in terms of the number of full surveys of properties required, but it will also allow for better consultation with tenants about future repairs programmes. More accurate individual property data will help to drive the investment programme.

Baker Tilly have already also identified that, post transfer, organisational flexibility would allow GCH to reduce its contracting costs. GCH would be able to contract over a longer timescale and would expect to benefit from cheaper rates, allowing more monies to be spent meeting the needs of residents.

5 Delivery of wider government housing and social policy objectives; including providing new supply, welfare and tenancy reform, allocations, generating growth.

5a. Will your transfer help deliver wider government housing and social policy objectives, including welfare reform, mobility and choice for new and existing tenants?

Welfare Reform

It is clear that the Welfare Reform Act is fundamentally changing the housing landscape and it is critical that the Council understands the impact that these key measures have on its tenants, their families, implications on service delivery and on wider housing demand within the City.

GCH has identified 3,208 households within the City’s communities who are at risk of financial difficulties as a result of Welfare Reform. Evidence from their service teams and the Council’s welfare advisors indicates that many of these households already have budgeting issues, with some experiencing problems with debt, particularly where high cost lenders (such as payday loan companies) have been used.

GCH has developed a range of new services to support wider Government and social policy objectives that include:

- Household budgeting.
- Understanding benefits entitlements.
- Support for jobseekers with training and employment opportunities.
- Homeless support service.
- Quality interim accommodation for the homeless.

Nevertheless, the under-occupation rules have resulted in a significant stock mismatch in Gloucester due to an increased need for one-bedroom homes.

GCH originally identified that 508 tenants are currently under-occupying their home which is 11.2% of homes, placing Gloucester within the national average of between 10-15%.

	Total homes identified	**Under-occupation by one bed**	**Under-occupation by two beds**	**Under-occupation by three beds**
March 2013	508	394	108	6
December 2013	423	329	91	3

Since that time GCH has been able to assist some of the tenants to relocate and this has reduced the number of tenants under-occupying homes to 423. However, due to current limitations on available suitable homes, there will be a number of applicants who may wish to move but are currently unable to do so.

The cost of this team is funded for a two-year period directly by GCH, outside of the management agreement. It is important to note that without transfer, the Council does not have the funds to support this work and as such these posts would be lost and tenants would no longer receive the support. Transfer would allow these posts to be maintained and more tenants can be helped to meet the new Welfare Reform constraints.

Post transfer, the development proposals outlined earlier in this bid will help GCH to improve the choice of social / affordable housing in Gloucester beyond that available to the Council without transfer and this will make it easier for people currently under-occupying their homes to move to smaller suitable homes, if they wish to, rather than paying the difference in rent or taking in lodgers to help pay the difference in rent.

Tenure reform

Stock transfer will also provide GCH with the freedom and flexibilities that will enable them to realise the Council's desire to meet local need and priorities; make better use of resources; promote fairness; and ensure development is demand led.

Transfer will allow GCH to expand the number of homes on offer, offering greater choice and opportunity to existing and future tenants and to provide a range of housing types and tenures to meet local housing need.

In addition, the Council and GCH intend to use a full range of measures that will support Government policy and deliver more mobility within Gloucester, such as:

- Using flexible tenancies to ensure that people, no longer in need of affordable housing, can be identified and given helpful advice on how to secure alternative market housing.
- Adopting the affordable rent model (where contracts with the HCA allow) to ensure an affordable rent is set which will then allow GCH to pay the potentially higher costs of funding the development, if less or no public subsidy is available.
- Using capital receipts from increased RTB sales to develop homes that meet local housing need including those resulting from changes to policy such as under-occupation.
- Development of a range of high quality, GCH managed private sector homes to enable the Council to discharge its homeless duty where appropriate into the private sector.
- Providing interim homeless accommodation with support to ensure that the cycle of homelessness is broken and that individuals and families are supported to successfully sustain a long term tenancy.
- Proactively matching residents who would benefit from swapping homes, to ensure that their needs are met and GCH make best use of their housing stock.
- Actively identify empty homes and help their owners to either sell them or refurbish them to bring them back into use, to help satisfy local housing need.

Mobility and choice

The Council's letting criteria do not directly or indirectly create problems of under-occupation. However due to the current limits on available suitable homes, there will be a number of customers who may wish to move but will be unable to do so.

To help resolve this problem, GCH actively promote home swaps and mobility moves between the City Council's homes and those of other social landlords. The Council also offer an incentive to move package to assist tenants who wish to move to a smaller home.

Post transfer, GCH's proposed additional new homes will initially provide a significant increase in the range of affordable housing. This will help existing tenants and applicants to move into new homes and in later years to swap to more suitable homes, both of which will release their existing homes to meet other pressing housing need. The Council cannot provide new homes without transfer.

Beyond the first four years, future regeneration proposals will be aiming to include a wider range of tenures to provide additional homes and give tenants and applicants a far wider choice of housing, allowing those on higher incomes to move onto shared ownership, low-cost housing for sale or even market housing for sale; and releasing much needed social and affordable housing for letting to those on lower incomes.

5b. How will your transfer help give tenants and residents a stronger say in the management and future of their homes? Please explain why these accrue through transfer.

Tenants are at the heart of GCH's strategic business planning. There are five tenants on the current GCH Board and this would continue to be the case in a newly independent GCH. Transfer would ensure that tenants can continue to be involved in decision making and increase their involvement, empowerment and influence by helping to shape the offer to tenants. Tenant involvement could be reduced or lost in future without transfer as part of meeting the cost savings required to stay within the debt cap. Maintenance of what has been achieved and development beyond that is important and only achievable with transfer.

The recent independent STAR survey shows 85% of tenants are satisfied with GCH as their managing agent with the level of investment in services and standards received with ALMO funding. Without transfer, the investment and/or service would be reduced.

GCH already has a robust and effective structure of resident and community involvement. They currently work with ten Tenant and Resident Groups and a number of independent community groups. 'Tenants are at the heart of what we do' is a real commitment for GCH. Over the last eight years they have worked closely with both active tenants and the wider tenant community to review and develop services and provide a wide range of opportunities for tenants to be involved in the review, development and maintenance of their services. 10% of the residents are actively involved in discussing services. It is expected that this would continue after transfer and tenants would have a continued say in GCH's business. GCH has also been identified as a good practice example of resident engagement and tenant involvement.

GCH has also strengthened the Customer Forum, which represents tenants from across the City, launched and worked effectively with a Tenant Scrutiny Panel which provides an effective challenge to performance and service delivery; developed effective street and block representative groups and worked closely with Tenants and Residents groups to ensure their continued sustainability. Further information on how GCH works with tenants, residents and communities can be found in their **Community Involvement Strategy.**

Whilst GCH have developed a wide range of both robust and innovative engagement opportunities it is clear that the vast majority of tenants only tend to actively get involved in events and issues that directly affect them.

The development and regeneration of the communities would provide a significant opportunity for much higher levels of engagement and an opportunity for communities to come together to agree beneficial changes to their neighbourhoods and to ensure that promised employment and training opportunities are fully achieved.

GCH has an excellent track record of ensuring that it's approach to change is community led, having continuously involved tenants in the development of services over the last eight years and ensuring that they have been at the forefront of this option review process. This has been recognised as a significant strength by the previous Audit Commission Inspection and highlighted through the Customer Service Excellence accreditation led by the Cabinet Office. GCH is very clear that this would continue to be the case and seek to improve where possible.

Business Sustainability Case

6 Demand for the stock: in the context of current government policy (e.g. Welfare Reform), is understood and reflected in business planning for the transfer landlord.

Details of:

6a. the extent of long-term demand for the housing to be transferred

Gloucestershire has a wealth of information stored within the "Maiden" database which pulls together information from Central and Local Government sources. This database has been used to provide evidence to support the case set out below.

The City of Gloucester covers an area of approximately five square miles and has a relatively high population density. There is a population of 121,700 (2011), consisting of 50,363 households living in the City - (3,001 per square kilometre).This is set to grow to 154,300 by 2033.

The age profile of Gloucester is varied, having a considerably higher proportion of young people and working-age people than the rest of the County. However the City will shortly experience a sharp population rise in those aged 65 and over and this will have serious implications for housing provision, health and adult care services across the City.

- The population of Gloucestershire has increased to 597,000 as at the 2011 Census Day rising by 32,300 people since 2001, a growth of 5.7%.
- Gloucester with a population of 121,688 is the fastest growing district in Gloucestershire. Its rate of increase nearly doubled the County average and its population growth accounted for more than a third of the total growth in the County between 2001 and 2011 (up by 10.8%, or 11,800 people since the 2001 census and 2.7% or 3,288 people since the 2010 population estimate).
- The total number of households in Gloucestershire has risen from 232,500 in 2001 to 254,600 in 2011, an increase of 9.5%. Comparatively Gloucester has seen an increase from 46,000 in 2001 to 50,363 households in 2011 (a 9.4% increase).
- Average household size in Gloucester is 2.4 persons and the median age has risen from 36 to 38 with the following age profile: 18.3% aged 0-14, 66.3% aged 15-64, 14.8% aged 65 and over and 0.6% aged 90 and over.

There are two key sources of housing demand information. Both show a strong and continuing demand for affordable homes in Gloucester.

The first is the Choice Based Letting Gloucestershire-wide Housing Register, known as **Gloucestershire Homeseeker**, run collectively by Gloucestershire's District Councils. This currently identifies 4,448 households wanting social or affordable rented homes in Gloucester.

The table below shows the various bands of need. Emergency, Gold and Silver bands are deemed to be in need of moving – this equates to **2,103 households**. The Bronze band represents people with a wish rather than a need to move. Over 90% plus of monthly lettings are regularly made to people currently living within Gloucester and the remainder to applicants needing to move into Gloucester.

Band	Q2
Emergency	187 (4%)
Gold	383 (9%)
Silver	1533 (34%)
Bronze	2345 (53%)
Total	4448

Source: Gloucestershire Homeseeker Oct 2013

The second major source of housing demand information is the Gloucestershire-wide **Strategic Housing Market Assessment** carried out on behalf of all the Gloucestershire District Councils by HDH Planning & Development Ltd identifies current and newly arising need.

These figures feed into the **Joint Core Strategy** (between Gloucester, Cheltenham and Tewkesbury Councils) and Gloucester's own **City Plan**.

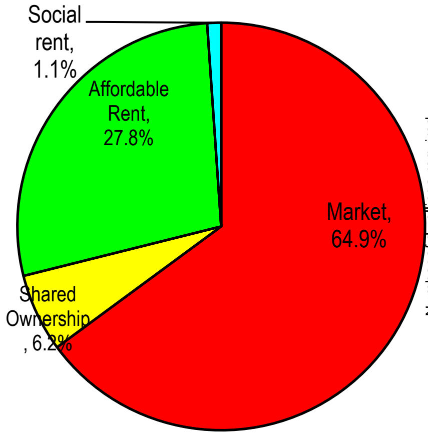
The research identified a need for 13,100 new homes, for Gloucester, to be provided between 2011 and 2031. As 1,085 homes have already been provided in the first two years, this leaves **12,015 new homes** to be provided in the remaining 18 years up to 2031.

As the table shows below, the City needs **3,472 affordable or social homes for rent and 745 shared ownership homes.**

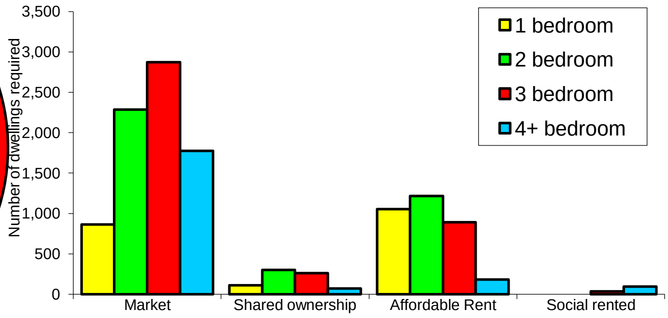
A newly independent GCH would be actively involved in providing some of these much-needed new homes and has made provision in its Business Plan for providing up to **100 new homes in the first four years**, after purchasing the Council's housing stock with, subject to future business plan updates, up to another 300 homes in the next 10-15 years. Clearly, new build aspirations will be much higher and the Council sees GCH becoming a catalyst for providing new housing through partnership working levering in additional funding through consortia and utilising other markets.

There are several key development sites identified in the City Plan which are near to existing council estates and would facilitate a much wider regeneration of the whole area, if some of the new homes were used to help re-house existing tenants and owner occupiers allowing the existing estate to be extensively regenerated.

New housing required over next 18 years		**One bed**	**Two beds**	**Three beds**	**Four beds**
Market	7,798	863	2,286	2,873	1,776
Shared ownership (SO)	745	110	302	263	70
Affordable Rent	3,342	1,053	1,217	891	181
Social rent	130	0	0	35	95
Total	**12,015**	**2,026**	**3,805**	**4,062**	**2,122**



Tenure

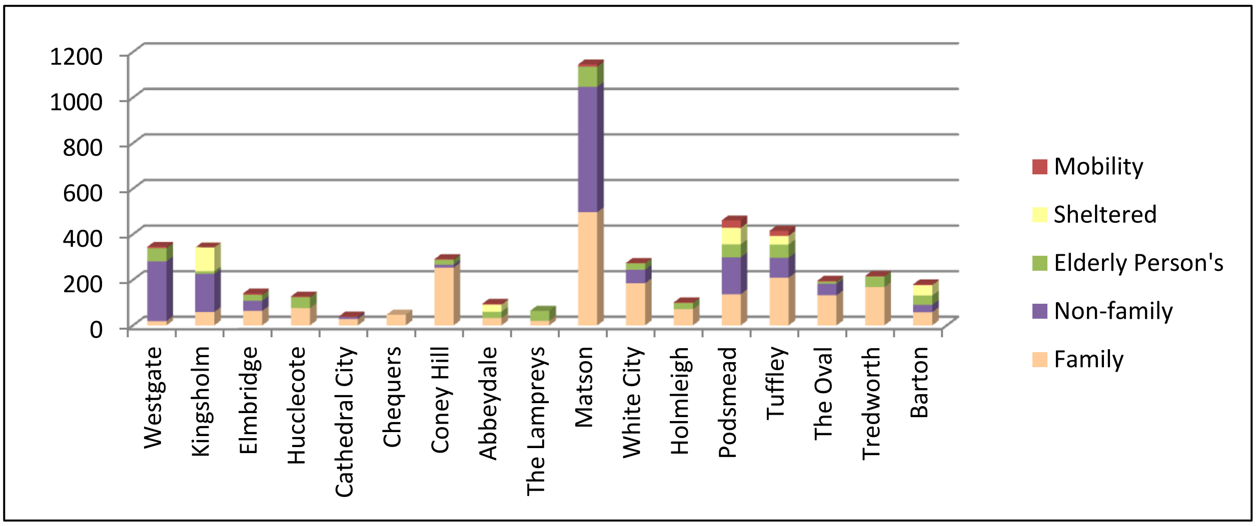


Bedrooms

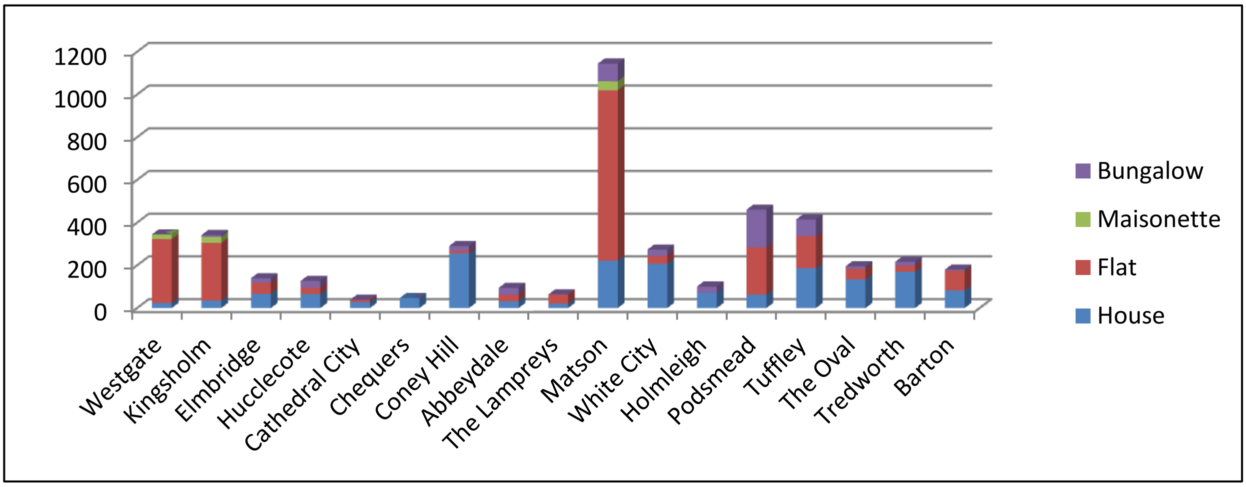
Location of stock

Currently council housing is located in the following areas of Gloucester, as shown below, with the largest concentrations in Matson, Podsmead and Tuffley.

Household Type



Property Type



It is clear that there is a significant demand for affordable homes now and in the future however major increases in the population in the following categories will present a particular challenge as change is needed to the homes to meet changing needs from different types of households, including:

- More older people;
- More single people;
- More single parents; and
- More younger people of working age.

6b. any specific demand issues and proposed measures to address them (including issues of under-occupancy related to current government policy e.g. Welfare Reform, and strategies to address this, including stock rationalisation);

GCH originally identified that a total of 508 tenants under-occupying their home, which was 11.2% of homes, placing Gloucester within the national average of between 10-15% as show in the table above in Section 5a.

Since that time some tenants have been assisted to relocate and this has reduced the number of tenants under-occupying the homes to 423.

If stock transfer is approved there will be a strategic focus on developing and regenerating homes that include meeting the growth in housing need that some households have expressed since the under-occupancy rules were introduced under Welfare Reform. GCH will also account for any future needs that arise as a result of the implementation of Universal Credit and any future benefit caps.

For 2013-14, GCH have employed, using their own resources separately from the Management Fee this year, an additional 2.5 FTE posts in Income Collection and one FTE post in Finance & Admin to address the issues of rent arrears and direct payment administration forecast by Government Pilot exercises prior to the introduction of Welfare Reform. In the first eight weeks after the removal of the spare room subsidy, arrears rose by £30,000.

The enhanced team have been able to work with tenants and as a result, the increase in arrears in 2013-14 as at 30 September 2013 has not increased above £30,000 since those first 8 weeks. This shows that investment in time spent working with tenants to educate them in budgeting will result over time in improved collection rates. For 2013-14 as at 30 September, the overall arrears rate was 1.46% compared to 1.18% for 2012-13.

It has been estimated that when Universal Credit is introduced and tenants receive their benefits directly, the equivalent impact would be £200,000 increase in arrears over eight weeks (based on a 10% non-payment rate), which is the equivalent of a 1.1% increase in arrears if it can be managed effectively using the additional staff. The Council does not have the resources within the HRA to employ these additional staff beyond 2013-14 and as a result is expected to experience a large and ongoing increase in arrears from 2015-16 as Universal Credit impacts on payments. Uncontrolled, the arrears are expected to be around 4% per annum or around £800,000 at 2014-15 prices.

The stock transfer will enable GCH to retain these employees (maintaining additional posts in the process) and therefore to be more creative in offering choice for these tenants affected by under occupation charges, as well as helping tenants to learn to manage their finances appropriately.

The draft plans for development, which are still subject to full tenant consultation and the usual planning approvals, include providing a range of smaller homes to help people downsizing, including older tenants looking to move to a more accessible home. This will free up larger homes for new and growing families.

6c. Proposals to refurbish and improve stock for which demand is low. In line with the Written Ministerial Statement of 10 May and George Clarke's ten-point plan we would expect landlords to consider options to upgrade and refurbish existing homes, in consultation with tenants prior to considering demolition.

A range of proposals have been identified to refurbish and improve stock for which demand is low and where there are significant factors that identify the homes as being unfit for the future.

Clearly it is recognised that refurbishment and regeneration would be the preferred option rather than demolition, which would be seen as the last resort. However, where demolition would be an absolute necessity, aligned to a range of factors, GCH would clearly work with residents on plans to ensure sensitive decanting within time specific periods for new development. GCH would not leave any homes due for demolition, empty for any considerable time period and fully appreciates the significant damage this could do to house prices in the locality and maintaining sustaining successful communities.

If residents were decanted, GCH would also ensure that they would not suffer any financial loss and would help residents return to new homes in their community, but within a balance of mixed tenure communities.

A key element to this work is a comprehensive understanding of the property investment needs for all the homes.

The Council's aspirations for the future include:

- Regeneration of existing homes which due to changing needs and aspirations stop being fit for purpose e.g. medium rise flats which may need to be replaced with family housing, as young couples have children;
- Planned improvement of homes suitable for the disabled e.g. ensuring all bungalows have level access to front and back doors, wider doors for wheelchairs and mobility scooters, level access showers (wet rooms) etc;
- Refurbishment or replacement of non-traditional homes, which have shorter expected lifetimes than traditionally built homes;
- New homes to meet the growing need for rented and shared ownership housing in Gloucester; and
- Potential future work required by increasing health and safety requirements; building and planning regulations which may require landlords to increase their levels of investment over the next 30 years.

The only current low demand housing is Sherborne House. It is an older sheltered housing scheme, made up of 23 flats and is located approx 1.2 miles away from the city centre. Although it lies within a predominately residential area with easy access to local amenities and routes, unfortunately it has shared bathrooms and some of the rooms are very small.

It is clear that shared facilities in particular and the size of some of the flats are affecting the ability to let these homes e.g. one void this year received 10 refusals because prospective tenants understandably did not like the shared facilities.

In 2010 a full feasibility study of the scheme by Quattro Design was commissioned. It explored both refurbishment and redevelopment of Sherborne House but the Council was unable to take proposals forward as there were insufficient resources available at the time.

In 2013 further work was commissioned from architects, Quattro Design after it had become clear that redevelopment would be more cost effective and would comprehensively overcome all the problems that the current Sherborne House presents to its current tenants and prospective tenants. This project has not been specifically provided for within the valuation or business plan. The freedom to borrow that stock transfer brings, means that GCH may be able to include this in future development plans where it demonstrates a viable business plan. The VAT shelter receipts that may be available may be something that could be used to develop these plans. With the debt cap in place, this is something that the Council cannot even aspire to achieve.

In addition there are 1,732 homes, which are non-traditionally constructed and these include homes known as Unity, Wates, Laing, Hawkesley, Duplex, Reema and Tily homes. The names reflect the different types of construction which can either be concrete cladding, in-situ-concrete construction, wood frames or metal frames.

In 2005, Gloucester City Council commissioned an assessment by independent structural engineers, Michael Dyson Associates, to establish whether the non-traditional homes had any structural problems and their report identified an investment need of between £5.4 million for minimum structural repairs and £20.11 million for full structural repairs including over cladding or constructing new outer walls which would extend the life of the homes and improve their energy efficiency.

Since that time the Council have continued to invest in Decent Homes improvements in the non-traditional homes (e.g. new kitchens and bathrooms) whilst continuing to monitor their ongoing structural condition, during the annual stock condition survey programme, to ensure that they remain fit for purpose.

In 2011, Michael Dyson Associates conducted a further survey of the non-traditional homes, which was followed up in 2012 with an intrusive 10% sample structural survey of each type of non-traditional home. Both surveys confirmed that it is essential that over the next 10 years and beyond, that GCH make the necessary investment funding available to maintain the non-traditional homes, to ensure decent homes are provided for customers. The report identified an increased investment needed of £36.5 million (including fees and inflation but excluding VAT) over the next 10 years with a further £2.35 million in years 10 -15, giving, in total, an investment need of £38.85 million. The effects of this have been included in section 2d above in commentary on the effects of void properties.

Prefabricated Reinforced Concrete (PRC) homes are blighted by poorly placed and embedded metal reinforcement, high levels of chloride within the concrete and an exceptionally high risk of concrete carbonation which results in the oxidisation of embedded steel and a subsequent loss of structural integrity.

Unity & Wates homes are of PRC construction and therefore specifically designated defective under the Housing Act 1985 and as a result lenders are unwilling to consider them as collateral for loans or other financing arrangements such as mortgages, etc. This clearly affects tenants' ability to exercise their Right to Buy.

The nature of the construction of both the Laings' homes and the concrete flat blocks means that they are very inefficient in terms of thermal resistivity resulting in a relatively high consumption of fuel in order to maintain them at a reasonable temperature.

All of these homes to a greater or lesser degree are now in need of investment. In order to balance the HRA budget in the event that there is not a transfer of stock, the Council would expect to attempt to delay this work at the risk of the properties becoming uninhabitable. The stock transfer business plan demonstrates that this work can be undertaken at the right time within the borrowing facility available to GCH.

3c. THE ECONOMIC CASE

(the macro financial position which monetises the benefits shown in the strategic case to demonstrate the benefit to cost case)

7 The proposal shows a positive Thirty Year Economic Impacts Cost-Benefit Analysis.

7a. The local authority should provide data to populate agreed fields in a Thirty Year Economic Impacts Cost Benefit Analysis (see Section 4 and Annex C of the Housing Transfer manual).

Supporting evidence: Annex A Part 4b 30 year (NPV) profile of Public Sector Cost Benefit Analysis - data requirements

7b You may also wish to provide appropriate commentary

Supporting evidence: Annex A Part 4c Additional data inputs - Baker Tilly cash flow benefits

8 Alternative options have been fully considered and shown to offer poorer value for money including retaining the stock.

8a. Evidence that alternative options to the transfer proposal have been considered and offer poorer Value for Money.

A range of alternative options has been considered.

The first relies on spending far more money in the short to medium term on responsive repairs to keep repairing the non-traditionally built homes as they continue to deteriorate to the point that they are no longer fit for human habitation.

This of course represents false economy, as the higher expenditure on responsive repairs will not solve the problem and will leave less money for the much needed and more cost effective planned investment to halt the structural deterioration in its tracks.

It results in a downward spiral in uneconomic and unsustainable spending, which will ultimately lead to the entire stock's decency being put at risk.

In the shorter term it would inevitably lead to a point where repairs could no longer halt the structural decline and the non-traditional homes (nearly 1,800) would become un-lettable, leaving a massive under supply of affordable housing in the City, households in unsuitable homes, together with all that entails for their lives and unnecessarily high spending by public agencies on dealing with the consequences.

The second course of action would be to consider selling the structurally deficient homes piecemeal to another registered provider of social housing, for them to regenerate or redevelop. These properties are currently all tenanted and so the option to sell to another landlord would result in a large-scale stock transfer which would also require debt write-off. It is also likely that the amount of debt write-off required for such a partial transfer would be proportionally higher than that requested in this application due to the amount of investment required specifically for that stock.

This would have a significant impact on much needed resources for new affordable homes in the City to meet current and future arising need and a considerable amount of tenants would need to be re-housed in the meantime. Both of these actions would again leave large numbers of households in unsuitable homes, together with all the social consequences for their lives and unnecessarily high spending by public agencies on dealing with the consequences.

In addition, the necessary involvement of alternative social landlords would mean that the significant improvements in service achieved by GCH and the Council would be put at risk as the Council's housing stock diminished over the lifetime of its contract, also making it more difficult for it to deliver value for money improvements as it become less cost effective.

The resultant damage to employee morale and tenant confidence would be considerable and ongoing, and tenants would have no option but to change to an alternative landlord who was not their first choice. In Gloucester, this would not receive any mandate from the tenants in any shape or form.

3d. THE COMMERCIAL CASE

(private finance for the transfer, asset management and landlord selection)

9 Set-up costs: including loan arrangement fees, will be minimised, shared appropriately between the transferring local authority and recipient landlord, and will be off-set through efficiencies.

Details of:

9a Set Up Costs

Set-up costs for the transfer are currently estimated to total £2.5 million. This sum is to be funded partly from HRA balances and partly from GCH's accumulated reserves. There are no set up costs used to reduce the transfer purchase price or increase debt write off.

Separately, the GCH Business Plan (not the valuation) includes £600k in year 1 to fund improvements in technology, which will result in efficiencies in service delivery from year 3 onwards. The cost efficiencies have been built into the transfer valuation in order to increase the price paid for the stock.

The GCH Business Plan (not the valuation) also includes £100k in year 2 to provide for set up costs of an internalised repair service which will result in VAT savings on repairs from year 3. The VAT savings have been included in the valuation and result in an increase in the purchase price.

9b. The loan-arrangement fees

The loan arrangement fees are based on 1.5% of the peak debt required. The Existing stock valuation and business plan requires an estimate of £59 million and for the development an additional £10 million. Loan arrangement fees are funded from the Business Plan, not used to reduce the purchase price or increase debt write off.

9c. How costs have been minimised

This is a transfer to a stand-alone new company formed out of the existing ALMO. As a result, the set up costs are far less than they would be if the new company was being formed out of an existing council housing service. The company already exists in its own building and is operational in managing the homes.

Set up costs of £2.5 million are some of the lowest costs seen in stock transfer. Some of these costs have already been incurred during the option appraisal stage (stock conditions work) and during the planning process for the application and are thus now sunk costs.

10 The **fundability and viability** of the transfer landlord over the long term, and forecast **private finance terms.**

10a. A 30 year cashflow forecast and debt profile for the transferring stock: showing peak debt and when debt is paid off (where new build is proposed, the impacts on cashflow and debt profiles should be shown separately).

Gloucester City Council / Gloucester City Homes
Draft Transfer Valuation and Business Plan Assumptions – Existing Stock Only (see Development Plan below)
Current Financial Information for Housing Stock Transfer

Supporting evidence: Section 10 Business plan cash flows - existing stock only

1. Estimated valuation

The stock transfer is estimated to take place subject to a positive ballot sometime during 2014/15. In anticipation of this it has been estimated that the stock being transferred could have a value of up to £20.393 million. This assumes that the Council and GCH can operate a VAT shelter in order to recover VAT on capital repairs over the first 15 years after transfer, and that 50% of the annual VAT shelter income per annum is used to increase the purchase price. The valuation without VAT shelter income included is £13.275 million. This valuation uses information from the Council's 2013/14 HRA budget; GCH's management budgets and Michael Dyson Associate's stock condition survey from August 2012 which includes a more intrusive survey on the non-traditional stock and applies relevant and updated forecasts of inflation to give assumptions starting in 2014/15.

2. Council HRA Debt at 1 April 2014

The Council is expected to reach its self-financing debt cap of £62.75 million by 31 March 2014. The transfer is expected to be a whole stock transfer and there are no PFI schemes at Gloucester City, so the Council will be expecting to extinguish all of its HRA debt as part of the transfer and close its HRA. We acknowledge that discussions with the HCA / DCLG about the final valuation will be ongoing throughout the process. DCLG will expect the amount of overhanging debt grant required to support the transfer to be minimised.

3. Stock numbers

The valuation stock number estimates are based on known stock numbers as at 1 April 2013 (4,484) and there are no homes in the existing stock valuation earmarked for demolition. There are currently 51 homes part-owned under Shared Ownership scheme of varying sizes and shared proportions. These have been included in the plan as whole homes, but with their own attributable rent.

Estimates of stock reductions due to RTB sales prior to transfer have also been included. Sales since the introduction of the Government's Reinvigoration of the

Right To Buy Scheme in April 2013 have taken off in Gloucester after a slow start.

In 2012-13 there were 17 sales, with an average gross sale price of £104,700 and average discount of £53,180. To September in 2013-14, there have been 10 sales with an average gross sales price of £104,550 and discount of £51,875.

There are no RTB sales assumed after transfer – proceeds of sales in future will be expected to compensate the Business Plan for net income foregone as a first call. Remaining proceeds will not be shared with the Council.

The new Transfer Guidance issued on 12 November 2013 allows the new landlord to keep all of the receipt from the sale of homes after transfer. An allowance will be made for administration costs and compensation to the Business Plan (expected to be in line with Net Income Foregone calculations of previous transfers), with the remaining proceeds to be ring-fenced to provide replacement homes.

The Council and GCH are continuing to discuss the process of determining the required contribution to the replacement reserve, with the Homes and Communities Agency, but it is likely that this will be agreed in future with the Regulator rather than the Council.

GCH have not delivered any newly built homes in recent years and as such there are no new build homes in the existing stock for transfer. The last Council house was built in 1991.

The stock numbers expected at transfer are as follows:

Stock Size	Stock at 1 April 2013	Expected RTB sales pre transfer	Expected Stock at transfer
Bedsit	184		184
One bed	1,521	4	1,517
Two bed	1,366	2	1,364
Three bed	1,251	22	1,229
Four bed	158	2	156
Five bed	4		4
Shared ownership two beds	11		11
Shared ownership three beds	39		39
Shared ownership four beds	1		1
Total	4,535	30	4,505

4. Rents

Existing stock

Average rent by stock archetype (as above) is calculated on a 52 week basis in the model and is based on the Council's 2013/14 weekly rent uplifted to 2014/15 using the RPI for September 2013 of 3.2% (confirmed).

Opening rents for 2014/15 are assumed to rise in line with the Government Restructuring Guidance which the Council would follow if it retained the stock assuming that the rent would converge to target rent by 2015/16 with a maximum increase of RPI + 0.5% + £2.00 (52 weeks) per week allowed.

In July 2013, the Government's Spending Review set out that social housing rents, from 1 April 2015 should not rise by any more than CPI + 1% (considered by Government to be the equivalent for landlords of RPI + 0.5%).

This would prevent councils and other landlords who have not yet reached target rent (where convergence has been set at 2015-16 for local authorities in line with self-financing assumptions) from reaching the target rent by at least one year. Consultation on social rent setting from 1 April 2015 was released earlier this year and the proposal is unchanged from that announced in July.

The current assumption is that target rent will not be reached for all social rented homes in Gloucester City's stock and rents will rise by CPI + 1% from 2015-16 onwards. The Council is expected to agree a rent increase for 2014-15 that will maximise the rent rise for this year so that all property rents increase by RPI (3.2%) + 0.5% + £2 per week even if the increase would have been lower assuming two years to convergence.

This will reduce the differential between actual rent and target rent. The assumptions use this newly calculated rent for 1 April 2014 then reflect year 2 onwards as CPI + 1% (for presentation is shown currently as RPI + 0.5%, where future RPI is deemed to be 2.5%).

It is assumed for the purposes of the valuation that new lettings will move straight to target and recent turnover of stock has been around 7% per annum.

Rents for shared ownership homes are calculated as per 1 April 2013 rents charged with an increase of RPI + 0.5% only for 2014-15 (RPI = 3.2%) and continuing to rise at CPI + 0.5% thereafter.

The average actual rents and targets at 1 April 2014, assuming 3.2% RPI in September 2013, have been calculated as follows:

Stock Size	Average Weekly Rent (52 weeks)	Average Target Rent (52 weeks)
Bedsit	£59.82	£59.66
One bed	£68.55	£68.70
Two beds	£78.32	£78.39
Three beds	£89.65	£90.28
Four beds	£97.85	£100.76
Five beds	£110.13	£115.37
Shared ownership two beds	£38.75	£38.75
Shared ownership three beds	£43.76	£43.76
Shared ownership four beds	£54.91	£54.91

5. Voids and bad debts

Existing stock

Void losses for the transferring stock are averaging 0.7% (November 2013). GCH have assumed that void losses will continue at this low level in future. There are no void losses assumed for shared ownership homes.

GCH have reviewed their performance on debt collection as a result of the introduction of Welfare Reforms. The under-occupancy charge was introduced from April 2013 and Universal Credit and direct payment of benefits to claimants was expected to be introduced in October 2013. This has been delayed by DWP until at least April 2014 and possibly longer.

For 2012-13, average arrears were running at 1.18%. In order to minimise the impact of the additional under-occupancy charge on rent collection and the introduction of Universal Credit, GCH increased its income collection staffing by 2.5 FTE posts and finance and administration by one FTE (currently on two year short-term contracts). That action has seen arrears to September restricted to 1.46% which includes an amount of £30,000 which arose initially when Welfare Reform came in and has not increased. This seems to be a one-off increase, which is pre-transfer and the staff taken on, have then managed to get tenants into a routine of payment.

In terms of Universal Credit introduction, preliminary estimates indicate that arrears would rise by £200k over eight weeks after introduction, based on a 10% non-payment assumption. After eight weeks, non-payers could be returned to direct payment. This would be the equivalent of approximately 1.1% increase in bad debt above the current position. The plan assumed retention of the additional staff to minimise the risk of rent loss and to administer the return to direct payment. Again it is assumed that the initial increase in lost rent would be one-off and losses return to normal over a period of time and improve as a result of the transfer and GCH's relationship with its own tenants.

It is assumed that for year 1, the rate will be 1.3%, so lower than currently being experience but still taking into account an element of under-occupancy issues arising.

In year 2, with the expected impact from Universal Credit implementation possible in 2014-15, a rise to 2.4% has been identified, then falling back to 1.1% by year 5 after transfer. It is assumed that shared ownership rents are collected 100%.

The rates included in the plan are:

	Bad Debt Rates
Year 1 (2014/15)	1.3%
Year 2	2.4%
Year 3	1.3%
Year 4	1.2%
Year 5 onwards	1.1%

6. Capital and Repairs and Maintenance Requirement (net of fees and VAT)

The table below sets out the original expected cost of investment and day-to-day maintenance for the Council to maintain its stock at the Decent Homes Standard, based on the Michael Dyson Associates' 2012 priced survey data plus inclusion of a specific non-traditional stock survey that was undertaken intrusively on the homes. Day-to-day maintenance costs reflect the current prices charged by the external provider. The total capital and day-to-day maintenance for 30 years is £292.307 million at 2012-13 prices The costs shown below were based on stock of 4,509 homes, which excludes the shared ownership homes as at August 2011 and includes preliminaries, fees and uplift for inflation from the date of the survey but no VAT.

The plan assumes that programmed renewals, asbestos, and responsive/void and cyclical (day-to-day) costs will vary as stock numbers reduce due to sales pre transfer and demolitions. All other categories are fixed.

The Council is not currently receiving DHS backlog funding from the Government and does not expect to receive any.

Table: Stock Condition Survey Raw data

	Catch Up Repairs	Planned Maintenance	Contingencies	Structural & Thermal	Non-trad	Disabled adapts	Environmental works	Day-to-Day	Total
Year	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	168	3,928	277	1,003	2,778	463	348	3,538	12,503
2	168	3,928	277	1,003	2,778	463	348	3,538	12,503
3	168	3,928	277	1,003	2,858	463	348	3,538	12,583
4	168	3,928	277	1,003	2,858	463	348	3,538	12,583
5	168	3,928	277	1,003	2,858	463	348	3,538	12,583
6	0	2,239	216	424	4,481	463	0	3,538	11,360
7	0	2,239	216	424	4,481	463	0	3,538	11,360
8	0	2,239	216	424	4,481	463	0	3,538	11,360
9	0	2,239	216	424	4,481	463	0	3,538	11,360
10	0	2,239	216	424	4,481	463	0	3,538	11,360
11	0	2,369	187	39	470	463	0	3,538	7,066
12	0	2,369	187	39	470	463	0	3,538	7,066
13	0	2,369	187	39	470	463	0	3,538	7,066
14	0	2,369	187	39	470	463	0	3,538	7,066
15	0	2,369	187	39	470	463	0	3,538	7,066
16	0	4,419	251	56	99	463	348	3,538	9,173
17	0	4,419	251	56	99	463	348	3,538	9,173
18	0	4,419	251	56	99	463	348	3,538	9,173
19	0	4,419	251	56	99	463	348	3,538	9,173
20	0	4,419	251	56	99	463	348	3,538	9,173
21	0	5,983	292	368	106	463	0	3,538	10,750
22	0	5,983	292	368	106	463	0	3,538	10,750
23	0	5,983	292	368	106	463	0	3,538	10,750
24	0	5,983	292	368	106	463	0	3,538	10,750
25	0	5,983	292	368	106	463	0	3,538	10,750
26	0	3,304	209	33	14	463	0	3,538	7,562
27	0	3,304	209	33	14	463	0	3,538	7,562
28	0	3,304	209	33	14	463	0	3,538	7,562
29	0	3,304	209	33	14	463	0	3,538	7,562
30	0	3,304	209	33	14	463	0	3,538	7,562
	838	111,211	7,162	9,613	39,978	13,876	3,477	106,151	292,307

NB The table includes preliminaries, Fees uplift for inflation but not VAT.

The table above assumes preliminary costs as advised by Michael Dyson Associates of 10% on catch up and planned maintenance categories, professional fees of 8% and an uplift of 3.2% has been included to reflect the increase in prices prior to transfer and largely relates to increases from 2013-14 onwards. VAT is chargeable on top of all of these figures.

VAT is chargeable at 20% on capital investment, but it is assumed that VAT can be claimed back over the first 15 years under a VAT shelter scheme where 50% of that income is re-invested in the valuation. In order to reflect this, the VAT rates in the valuation and Business Plan for capital works are shown as 10% (i.e. 50% VAT cost) from years 1 – 15 inclusive and 20% thereafter when the VAT shelter ceases and VAT cannot be claimed back. This assumption improves the valuation by £7.118 million (NPV).

The plan includes VAT on the day to day repairs costs of 20% for Years 1 & 2 and 10% from Year 3. This still assumes that GCH will have an internalised repairs service by Year 3. This assumption improves the transfer price and reduces Government debt write-off requirements. The timing is set to tie in with the end of the current external provider's contract (including extension period).

Cashflows also include adjustments for variation in stock numbers from the time of the survey (4,509) to the expected transfer date, taking into account Right to Buy sales (4,454). The categories of planned maintenance; contingencies; and responsive, cyclical and void costs all reduce proportionally as stock numbers fall. All of the other categories are fixed.

The plan assumes a proportional sum for day-to-day repairs relating to the shared ownership homes.

7. Other Income

Income from other assets and service charges are taken from the HRA budgets and property rental information. The estates include shops and garages and for the purposes of this valuation, it is assumed that the related assets on the transferring estates will also transfer.

The assumptions below set out the expected income which is taken from the current HRA budgets and/or actual property service charges in 2013/14. The plan figures have been updated to take account of an expected inflation rate of 3.2% (based on September 2013 RPI). The Council and GCH aim to recover the cost of services provided to customers. The cost of service provision is included within the management fees.

Table of other income

Other Income	Year 1 assumption (2014-15 prices)	Future Increases
Garages	£54,961 (£53,000 2013-14 + 3.7%)	To rise by RPI+0.5%
Shops	£131,000 (2013-14 budget no increase)	To rise by RPI only
Council income – 30 years assumed: Homelessness contracts Lifelink contributions Project Solace (ASB) contribution Homeless grants 78 Weston Rd	£78,572 £63,250 £31,425 £12,000 (2 x £6k) £80,656	No future inflation – Business Plan only No future inflation – Business Plan only No future inflation No future inflation – Business Plan only No future inflation – Business Plan only
Other income – 30 yrs Lifelink charges Cleaning charges Heating charges Caretaking charges Service charges (tenants) Service charges (leasehold) County Council management fees	 £110,440 £83,159 £25,377 £331,650 £338,455 £103,200 £2,500	 RPI only – Business Plan only RPI only RPI only RPI only RPI only RPI only RPI only – Business Plan only
Supporting People Grant	£200,000 per annum years1&2 only (costs removed year 4)	
Short Term Hostels (x 3)	£212,942 per annum years 1 -3 (costs removed year 4)	Business Plan only
Short Term Hostels grant (x3)	£18,000 per annum years 1-3 (£6k)	Business Plan only

8. Management costs

The costs set out below are at 2013/14 prices, for the purposes of assuming a plan start date April 2014. The GCH management budget that supports the fee charged to the HRA (for management only, not maintenance) for 2013/14 has been used as the basis of calculating the core cost of management and service provided to tenants and has been broken down into the various management areas.

The GCH transfer business plan assumes a 2.01% increase in staffing costs, which takes into account a 1% pay increase in 2013/14 which was not included in the original management budgets used, but agreed in year, and a further 1% increase for 2014/15 start date (in line with Public Sector pay increase limitations) and 3.2% for non-staffing costs (RPI September 2013). All costs set out below are increase by the inflators accordingly.

Staffing costs from the original base budget for 2013-14 have also been adjusted to take account of a recent update from the Pension Fund which currently predicts contributions for GCH staff for 2014-15 of 18.4% (2013-14 16.2%) together with an annual lump sum payment of £80,000 to the Pension Fund. An exercise to assess GCH's options for pension provision as a housing association has yet to be undertaken.

VAT has been added to the non-staffing costs at 20% in the plan.

Costs taken from current management budgets included in valuation and Business Plan supported by miscellaneous and service charge income:

Year 1 Staffing = £3.152 million

Year 1 Non-staffing = £3.042 million (incl VAT)

The Gloucester City Council HRA is also charged directly for internal charges and service level agreements, debt management costs, rents, national non-domestic rates and other taxes, property services charges for management of shops and estates.

The charges to the HRA from other Council departments may give rise to TUPE rights for employees directly involved in the service provided. Allowances have been made within the management costs in the valuation to take account of a fair share of the relevant costs charged to the HRA in respect of the transferring homes to allow for transferring costs and negotiations at a future date with the Council.

A total of £692k of non-staffing costs (including VAT) per annum has been added to the costs above and includes the cost of the current grounds maintenance service.

From year 4 onwards, the staffing costs are reduced by £200k to reflect the predicted loss of Supporting People Grant after the first two years.

Staffing costs in year 2 are assumed to be held at 1% increase (except EMT where no increase is planned).

Set up costs arising as a result of the transfer process have been excluded from the valuation, and the majority of costs are expected to be funded either from the HRA or GCH reserves prior to transfer. Funders' arrangement fees are included in the funding cost assumptions.

The Business Plan includes a year 1 set up cost budget of £600k, part of which is to fund the implementation of new IT systems which will improve work processes and customer access, to improve efficiency. As a result, the plan assumes 0.5% per annum real efficiency savings from years 3 – 7 inclusive in Neighbourhood Services, Customer Services and Repairs Administration once the new systems are in place.

In addition, the Business Plan includes a budget of £100k in year 2 to provide for the estimated cost of setting up an internalised repairs service in order to save VAT.

Other than the efficiencies described above, management costs are assumed to rise by 2.5% (RPI) per annum in future.

The Business Plan (not valuation) includes costs of running the Lifelink alarm system, homelessness service and hostels, three of which are included for three years only.

The income for these contracts is similarly included in other income above and for three years only. The total costs included in the Business Plan only are:

Short term hostels	£217k for three years
Homelessness	£51k for 30 years
Weston Road (GCH own)	£70k for 30 years
Lifelink (alarms)	£122k for 30 years

9. VAT shelter

The valuation of £20.393 million and associated business plan assumes that a VAT shelter will be in place for 15 years and that 50% of the VAT shelter income in each year will be included in calculations.

The estimated full cash value of the VAT shelter over 15 years is £20.4 million (cash value at 2014/15 prices) and this would have a net present value of £14.237 million.

A transfer valuation without the VAT shelter would give a purchase price of £13.275 million and with 100% of the VAT shelter would give £27.512 million.

10. Funding assumptions

The funding section of the model at this preliminary stage has assumed that long term loan facilities will be utilised, repaying in accordance with common transfer funding principles, i.e. applying all available net surpluses to repayment of debt until this is fully amortised at the earliest possible point.

Capita Asset Services have built into the model a set of assumptions about borrowing costs that lenders will recognise as fairly conservative, as set out in the table below:

Cost element	Years			Rate
Arrangement fee				1.50%
Margins	Years 1 to 5			2.75%
	Year 6 onwards			3.00%
Cost of funds		LIBOR	Fixed rate	Composite rate
		20%	80%	
	Year 1	1.50%	4.00%	3.50%
	Year 2	2.00%	4.00%	3.60%
	Year 3	2.50%	4.00%	3.70%
	Year 4	3.00%	4.00%	3.80%
	Year 5	3.50%	4.00%	3.90%
	Year 6	4.00%	4.00%	4.00%
	Year 7	4.75%	4.00%	4.15%
	Year 8 on	5.50%	4.00%	4.30%
MCRs	All years			0.02%
Non utilisation fees	Years 1 to 5			1.375%
	Years 6 on			1.500%
Annual management fee	Linked to CPI			£25k

The assumptions about the underlying cost of funds for LIBOR loans are based on forward projections from the current yield curve plus a margin for comfort. The fixed rate assumptions are based on current levels of forward rates as produced by a proprietary pricing model, plus an allowance of 0.30% for credit spreads and a further 0.5%.

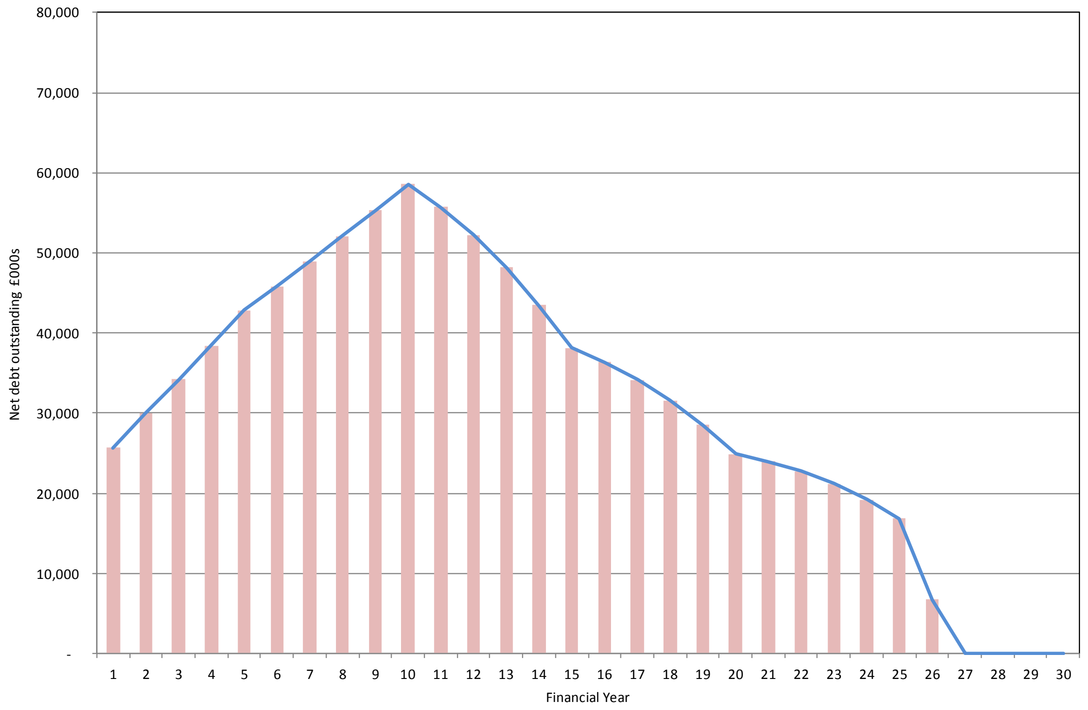
Given the very early stage that the transfer is at it is, for ease of modelling, assumed that throughout the term of the model, a balance of 80% fixed and 20% floating rate loans will be run.

11. Funding Results

The Business Plan results for the existing stock transfer without development and with 50% VAT shelter income included in the valuation and Business Plan is:

Purchase price	£20.393 million
Peak debt (facility required)	£59 million
Peak Year	10
Repayment year	27

Funding curve:



<u>For information only:</u>

The Business Plan results for the existing stock transfer without development and assuming no VAT shelter income either in the valuation <u>or</u> Business Plan is:

Purchase price	£13.275 million
Peak debt (facility required)	£59 million
Peak Year	10
Repayment year	28

The Business Plan results for the existing stock transfer without development and assuming 100% VAT shelter income in the valuation and Business Plan is:

Purchase price	£27.512 million
Peak debt (facility required)	£59 million
Peak Year	10
Repayment year	27

Note however that inclusion in the valuation of 100% of the VAT shelter has not been tested with funders on any past transfers and would be subject to their agreement over the level of risk and warranties may be sought.

Gloucester City Council / Gloucester City Homes
Draft Transfer Valuation and Business Plan Assumptions – Development and Consolidated Business Plan
Current Financial Information for Housing Stock Transfer

Supporting evidence: Section 10 Business plan cash flows - existing stock plus development

1. Estimated Valuation

The proposed development stock is not included in the valuation for stock transfer, so the consolidated business plan model including development assumes a purchase price of the existing stock at £20.393 million with the development taking place on existing land within the HRA.

For the purposes of the business case to support the write off of HRA debt requested, the Council has only assumed 50% of the VAT shelter income in both the valuation and the business plan, so the VAT shelter income is being used to support a higher valuation on transfer and thus a lower value of debt write off is required. The VAT shelter does not therefore support the building of the additional properties that are included in the Business Plan, it is additional private investment that supports these 100 units.

The Council and GCH would look to use the remaining unused VAT shelter income, after taking into account all potential liabilities arising pre transfer, in future to support further new build opportunities in combination with additional private borrowing. To be prudent, further development has not been included in the Business Plan to avoid the risk of setting expectations and being unable to generate the income over 15 years.

2. Development Plan

The consolidated business plan discussed in this section takes the Business Plan assumptions for the existing stock that will be transferred and then adds on the assumptions for development of 100 units. The assumptions described below, therefore, relate to the development units only.

The Council has been working with GCH on options for the maintenance of existing homes and the potential for delivering new homes in the City for three years. Whilst undertaking the option appraisal, GCH have worked with a local development agency, Ark, to assess the land within the HRA to understand its development potential. The City is not large in size and is land-locked to a certain extent, which means that development is based around small numbers of new build on vacant areas of land or disused garage sites and/or redevelopment of existing estates to improve the sustainability and desirability of the areas.

More recently, Ark undertook a more detailed development appraisal of six exemplar sites which covered a range of opportunities including social rent and / or market sales. Example plans have been developed, but to date there has not been any direct consultation with tenants and residents as without transfer, the Council is highly unlikely to be able to develop new homes.

The six exemplar sites covered around 1.8 hectares of land and could support the provision of 80 new units in total (these specific examples currently would include some replacement of existing stock). It is estimated that there is around 9.8 hectares of land available for development which could yield around 400 units.

For the purpose of the application to transfer, the Business Plan assumes that 100 average new build homes would be built over the first four years after transfer at 25 per year.

The individual schemes would need to be worked up once an application to the Disposals Programme is accepted to avoid incurring costs at risk and raising tenant expectation or concern in advance of a ballot.

The evidence for likelihood of delivery is provided in terms of the work done on the six exemplar sites and the wider piece of work undertaken two years ago to investigate all possible development sites. On the basis of a density of 400 units being available, 100 units is not considered to be overstated.

Whilst in reality, there is a desire to have mixed tenures, the plan is based on provision of 100 units at affordable rents (80% of estimated market rent) in order to consider the facility required.

The stock numbers in development are as follows:

Year 1 = 25 into management same year
Year 2 = 25 into management same year
Year 3 = 25 into management same year
Year 4 = 25 into management same year

3. Build Costs

The average build cost use per unit is £96,522 + 15% on-cost = £111,000 per unit total. This is based on an average of the estimated build costs provided by Ark for the six exemplar sites (excluding highest and lowest outlying unit costs).

No land costs are included as the land is assumed to transfer from the HRA.

4. Rents

Development stock

Average rent is calculated on a 52 week in the model and is based on 80% of an average of market rent for two- and three-bed homes in Gloucester. Rents are planned to rise by CPI + 1% (or RPI + 0.5%). The opening rents are £120 per week.

5. Voids and bad debts

Development stock

Void losses for the development stock are assumed to be the same as the existing stock at 0.7% per annum. It is assumed that void losses will continue at this low level in future.

Given that new build gives the opportunity to place tenants in the correct property size for their benefit situation, or at affordable rents may be let to working families, it is assumed that bad debts will be kept to the minimum of 1.1% per annum.

6. Capital and repairs and maintenance requirement

Ark recommended that for new build, future capital investment should be based on 0.8% of the construction cost deferred to start in year 7. This assumption has been made and the full cost base is £111,000 + 20% VAT.

The day-to-day maintenance allowance per unit is £500 + 10% VAT (assumes an internalised maintenance service).

7. Management costs

Management costs for new build are included as staffing on a marginal cost basis of £200 per unit per annum.

8. Grants and other investment

GCH has not included Social Housing Grant (SHG) in the short to medium term after transfer in order to ensure that there is no duplication of “additionality” in this business case. GCH would expect to apply for SHG in future where it is able to consider building beyond the 100 units included in this application.

GCH estimate that they will have up to £2 million of cash reserves on transfer within their ALMO accounts. This sum has been included as an opening cash balance in the consolidated business plan which includes development.

Gloucester has also been experiencing a higher number of sales under the reinvigorated RTB scheme than the self-financing settlement had taken account of. As a result of this, the Council has generated around £600,000 of receipts that can be retained in Gloucester if they can be used to deliver new build homes.

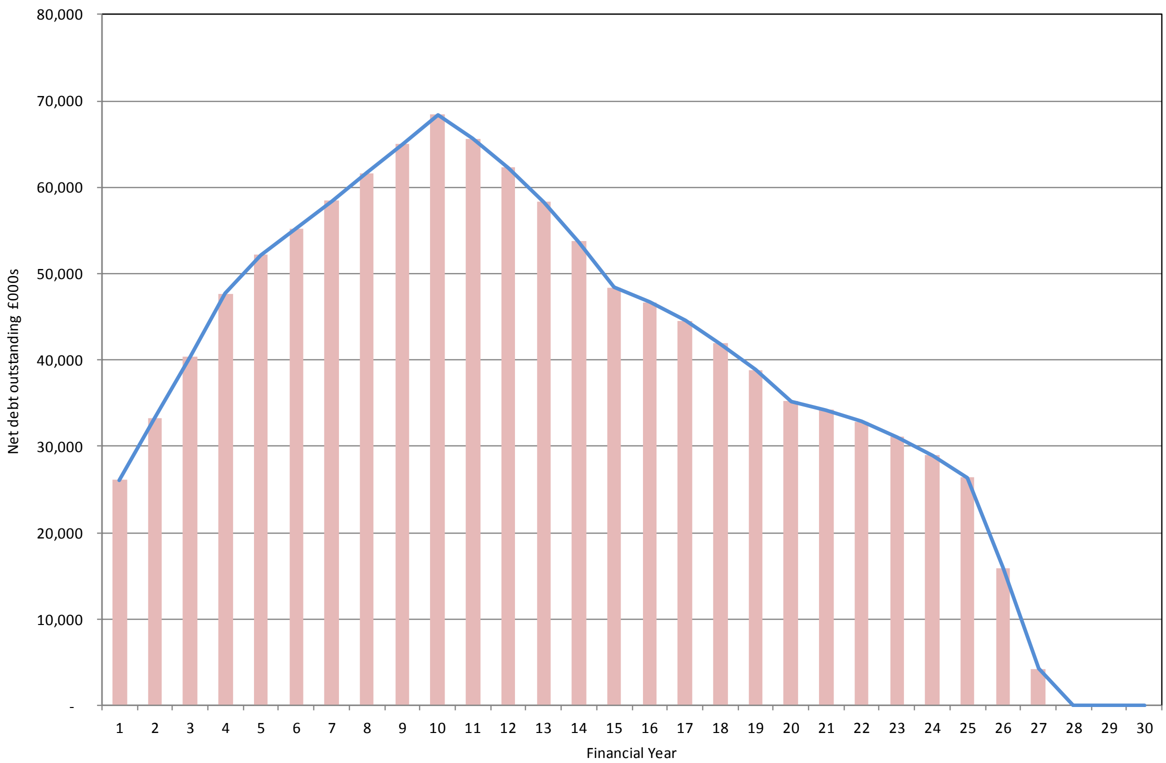
These receipts must be used within three years of generation or be paid back over to the Government with interest. The first receipts were generated in Q3 2012-13. The receipts can only count as 30% contribution to the cost of new build schemes and cannot be used in conjunction with schemes funded by HCA grant contributions.

The Council does not have the capacity to borrow to build for itself, but can pass the receipts to a third party to build using their partner funding. Initial discussions have been started with the Council with a view to the provision being passed to GCH to part fund the first new build homes. For planning purposes at this time, £600,000 has been added to the £2 million above as an opening balance.

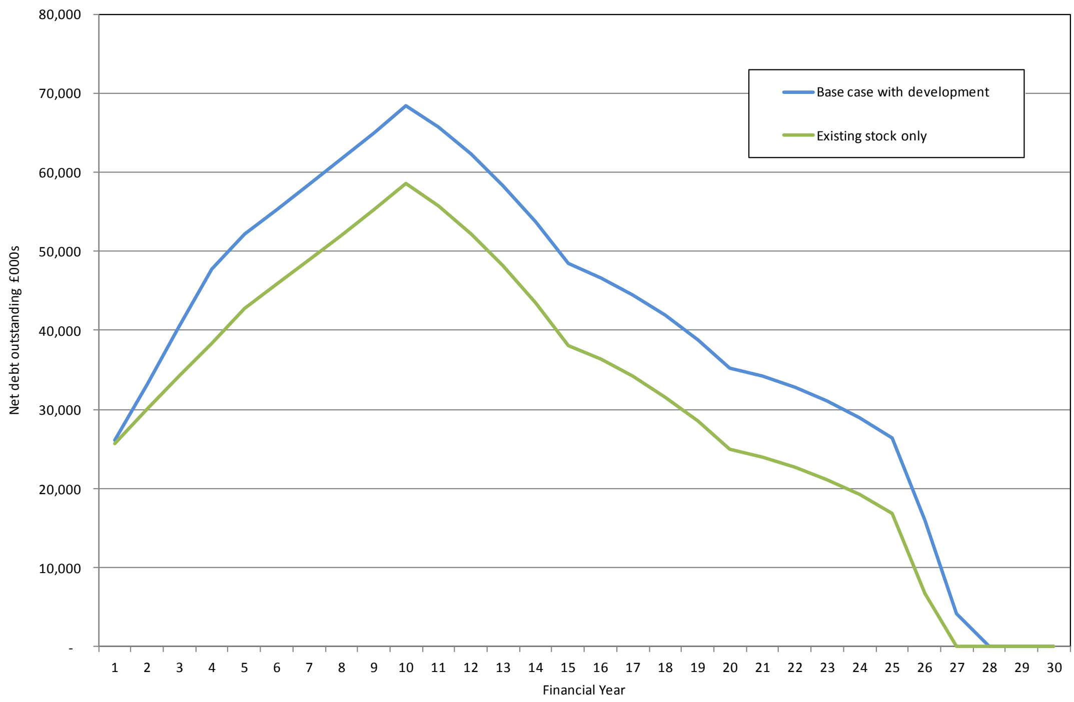
9. Consolidated existing and development funding

The consolidated business plan results for the existing stock transfer plus development and with 50% of the VAT shelter income in the valuation and the Business Plan is:

Purchase price	£20.393 million
Peak debt (facility required)	£69 million
Peak Year	10
Repayment year	28



Comparative funding curves:



A limited range of sensitivity testing has been undertaken using the model to illustrate firstly, the effect of changes in the economic assumptions built into the models, the bad debt assumptions (to reflect the impact of Welfare Reform) and secondly other factors which could provide scope for additional resources and/or managing risk.

The results of the sensitivity testing are set out below:

	Base case inc development		
Sensitivity	Peak Debt	Year of Peak Debt	Year of final
	£000s	Yr	Yr
Base assumptions	68,377	10	28
Adverse sensitivities			
RPI -1%	68,368	10	>30
Interest rates +1%	74,904	10	>30
Bad debts doubled for first 4 years	70,224	10	>30
Favourable sensitivities			
RPI +1%	68,369	10	25
Interest rates -1%	62,408	10	25
Bad debts unchanged for first 4 years	67,837	10	28
Multi variable sensitivities			
RPI -1% Interest rates -1%	62,420	10	>30
RPI +1% Interest rates +1%	74,917	10	28
Potential risk reduction/management measures			
GCH retains 100% of VAT shelter receipts	55,784	10	22
R&M programme managed to produce 2.5% savings p.a.	63,450	10	26
R&M programme managed to produce 5% savings p.a.	58,523	10	22

For information only:

The consolidated business plan results assuming no VAT shelter income in either the valuation or Business Plan is:

Purchase price	£13.275 million
Peak debt (facility required)	£69 million
Peak Year	10
Repayment year	28

The consolidated business plan results assuming 100% VAT shelter income in the valuation and Business Plan is:

Purchase price	£27.512 million
Peak debt (facility required)	£69 million
Peak Year	10
Repayment year	27

Note however that inclusion in the valuation of 100% of the VAT shelter has not been tested with funders on any past transfers and would be subject to their agreement over the level of risk and warranties may be sought.

10b. Confirmation from potential funders that the transfer is fundable in principle given current conditions.

Santander, RBS, and Lloyds have all expressed an interest in funding the transfer and the facility to build new homes.

Supporting evidence: Funders' letters of support.

Aviva Investors have also registered an interest in providing funding for the transfer, although their proposals are currently at a preliminary stage and the organisation has relatively limited experience of funding Large Scale Voluntary Stock Transfers.

Funding from Aviva would take the form of a long term lease/leaseback arrangement, with annual rentals on a full repairing and insuring lease based on an index-linked basis and a nominal reversion payment.

Aviva has been provided with a full copy of GCH's business plan and is currently formulating more detailed proposals.

11 The **condition of the stock** to be transferred is understood, and business and asset management planning for the transfer landlord is based on a strong evidence base in relation to stock condition and that in particular any specific challenges to maintain stock (e.g. from non-traditional design, location or social context) are identified and a strategy to address them through the transfer is in place.

11a. The authority has up-to-date and validated information on the condition of its current stock, reflected in its costed asset management strategy.

Michael Dyson Associates were commissioned to undertake a general validation survey of 10% of the council housing stock and a specific survey of all blocks of accommodation in 2011. This was to ensure that the asset database was correct and provide additional survey information on communal areas of blocks of flats to enhance technical knowledge of these areas and their future investment requirements.

Michael Dyson Associates were subsequently re-employed in 2012 to carry out more detailed intrusive surveys of examples of the non-traditionally built homes. This was the latest in a regular cycle of surveys used to gauge how quickly the structural elements of non-traditionally built homes were deteriorating and when repair or replacement would be most cost effective.

The work identified in the report will require £36.5 million (including fees and inflation but excluding VAT) over the next 10 years with a further £2.35 million in years 10 - 15, giving, in total, an investment need of £38.85 million.

Failure to invest in these homes could lead to structural failures which would trigger significant non-decency and would leave these homes relatively energy inefficient leading to continued fuel poverty for many of the tenants.

Details should include:

11a(i). The type and condition of housing including levels of decency
The general 2011 survey confirmed that after significant investment, the housing stock was on target for achieving full decency by 1 April 2012.

The tables below show the full breakdown of the homes into their archetypes and into the type of homes and number of bedrooms.

The first table shows the bungalows and houses.

The second table shows the flats and maisonettes.

The stock will remain decent until 2014/15 when the current borrowing cap will have been reached. After that, if transfer is not achieved, vital structural works will remain incomplete and homes will, by the beginning of the following year 2015/16, become non-decent.

If the required investment is not made, then the stock will steadily become non-decent in succeeding years.

Table 1: Bungalows and houses

Structure		No. of Bedrooms	Archetype: Small Terraced Houses Pre 1945	Semi – Detached Houses Pre 1945	All Other Houses Pre 1945	Small Terraced Houses 1945 – 64	Semi – Detached Medium & Large Houses 1945 - 64	Houses 1965 – 74	Houses Post 1974	Non – Traditional Houses	Bungalows	Totals	
Bungalows		Studio									7	7	631
		1									392	392	
		2									147	147	
		3									84	84	
		4									1	1	
Houses	Detached	2			2		1					3	1784
		3					2		9			11	
		4							18			18	
	Semi Detached	1					3		10			13	
		2		26			15	2	52	67		162	
		3		517			101	2	136	196		952	
		4		98				1	4			103	
	Terraced	1				2			9			11	
		2	37		1	29		7	63	116		253	
		3	1		76		8	5	18	132		240	
		4			5			1		4		10	
		5			4							4	
Sub-Total			**38**	**641**	**88**	**31**	**130**	**18**	**316**	**515**	**630**		**2415**

Table 2: Flats and maisonettes

Structure		No. of Bedrooms	Low Rise Flats Pre 1945	Low Rise Flats Post 1945	Medium Rise Flats	High Rise Flats	Totals	
Flats	Maisonette	2			50		50	2098
		3			20		20	
	Basement	Studio		1			1	
	Ground Floor	Studio		24	10		34	
		1	16	376	28		420	
		2		249	8		257	
		3		4	3		7	
	First Floor	Studio		58	13		71	
		1	16	389	37	8	450	
		2	2	258	16		276	
		3		5	3		8	
	2nd Floor	Studio		37	13		50	
		1	1	69	39	8	117	
		2	1	167	17		185	
		3		1	3		4	
	3rd Floor	Studio			12		12	
		1		1	32	8	41	
		2			12		12	
		3			4		4	
	4 Floor & above	Studio			8		8	
		1			16	52	68	
		3			3		3	
TOTAL			**36**	**1643**	**347**	**76**	**4513**	

11a(ii). Details of exceptional problems related to stock and how these have arisen.

It is important to emphasise that there has historically been significant under investment in the stock and whilst GCH and the Council has delivered the Government's Decent Homes Standard utilising around £38 million of ALMO funding, there is a need to continue to provide high levels of investment, to maintain the City's homes and ensure they remain fit for purpose and decent over the next 30 years.

Without transfer, the Council would need to consider its priorities for investment in its stock – does it use the resources it has to undertake planned maintenance to all properties as they require it, or does it attend to the structural deficiencies in its stock?

The Council has received clear advice from specialist structural engineers, Michael Dyson Associates, on the need to fund necessary **structural repair and improvement works to the concrete constructed flats and non-traditional homes,** which together account for 1,732 homes, or 38.9% of the stock. A further intrusive survey of the non-traditional stock has been undertaken to identify what specialist investment will be required over the next ten years.

This work will require £36.5 million (including fees but excluding VAT) over the next 10 years with a further £2.35 million in years 10 -15, giving, in total, an investment need of £38.85 million. The effects of this have been included in Section 2d below in commentary on the effects of void properties. In order to balance the HRA budget in the event that there is not a transfer of stock, the Council would expect to attempt to delay this work at the risk of the properties becoming uninhabitable.

It has been demonstrated above that if the properties do become void, then this will have a knock-on impact on the HRA's ability to achieve its Decent Homes Standard and as such all properties will eventually fail the Decent Homes Standard. It has been shown that without transfer, then there is a scenario where the £107 million of works over 30 years could be lost.

12 The proposed use of any VAT shelter is appropriate and good value for money, and the estimated level of proceeds reconciles with the VAT information within the Transfer Value Model

12a. Details of VAT shelter:

12a(i) its value

The estimated value of a VAT shelter over 15 years at 2014/15 prices is £20.362 million in cash terms which would have a total net present value of £14.237 million (discounted at 6.5% using 2014/15 prices).

Supporting evidence: Section 12 VAT workings - half VAT shelter - showing the derivation directly from the stock survey and reconciliation to the TVR entries.

And

12a(ii) its application.

The gross valuation of £20.393 million includes the use of 50% of the annual income from a VAT shelter over 15 years, both in the valuation **and** in the associated Business Plan cash flows. This increases the valuation by £7.118 million (NPV) over a valuation without VAT shelter income. Please note that this also reduces the irrecoverable VAT shown in the summary of benefits by an equivalent amount if discounted at 6.5% and does not include inflation.

The valuation without VAT is £13.275 million, which the Council expects to be above that required to fund the cost of market debt premia. This means that the inclusion of 50% of the VAT shelter in the valuation is being used to directly reduce the debt principle sum thus saving the Government money at the point of transfer, rather than over time.

The Council has not included 100% of the VAT shelter income in its valuation. Recent ALMO transfers have included a proportion of the VAT shelter income (up to 50%) to support the Business Plan, but not to increase the valuation. In recognition of the risk of generating VAT shelter income for inclusion in the Business Plan alone, the funders and their lawyers have insisted that the transferring authority provides an indemnity such that if the VAT shelter income assumed in the Business Plan is not achieved, then the Council would be expected to fund the gap. A positive valuation which is increased by the use of VAT shelter income to reduce debt write off and still only includes a Decent Homes Standard in the offer has not been seen in previous stock transfers and as such funders' lawyers have not considered the comfort they would require for their client. Given the indemnities required for partial inclusion of VAT shelter income in business plans alone, the Council could not commit to indemnify 100% of the VAT shelter included in the valuation. It is also worth noting that if all of the VAT is included in the valuation, then there is an equivalent reduction in benefits from the loss of irrecoverable VAT flowing back to Her Majesty's Treasury (assuming the same discounting rates).

The VAT shelter scheme also needs care in management on the part of the landlord to ensure that only VAT in relation to the agreed scope of works is recovered. This requires audit (at cost) and inspection by HMRC and there is a risk of penalty if VAT is incorrectly recovered. If the landlord is required to manage the scheme for 15 years, then this is a cost to tenants (their rent is funding the process) and as such, tenants should expect to see some return for this investment.

The Council and GCH would wish to a VAT shelter and reserve the right to utilise the remaining 50% of the VAT shelter income in a number of possible ways. If the Council's application is accepted and the debt write off is agreed, then it is accepted that it is unlikely that the amount of over hanging debt grant can be increased in the event that a liability arises pre transfer that has not been currently forecast. Figures included to date are forecasts made over 18 months prior to transfer and are often subject to change. In addition, other liabilities such as pension fund deficits and environmental survey issues cannot be known until nearer to transfer. With the inclusion of future RTB receipts for re-provision of new homes; set up costs being funded from HRA / ALMO reserves and the Business Plan; then the VAT shelter income is the only remaining source of funding that would be available to cover unforeseen liabilities in future. Potential uses would be a mix of :

- Increase valuation to either cover market debt premia if required;
- Pension fund deficit (still to be determined);
- Environmental issues currently undetermined but may arise as and when an environmental survey is undertaken;
- Funding to support further new build /regeneration project.

Amount and application of the VAT shelter if undertaken would be subject to funders' conditions.

In particular, the Council and GCH would look to use the remaining unused VAT shelter income, after taking into account all potential liabilities arising pre transfer, in future to support further new build opportunities in combination with additional private borrowing. For example, it has been demonstrated that borrowing of £10m can help to deliver 100 new affordable homes. To be prudent, further development has not been included in the Business Plan to avoid the risk of setting expectations and being unable to generate the income over 15 years. The work on development discussed in the growth case above shows that there is sufficient capacity to be able to utilise these funds in future to provide additional development and/or regeneration of areas. Use of VAT shelter in this way will result in future flows of additional irrecoverable VAT to HMT.

13 The proposed arrangement for Preserved Right to Buy receipts is appropriate.

13a. Confirmation that net receipts from Preserved Right to Buy sales will be used for new affordable housing at no greater subsidy cost than under the main affordable homes programme or surrendered to the HCA for re-allocation for new affordable housing.

The final Business Plan will assume that the landlord will be compensated for the loss of homes by an agreed sum relating to the net income foregone. The sum per sale will be agreed with the Homes & Communities Agency regulator as part of the transfer arrangements.

The landlord will retain the balance for the provision of new affordable homes.

14 The prospective new landlord is registered, or is likely to achieve registration with the Regulator and that any group structure complies with policy on operational independence and de-merger.

14a. Confirmation of registration or details of plan to achieve registration.

GCH has begun discussions with the Homes and Communities Agency (HCA) registration team. The HCA noted the current excellent performance and indicated that this would significantly affect the evaluation of risk.

The indicative registration timetable is shown in the table below:

Table: Draft registration timetable

Activity	Timescale
Preliminary discussions held with HCA Senior Registrations Adviser (Steve Fox)	June 2013
Commence regulatory engagement with HCA and initial visit to Gloucester City Homes	December 2013
Acceptance on Disposal Programme	April/May 2014
Regular monthly visits / liaison with Regulator including supply of information in agreed format	May 2014 to December 2014
Pre Registration Assessment scrutiny	December 2014
Registration Assessment Committee decision	February 2015
Transfer	March 2015

14b. Confirmation that de-merger provisions will be put in place where relevant.

Not applicable.

15 The prospective new landlord represents the most effective and economic option.

15a. Details of the landlord selection process and comparative delivery and value for money analysis of alternative options (including, where relevant, transfer to a new landlord compared to transfer to an existing landlord).

In September 2013 the Housing Futures Residents Panel set up by the Customer Forum carried out a Landlord Selection Process to choose their preferred landlord.

They were supported in this process by their Independent Tenant Advisors, the Tenant Participation Advisory Service and given specialist legal advice by Trowers and Hamlins and specialist financial advice by Capita (previously known as Sector).

The Customer Forum is a representative group of Gloucester City Council tenants and leaseholders, made up from tenants and residents associations across the City.

The Housing Futures Residents Panel (HFRP) set up in 2010 has been involved in the Council's Options Appraisals from the beginning and is a sub-committee of Customer Forum.

Its members include: Chair and both Vice Chair of Customer Forum, Chair of Tenant Scrutiny Panel, a leaseholder representative and a representative of the Tenants Publication Group.

The Housing Options Appraisal process concluded with clear tenant aspirations for their ongoing housing service to be provided with strong tenant empowerment, tenant influence, and involvement building on the success achieved so far with GCH.

The HFRP set strict criteria for the selection of their preferred landlord. This included only considering landlords who had:

- A current and existing commitment to provision of social housing in Gloucester
- The capacity to undertake a Large Scale Voluntary Transfer (LSVT) of approximately 4,500 homes.

The rationale for this being was that the new landlord must have a strong strategic partnership with the Council and have experience of the demands for social housing in the City and the specific issues faced by tenants in Gloucester. It was felt that only a landlord that currently owned or managed housing stock in Gloucester City would have this knowledge given the timescales that the Council and the Government were looking to achieve.

There were five landlord organisations that were considered to meet these initial criteria. For the purposes of the exercise GCH, the ALMO, was counted as a potential stand-alone landlord. This would be possible if it was converted to a Registered Provider for transfer purposes. The five organisations were:

- The Bromford Group
- Gloucester City Homes
- Guinness Hermitage (part of the Guinness Partnership group)
- Oxbode Housing Association (part of the Green Square group)
- The Riverside Group

The HFRP considered a range of information to help them come to a considered conclusion, including:

- ‘Choice of Landlord’ advice from Trowers and Hamlins which considered the points for and against each type of landlord structure available from a legal perspective and the likelihood of tenant support in a ballot based on evidence of past transfers (including recent ALMO transfers).

- ‘Landlord Selection Options Finance’ advice from Capita (Sector), which considered the points for and against each type of landlord structure available from a financial versus governance perspective. It also considered company group structures and the financial position of each of the candidate landlords based on their latest published accounts.

- Annual Reports to Tenants from each of the candidate landlords, which included a range of annual performance information and commitments to future tenant involvement and investment in their stock.

- A systematic mystery shop of the candidate landlord websites by TPAS, to identify, in particular, each landlord’s level of commitment to tenant empowerment, influence, and involvement. This was on the basis that each candidate landlord should have a website providing a ‘shop window’ setting out its services, performance and options for tenant influence and accountability, as a minimum requirement. TPAS applied assessment principles of the TPAS Resident Involvement Quality Accreditation Scheme for the areas of Tenant Communications and Accountability, when conducting this assessment on behalf of the HFRP.

- In addition the HFRP itself carried out its own local research including benchmarking the local landlords through the Gloucestershire & Severnside Tenants Network, the local sub-regional tenants group.

HFRP also considered whether it should carry out interviews of candidate landlords, inviting them to make bids for the transfer, however they concluded that it was preferable to look objectively at financial, performance and other information such as commitments to tenant involvement that was already publicly available. If however at the end of the process this was not considered sufficient, there still remained the possibility that additional work could be carried out to inform the selection.

It was noted that where a bidding process had been employed recently by another landlord considering transfer, the candidate landlords were not yet conversant with the need to maximise the transfer price and demonstrate clear benefits of transfer, or were not prepared to commit their existing tenants’ money to supporting a transfer beyond the minimum necessary to purchase the stock.

The timescale for arranging such a bidding round was also considered and it was felt is was important to select the preferred landlord early in the process to protect the time available for wider tenant and community consultation, later in the process.

In addition to the above, HFRP were keen to ensure that it would be possible for the preferred landlord to consider extending the concept of mutuality after the transfer to allow greater tenant ownership and Board involvement, subject of course, to financial and regulatory approval.

After considering all the evidence and subjecting advisors to a comprehensive and challenging set of questions, HFRP recommended the following to Customer Forum:

“that, the preferred option would be the conversion of GCH into a new stand alone Private Registered Provider which it is felt will best suit the needs of tenants, for the following reasons:

- It meets the criteria that HFRP have considered
- Locality; focus, accessibility, identity
- Structure of the Company
- Governance
- Existing and future level of tenant influence and involvement
- Closest structure to the Co-Co+ model
- Financial stability
- Most likely to secure a successful ballot
- Mutuality
- Closest to the “no change” option

The Customer Forum met in the evening on the 18th September 2013, formally adopted the recommendation and subsequently made the recommendation to Gloucester City Council’s Cabinet and Council for their consideration.

Gloucester City Council’s Cabinet met on the 16th October 2013, supported the need for transfer and commended GCH for its historic and current performance. It referred the matter for detailed consideration by Full Council the following day, 17th October 2013.

After a full debate involving all political parties, Gloucester City Council unanimously decided to support the Housing Futures Residents Panel’s and Customer Forum’s recommendation to select GCH as the preferred landlord to whom the stock should be transferred, if a transfer were to proceed.

3e. THE FINANCIAL CASE

(the specific costs of the proposed transfer)

16 The transfer is affordable and offers good value for money, in particular through maximisation of the Transfer Value for the stock (and hence minimisation of any requirement for debt write-off by central Government.) The case is assessed using a transfer value reconciliation (comparing the Transfer Value with the self-financing valuation of the stock), a five year fiscal flows model and a thirty year public sector cost benefit analysis.

16a. The local authority should provide estimates of key financial information using the proforma in Annex A Part 1.

Supporting evidence: Annex A Part 1.

Full details of financial assumptions used in valuations are provided above in section 10a

16b.The local authority should submit its Transfer Valuation Model (TVM),

Supporting evidence: Annex B Transfer Value Reconciliation, **Section 16b Net Present Values - existing stock only** and **Section 16b Valuation cash flows - existing stock only**

and confirm that it reflects:

- **a rent plan for the transfer landlord which conforms to government policy and is based on reasonable assumptions of income maximisation (where relevant within the constraints of a rent guarantee for existing tenants);**

Average rent by stock archetype (as above) is calculated on a 52 week basis in the model and is based on the Council's 2013/14 weekly rent uplifted to 2014/15 by assuming the RPI for September 2013 is 3.2% (confirmed).

Opening rents for 2014/15 are assumed to rise in line with the Government Restructuring Guidance which the Council would follow if it retained the stock assuming that the rent would converge to target rent by 2015/16 with a maximum increase of RPI + 0.5% + £2.00 (52 weeks) per week allowed.

In July 2013, the Government's Spending Review set out that social housing rents, from 1 April 2015 should not rise by any more than CPI + 1% (considered by Government to be the equivalent for landlords of RPI + 0.5%). This would prevent Councils and other landlords who have not yet reached target rent (where convergence has been set at 2015-16 for local authorities in line with self-financing assumptions) from reaching the target rent by at least one year.

Consultation on social rent setting from 1 April 2015 closed on 24 December 2013 and the consultation proposal is unchanged from that announced in July. The current assumption in the plan is that target rent will not be reached for all social rented homes in Gloucester City's stock and rents will rise by CPI + 1% from 2015-16 onwards.

The Council is expected to agree a rent increase for 2014-15 that will maximise the rent rise for this year so that all property rents increase by RPI (3.2%) + 0.5% + £2 per week even if the increase would have been lower assuming two years to convergence. This will reduce the differential between actual rent and target rent. The assumptions use this newly calculated rent for 1 April 2014 then reflect year 2 onwards as CPI + 1% (for presentation is shown currently as RPI + 0.5%, where future RPI is deemed to be 2.5%). It is assumed for the purposes of the valuation that new lettings will be at target rent to maximise rental income.

- **a costed investment plan / asset management strategy for the transfer landlord which reflects the stock condition and demand information and the need to minimize costs;**

The table below sets out the original expected cost of investment and day-to-day maintenance for the Council to maintain its stock at the Decent Homes Standard, based on the Michael Dyson Associates' 2012 priced survey data plus inclusion of a specific non-traditional stock survey that was undertaken intrusively on the homes. Day-to-day maintenance costs reflect the current prices charged by the external provider. The total capital and day-to-day maintenance for 30 years is £292.3 million at 2013-14 prices including fees but not VAT.

The costs shown below were based on stock of 4,509 homes, which excludes the shared ownership homes as at August 2011 and do not include preliminaries, fees or VAT or uplift for inflation from the date of the survey.

The plan assumes that programmed renewals, asbestos, and responsive/void and cyclical (day-to-day) costs will vary as stock numbers reduce due to sales pre transfer and demolitions. All other categories are fixed.

The Council is not currently receiving DHS backlog funding from the Government and does not expect to receive any.

Year	Catch Up Repairs	Planned Maintenance	Contingencies	Structural & Thermal	Non-trad	Disabled adapts	Environmental works	Day-to-Day	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
1	168	3,928	277	1,003	2,778	463	348	3,538	12,503
2	168	3,928	277	1,003	2,778	463	348	3,538	12,503
3	168	3,928	277	1,003	2,858	463	348	3,538	12,583
4	168	3,928	277	1,003	2,858	463	348	3,538	12,583
5	168	3,928	277	1,003	2,858	463	348	3,538	12,583
6	0	2,239	216	424	4,481	463	0	3,538	11,360
7	0	2,239	216	424	4,481	463	0	3,538	11,360
8	0	2,239	216	424	4,481	463	0	3,538	11,360
9	0	2,239	216	424	4,481	463	0	3,538	11,360
10	0	2,239	216	424	4,481	463	0	3,538	11,360
11	0	2,369	187	39	470	463	0	3,538	7,066
12	0	2,369	187	39	470	463	0	3,538	7,066
13	0	2,369	187	39	470	463	0	3,538	7,066
14	0	2,369	187	39	470	463	0	3,538	7,066
15	0	2,369	187	39	470	463	0	3,538	7,066
16	0	4,419	251	56	99	463	348	3,538	9,173
17	0	4,419	251	56	99	463	348	3,538	9,173
18	0	4,419	251	56	99	463	348	3,538	9,173
19	0	4,419	251	56	99	463	348	3,538	9,173
20	0	4,419	251	56	99	463	348	3,538	9,173
21	0	5,983	292	368	106	463	0	3,538	10,750
22	0	5,983	292	368	106	463	0	3,538	10,750
23	0	5,983	292	368	106	463	0	3,538	10,750
24	0	5,983	292	368	106	463	0	3,538	10,750
25	0	5,983	292	368	106	463	0	3,538	10,750
26	0	3,304	209	33	14	463	0	3,538	7,562
27	0	3,304	209	33	14	463	0	3,538	7,562
28	0	3,304	209	33	14	463	0	3,538	7,562
29	0	3,304	209	33	14	463	0	3,538	7,562
30	0	3,304	209	33	14	463	0	3,538	7,562
	838	111,211	7,162	9,613	39,978	13,876	3,477	106,151	292,307

- NB Includes preliminaries, Fees, and uplift inflation but not VAT.

The table assumes preliminary costs as advised by Michael Dyson Associates of 10% on catch up and planned maintenance categories, professional fees of 8% have been added on top of the capital investment costs shown in the table above. An uplift of 3.2% has been included to reflect the increase in prices prior to transfer and largely relates to increases from 2013-14 onwards.

VAT is added on capital investment in addition to the costs above. VAT is chargeable at 20% and a VAT shelter is included with 50% of the income assumed in the plan. To reflect this the cashflows show a VAT rate of 10% cost on the capital costs up to year 15 then 20% thereafter.

The plan includes VAT on the day to day repairs costs of 20% for years 1 & 2 and 10% from year 3. This still assumes that GCH will have an internalised repairs service by year 3. This assumption improves the transfer price and reduces Government debt write-off requirements. The timing is set to tie in with the end of the current external provider's contract (including extension).

Cashflows also include adjustments for variation in stock numbers from the time of the survey (4,509) to expect transfer (4,454). The categories of planned maintenance, contingencies, responsive, cyclical and void costs all reduce proportionally as stock numbers fall, the other categories are fixed.

GCH have consulted with 900 tenants during late 2012 and throughout 2013 about their property investment priorities. They did this through an independent STAR survey, via a specific customer roadshow held between January to March 2013 and also via the customer conference held in October 2013.

An independent STAR survey reported in January 2013 told us that tenant priorities are:

1. Maintaining a good quality repairs and maintenance service
2. Ensuring that the overall quality of their homes is maintained
3. That their neighbourhoods are a good place to live

This was re-enforced at the customer conference held in October 2013 when over 500 residents held a conversation about GCH's services.

There are slight variations between communities as you would expect. For example, residents in Podsmead want more CCTV attached to their blocks and more car parking.

The survey included above which meets the Decent Homes Standard but also addresses the concerns over environmental issues on the estates and will meet the demands of tenants on the estates.

16c. The local authority should provide a Transfer Value Reconciliation (see section 4 and Annex B) with a full analysis of the drivers of any differences between the Transfer Value and self-financing value showing the amount attributable to each driver. Where the transferring local authority or recipient landlord proposes to make a contribution to the transfer valuation it should be shown in the Transfer Value Reconciliation. Where costs are shown in addition to self-financing assumptions these should be justified in relation to the benefits set out in the Strategic Case and monetised in the Economic Case.

Supporting evidence: Annex B Transfer Value Reconciliation

16d. For Large Scale Voluntary Transfers only, the local authority should provide data needed to populate a five year fiscal flows model and a thirty year public sector cost-benefit analysis

Supporting evidence: Annex A Part 4a, 4b and 4c

17 Revenue savings accruing to the transfer landlord through efficiencies (e.g. in management and maintenance)

17a. Reference to a positive impact on the Transfer Value shown in the Transfer Value Reconciliation and 17b, and how this is achieved.

The current transfer business plan assumes GCH, as the new landlord, will invest in year 2 to bring the current externalised repairs service in-house in order to save the VAT on the cost of employees. The service contract is due for renewal and the VAT savings have been included in the valuation to increase the transfer price paid for the existing stock. The cost of set up of this service is estimated at £100,000 and it is assumed that GCH will borrow this and fund it from within the business plan rather than reduce the transfer price by £100,000.

The cost of managing the new in-house service will need to be managed within the net cost of the existing service allowing for only the equivalent of 10% VAT. This will be challenging as the external provider will provide a service for more than just GCH, so will inevitably have economies of scale. GCH will need to match these in order to achieve the full VAT savings that are contributing to the increased transfer value. The valuation would be £1.629 million lower if full VAT on repairs had been assumed.

The transfer plan also assumes up to £600,000 of borrowing in year 1 for the introduction of new technology to improve the service delivery beyond its current standard and to deliver real management cost efficiencies in neighbourhood services, customer services and repairs administration of 0.5% year on year for five years from year 3. These improvements will save money and deliver better services. The transfer valuation is £600,000 higher than it would have been if these investment costs had been matched to the efficiencies arising that have been included in the valuation and the valuation is additionally £1.122 million higher as a result of including the estimated efficiencies in costs. This gives an overall total improvement of £1.722 million in the valuation.

The Council would not be able to borrow to invest in the improvements having reached its debt cap and so without transfer would continue to incur the full costs and tenants would not receive an improved service.

The transfer plan includes continuation of the enhanced income collection function to manage the effects of the introduction of Welfare Reform. From April 2013, GCH has funded from its reserves, 2.5 FTE new posts in income collection and one FTE new post in finance and administration to address the issues arising in rent collection as a result of the removal of the spare room subsidy and the introduction of Universal Credit. The additional posts have managed to contain the increase in arrears arising as a result of the under-occupancy subsidy from April 2013 to £30,000 which arose over the first 8 weeks and has not risen since.

Arrears have risen over this period from 1.2% to 1.5%. This suggests that the enhanced service has contained the increase which was estimated from pilot schemes to incur losses of up to 8% of gross rent and is currently ensuring that the arrears are not increasing. Universal Credit introduction has been delayed and an impact might be expected in year 2 of the plan as tenants are paid directly and need to make arrangements to pay their rent.

It is estimated on the basis of the experience with under-occupancy non-payment that arrears may increase by as much as £200k (1.1%) in the first eight weeks. If the team is retained then this can be contained and quickly returned to a more normal collection rate. It is also assumed that this experience can improve collection beyond the pre 2012-13 performance and as a result reduce the total void and bad debt loss to 1.8% by year 5, which is less than the self-financing assumption of 2%.

The Council does not currently pay for this enhanced service and could not afford to do so. GCH have the staff on two-year temporary contracts. It is estimated that without the income collection staff and the staff to promptly administer direct debits and return to payment to landlord for non-payers, the Council would currently be experiencing 2.5% bad debt loss (void loss additional 0.7%) and this would increase to 4% from year 2 onwards with Universal Credit and would not return to its previous rate.

In valuation terms there are several key points to note here which are not evident directly from the reconciliation between the current valuation and the self-financing assumptions (i.e. in the Transfer Value Reconciliation (TVR)). Firstly self-financing assumes that the total loss of rent due to voids and bad debts combined is 2% all years. This assumption was set prior to the introduction of Welfare Reform and before the Government's pilot scheme results were published.

The current valuation assumptions for bad debt losses alone (excluding the cost of collection) give a higher Net Present Value (NPV) than the self-financing assumptions by £218k for the stock at transfer, so the current valuation assumption for bad debt collection is overall more efficient than self-financing assumed. However, the cost of collection is £107k per annum, which in NPV terms is £1.422 million over 30 years of additional cost. In terms of simple reconciliation to self-financing this would in net terms give a valuation £1.204 million worse than self-financing assumed. However, reconciling to self-financing only, hides the fact that the predicted non-collection rates without the additional investment in staff (which the Council cannot afford to employ) are 2.5% rising to 4% (or 3.2% to 4.7% combined void and bad debt loss).

If the valuation had assumed no increase in staff and the predicted bad debt rates, then the valuation would have been a net £5.47 million lower than the current valuation of £13.275 million.

This demonstrates that rather than simply being £1.422 million in NPV terms worse than self-financing (or £281k better on income collection rates only), the transfer offers a solution which is £5.47 million in NPV terms better than the Council could deliver without transfer. This is an important point which could easily be missed if only considering the TVR.

The use of an enhanced team will allow for prevention measures to be put in place and tenant awareness training prior to Universal Credit introduction. Without the team, there is a risk that uninformed tenants will struggle to pay their rent and the problem will escalate out of control.

The plan assumes new tenants will go straight to target rent and then rise by CPI + 1% (or RPI + 0.5% equivalent) The Council does not currently operate that policy and the SF valuation did not assume this. This assumption has had a beneficial effect on the valuation of £520,000.

The plan also assumes that rents for 2014-15 will be maximised by a Council approved increase of RPI + 0.5% + £2, rather than a convergence factor based on two years left to convergence (under existing policy). This is designed to mitigate the effect on the transfer valuation of the policy to cease convergence from April 2015. Rents for existing tenants are assumed to rise by CPI + 1% (or RPI + 0.5% equivalent) from 1 April 2015. The total estimated increase in the value of rents taking into account inflationary increases in rent since 1 April 2012, changes in stock and convergence increases the valuation by £16.128 million from the debt settlement.

The valuation has been improved by £1.327 million with the removal of an assumption that stock is reduced by RTB sales within the year. The SF valuation was reduced by including annual RTB sale stock reductions. RTB sales are not assumed in the transfer and will be accommodated at a later stage by a compensation receipt at the time of sale.

18. Impact of the proposed transfer on the local authority's **Housing Revenue Account**

18a. How will the Major Repairs Reserve and the Housing Revenue Account Reserve be dealt with prior to transfer?

There will be no balance on the MRR at transfer. The HRA balance is expected to be used to cover set up costs, pension deficit, mitigate and manage out diseconomies of scale immediately after transfer and where required provide cover for the market debt premia.

18b. Does the local authority plan to close its Housing Revenue Account?

Yes the Council does intend to close the Housing Revenue Account.

3f. THE MANAGEMENT CASE

(the timely delivery of the transfer project)

19. The proposed **timescale for completion** of the transfer is achievable, given the resources applied; that the local authority has a project plan that allows sufficient time for the various key stages including in particular obtaining funding and selecting or establishing a landlord; that this plan conforms to the 31 March 2015 transfer deadline; and that a credible alternative plan to transfer is being maintained.

Local authorities should be guided by the outline timetable in Annex G.

19a. Transfer project plan and timetable, including the date on which transfer will take place.

Transfer - Key milestones

Month	Actions
November / December 2013	GCC/GCH Draft Transfer Bid
January 2014	GCC/GCH Complete Bid and Submit Homes and Communities Agency (HCA) begin considering Bid GCC/GCH Begin drafting Offer Document GCC/GCH Begin developing supportive material e.g. DVD, leaflets GCC/GCH Begin training staff, councillors, Board members and tenants in advice giving GCC/GCH commence informal consultation
February 2014	HCA, Department for Communities and Local Government (DCLG) and Her Majesty's Treasury (HMT) continue considering Bid GCC/GCH Continue drafting Offer Document GCC/GCH continue informal consultation
March 2014	HCA/DCLG/HMT continue considering bid GCC/GCH Continue drafting Offer Document GCC/GCH Continue informal consultation
April 2014	HCA/DCLG/HMT conclude consideration of bid and give decision HCA Regulatory meetings commence Purdah period starts GCC/GCH Continue drafting Offer Document
May 2014	Purdah continues till 22 May Council elections GCC/GCH respond to tenant comments GCC/GCH Continue drafting Offer Document HCA Regulatory meetings continue

Month	Actions
June 2014	GCC/GCH complete Offer Document and GCC approve GCC/GCH submit Offer document to HCA/DCLG for approval GCC/GCH Continue informal consultation HCA Regulatory meetings continue
July 2014	Receive DCLG/HCA offer approval GCC Commence Stage 1: 28 day Formal Consultation - Issue Offer GCC/GCH door knocking exercise to answer questions HCA Regulatory meetings continue
August 2014	GCC Conclude Stage 1: 28 day Offer Formal Consultation GCC consider responses, amend offer if required, authorise ballot. GCC commence Stage 2 Formal Consultation: 28 day Ballot HCA Regulatory meetings continue
September 2014	Issue Stage 3 notice GCC/GCH door knocking to encourage tenants to vote. GCC conclude Stage 2: 28 day ballot HCA Regulatory meetings continue
October 2014	GCC formally decide to proceed with transfer if majority “yes” vote from tenants GCC/GCH appoint their own consultants GCC/GCH commence drafting Transfer Document GCH issue formal prospectus to lenders HCA Regulatory meetings continue
November 2014	GCC/GCH continue drafting Transfer Document GCH start negotiations with lenders HCA Regulatory meetings continue
December 2014	GCC/GCH continue drafting Transfer Document GCC/GCH agree any General Fund Services to be provided HCA Regulatory assessment on site GCH continue negotiations with lenders
January 2015	GCH conclude negotiations with lenders HCA Regulatory report prepared
February 2015	GCC/GCH conclude drafting Transfer Document Business Plan almost finalised Contract documentation almost finalised Council approve application to transfer Registration Advisory Committee considers and approves GCH as Registered Provider GCC apply for DCLG Secretary of State’s Approval

Month	Actions
March 2015	DCLG Secretary of State's approval given to transfer GCH apply to HCA for approval to charge homes to funders HCA give approval to charge homes to funders Transfer

19b. Details of exit strategy and maintenance of an alternative to transfer.

During the last full options appraisal in 2011 the Council considered the following options:

Option No.	Option explanation
Option A	Continue with the existing arrangements as a GCH ALMO
Option A1	Continue with the GCH ALMO and undertake a detailed feasibility study of enhancing this option by extending the management agreement on a longer term contract (30 plus years) that would enable the ALMO to borrow in its own right for future investment needs.
Option B	The Council brings the service 'in-house', so that it would directly manage its stock as was the case before GCH was set up.
Option C	Transferring the stock to a housing association in a traditional stock transfer.
Option D	Transferring the stock to a new form of housing association called a council- and community-owned organisation (CoCo).

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At the time the Council resolved at its meeting on 22 November 2011:

That Option D, a Council and Community Owned (CoCo) model be adopted as the best option and that further work be undertaken with Government to establish, in detail, whether the necessary support for a CoCo would be given.

That Option A1, continuation of existing arrangements, be regarded as the next best option if a CoCo cannot be made to work. With a view that in parallel to the work on a CoCo, the following options of enhancing the existing arrangements be agreed for further development:

- Extending GCH's management agreement
- Changing GCH's ownership so as to allow it to borrow outside the public sector borrowing requirement.

That Option B, returning the management of the housing stock to the Council, be ruled out, because of the potential risk to service delivery for comparatively minor financial savings.

That Option C, traditional stock transfer, be ruled out on the grounds that it would not be affordable for the Council.

This last option was because at the time it seemed unlikely that the Government would be prepared to write off the remaining housing debt.

Since that time the Council has amended its CoCo option, as following considerable discussion with the Homes and Communities Agency, Department of Communities and Local Government and Her Majesty's Treasury, the CoCo option was regarded as a public company largely repaying public debt. As such it was still caught by the Government's restrictions on borrowing.

Fortunately the Government decided that it would be willing to consider a traditional stock transfer and more recently that it would be willing to consider writing off all remaining housing debt, excluding private debt premia.

As a result the Council at its meeting on 17th October 2013 unanimously resolved:

That the Co-Co Plus model for stock transfer be approved in principle subject to the financial business case being satisfactory and subject to subsequent approval of the offer to tenants. This was in effect a traditional LSVT.

The alternative to this remains:

Continuation of existing arrangements, be regarded as the next best option if a CoCo cannot be made to work. With a view that in parallel to the work on a CoCo, the following options of enhancing the existing arrangements be agreed for further development:

- Extending GCH's management agreement
- Changing GCH's ownership so as to allow it to borrow outside the public sector borrowing requirement.

Discussions with potential lenders have taken place and it increasingly looks like lenders would be unwilling to provide loans to a reconstituted GCH which remained purely a managing agent, as GCH would not be the owner of the stock and would therefore not be able to secure loans on the stock.

This means that to achieve the necessary investment in the stock, the regeneration of the estates and the building of new homes, it would be necessary to involve developers and other Private Registered Providers in a phased refurbishment or redevelopment of the Council housing stock over the next 10 years.

In cases where repair and refurbishment are required this would involve transferring existing tenants out of accommodation in need of investment which the Council cannot afford and does not have properties for them to be moved to, and sale of the accommodation to a private registered provider for them to repair and refurbish; and then re-let.

Tenants wishing to return would have to become the tenant of the private registered provider. If the properties were sold with tenants in then this would result in a stock transfer is another guise.

In cases where the property is producing a negative net present value and it would not be economical to repair and refurbish, the Council would need to work with developers and private registered providers to re-house tenants, demolish the accommodation and redevelop the site in accordance with local housing need.

The above approaches are piecemeal in their approach and are likely to be far more expensive and time-consuming to achieve than the proposal to transfer the stock to GCH. The whole stock transfer is the only option that ensures a consistency of standard and service for all of the Council's stock within a short period of time.

This option would not be able to deliver more affordable housing in the City, over and above that delivered by other private registered providers using social housing grant, leading to households in housing need waiting longer to be helped than would be necessary if the stock transferred to GCH.