

East Ayrshire Council

# **Option Appraisal Final Report**

March 2005

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**Private and Confidential**

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## Contents

	<b>Page</b>
<b>1 Introduction</b>	<b>1</b>
<b>2 Strategic Review</b>	<b>2</b>
<b>3 Consultation</b>	<b>8</b>
<b>4 Stock Condition, Valuation and Financial Analysis</b>	<b>12</b>
<b>5 Option Appraisal</b>	<b>20</b>
<b>6 Conclusions and Recommendation</b>	<b>35</b>

### Appendices

Appendix 1:	HRA Analysis Assumptions
Appendix 2a:	Cashflows (as per stock condition survey results)
Appendix 2b:	HRA Cashflows (smoothed investment programme over 1st 10 years)
Appendix 3:	Pricing Model – Retention Value Assumptions
Appendix 4:	Pricing Model – TMV Assumptions

## **1 Introduction**

- 1.1 East Ayrshire Council has appointed DTZ Piedad Consulting to undertake a housing stock option appraisal to inform the future ownership and management options of the housing stock.
- 1.2 This study links to the Council's requirement to complete a Standard Delivery Plan for submission to Communities Scotland by the end of April 2005. The Plan must set out how the Council plans to deliver the Scottish Housing Quality Standard (SHQS) in all of its stock by 2015, including what strategic option the Council will pursue for delivery of the Standard i.e.;
- The stock being retained and managed by the Council;
  - Transferring the entire stock to a Registered Social Landlord (normally a new or existing housing association);
  - Retaining some of the stock, but transferring part of it to a new or existing landlord.
- 1.3 This draft final report outlines the findings of the option appraisal. There are several elements which inform the final evaluation, as follows:
- Review of the Council's strategies and policies as they relate to the housing service and local housing system
  - Analysis of housing need and demand
  - Verification of the previous stock condition survey undertaken in 2000, and determination of requirements to meet the SHQS
  - Consultation with key Council members, staff, tenants and other stakeholders
  - Housing stock valuation (using the Scottish Executive pricing model) and HRA financial analysis, and
  - The evaluation framework.
- 1.4 The findings of each of these elements are summarised within this report. However comprehensive reports were provided on each element at interim report stage. Further detail can be obtained by reading the interim reports in conjunction with this final report.
- 1.5 The report summarises each of the study elements and concludes with the option appraisal itself, which has been undertaken independently by the consultants. A final recommendation is provided on the strategic options (from retention, partial or whole stock transfer) which present the best opportunity to meet the Scottish Housing Quality Standard, and meets the Council's other criteria as agreed through the evaluation framework.

## **2 Strategic Review**

- 2.1 This chapter provides a summary of East Ayrshire Council's strategic objectives and housing system. The content is based on a review of the Council's key strategic and policy documents, and analysis of additional housing management data.
- 2.2 The main purpose of the element of the study is to inform the consultants on the East Ayrshire context, and to aid the development of the key criteria against which the various stock ownership options will be assessed via the option appraisal.

### **East Ayrshire Context**

- 2.3 East Ayrshire is situated in West Central Scotland, approximately thirty miles South of Glasgow. Census information suggests that the population in 2001 was 120,235 inhabitants. East Ayrshire covers an area of 490 square miles from Lugton in the north to Loch Doon in the south.
- 2.4 Population projections (2002 based) estimate that the number of residents living in East Ayrshire will drop by 7.8% between 2002 and 2018. This is a higher decline than is projected for Scotland overall for the same period (-2.3%).
- 2.5 Between 2002 and 2016, the number of households living in East Ayrshire is expected to rise by 1.2%, lower than the 7% rise projected for Scotland. The number of one adult households is expected to rise disproportionately to other household types, while whole family households will decrease.
- 2.6 Despite a slowdown in population and household growth, the population is ageing, with a loss of more economically active households. The Joint Structure Plan believes that this trend will compromise the ability of Ayrshire as whole to realise its economic potential. A key aim of the Plan is to minimise population loss by setting an aspirational target to arrest decline, followed by growth. Indeed, consultation undertaken as part of this study suggests that the Council officers believe that the new A77 will assist in arresting decline by encouraging commuter households.

## **Economic and Income Trends**

- 2.7 East Ayrshire has historically had a fairly high dependency on traditional industries such as mining, whisky blending and manufacturing, all of which have declined significantly in recent years. According to Scottish Executive statistics, 75% of employee jobs are in the service sector in East Ayrshire, compared to 80% in Scotland overall.
- 2.8 The proportion of the population that is economically active in East Ayrshire is in line with Scotland. However, the proportion of economically active males is higher in East Ayrshire (87% compared to 83%) while female economic activity is lower than the Scottish average (72% compared to 75%).
- 2.9 Within East Ayrshire there are variations in the level of unemployment. Areas such as North Kilmarnock, Fenwick and Waterside compare favourably to the national average unemployment rate, at around 1.5%. This contrasts to particularly high unemployment rates within Altonhill, Hillhead and Longpark at 14.5% and Onthank with 14.4% unemployment.
- 2.10 In addition to these unemployment rates, long-term levels of unemployment are also higher in East Ayrshire, with 17% of those unemployed having been so for more than a year. This compares less favourably to the Scottish average, which is only 15%.
- 2.11 General earnings figures for East Ayrshire on the other hand, are not particularly low in comparison to the rest of Scotland. On average the gross weekly income is about 89p higher than in Scotland overall (during 2003/4). However, this masks large disparities between housing sectors. According to the East Ayrshire Housing Needs Survey (2003), 41% of all households living in social housing earn less than £9,100 per year. This compares to only 11% of households in private housing whose earnings fall into this category. Sixteen percent of households in private accommodation earn between £31,200 and £51,999 compared to only 2% of households in social housing.

## **House Prices**

- 2.12 The level of demand for owner-occupied housing (prices and owner occupied sales) is a good indicator of pressure within the housing system. House prices in some part of the area have been growing dramatically. Kilmarnock has seen substantial house price growth – the latest Bank of Scotland house price index revealed that house prices had grown from an average of £56,509 in 2002 to £82,202 in 2004 (a 45% increase). Such a trend will increase the need for affordable housing in the area.

### **East Ayrshire Council's Vision**

- 2.13 East Ayrshire Council has set out a vision for East Ayrshire from 2003 to 2015. This vision states that:

*“East Ayrshire will be a place with strong, vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people's needs.”*

- 2.14 In short, it outlines six main themes. These include promoting community learning, improving opportunities, improving community safety, improving health, eliminating poverty and improving the environment.

### **Housing Service**

- 2.15 The Housing Service includes housing allocations, tenancy and estate management, repairs management, homelessness services, policy and strategic development, community care planning, supporting people, performance management and RSL liaison.
- 2.16 There are six local housing offices: Cumnock, Doon Valley, Irvine Valley, Kilmarnock North, Kilmarnock South and Kilmarnock Central.

### **Characteristics of Council Stock**

- 2.17 As at March 2004, there were a total of 15,298 local authority properties in East Ayrshire. Cumnock has the greatest proportion of stock (26%), while Kilmarnock South and the Doon Valley area have the smallest proportion.
- 2.18 The majority of the East Ayrshire stock is terraced or four in a block flats. A considerable number is detached or semi detached and tenemental properties.
- 2.19 The majority of the stock is situated in the Cumnock housing area, where 30% of the stock is four in a block. Otherwise, the stock type is fairly evenly distributed across the six housing areas, although the central area has the highest proportion of tenement properties at 31% of the stock in that area.
- 2.20 The majority of the stock has two bedrooms (48%). Levels of smaller one bed or bed-sit properties account for 16% of the stock, with the rest of the stock (36%) accounting for larger properties.

### **Stock Change**

- 2.21 The two main factors influencing stock change are Right to Buy sales and demolitions. There has been a steady increase in Right to Buy sales over the last six years from 236 in 1999/2000 to 638 during 2003/4 (with an average of 463 sales).

- 2.22 There has also been a fairly high level of demolitions over the last five years. A total of 534 properties have been demolished over this period, focusing on the Cumnock and Central Kilmarnock areas – 69% of the demolitions have been located in these two areas reflecting the over-supply/ low-demand issues that prevail in these areas.

### **Council Housing Demand**

- 2.23 Over the last four years the housing list has increased in size. The number of applicants to the housing list was 3,705 in 2001 and this has grown year on year with 4,761 applicants registered in 2004. The Council introduced an annual rolling review of all applications in 2003/04. Over this period the number of applicants leaving the list increased, while those joining remained constant. The overall impact was a marginal increase in the list (from 4,686 to 4,761).
- 2.24 The greatest strain on demand is in areas where there is the highest proportion of dwellings in comparison to the number of applicants. Areas such as Cumnock have the greatest levels of demand with the proportion of applicant choices outstripping the proportion of dwellings (34% compared to 26%). This contrasts to Kilmarnock South where the proportion of dwellings outstrips the proportion of applicants and again reflects over-supply problems.

### **Lets and Turnover**

- 2.25 The number of lets made annually represent the supply of council housing. This has remained broadly stable over the last three years at around 1,800 – 1,900. The proportion of lets made is highest in Cumnock, and Irvine Valley. This reflects the distribution of the housing stock. The proportion of lets made in Irvine Valley appears to have increased substantially in 2004/05, although the full years data requires to be examined before any conclusions are made in relation to this change.
- 2.26 Stock turnover is frequently used as an indicator of the stability of social housing. The ODPM identifies the gross re-let rate within social housing as an indicator of demand. It sets a threshold of 13%; if the rate rises above this level it may be an indicator of low demand. The current turnover of East Ayrshire's stock is around 12%, just below the threshold. However, this average masks considerable differences within and between settlement areas.
- in Central Kilmarnock, Cumnock, and Irvine Valley the turnover rate is 13%
  - in the Doon Valley it is 10% and,
  - the Kilmarnock area is split - in South Kilmarnock the turnover is 8%, while in North Kilmarnock it is 12%.
- 2.27 There is also a relationship between turnover and size. Not surprisingly, smaller properties are being let more often during the year than larger dwellings. In terms of stock type bedsits and tenement have a higher rate of turnover than bungalows and houses.

### **Balance of applicants, lets and stock**

- 2.28 By comparing the proportion of applicants to lets and stock, it is possible to understand the extent of balance / imbalance within the stock.
- In Irvine Valley and North Kilmarnock, the share of lets and applicants choices is broadly in line with their respective shares of the housing stock.
  - Only in Central Kilmarnock does the proportion of lets exceed the proportion of housing stock, while the proportion of stock exceed applicant choices. This suggests low levels of pressure within the Council housing.
  - The low proportion of applicant choices to lets and stock in Kilmarnock South also suggests low pressure.
  - In Cumnock and Doon Valley, the proportion of applicants choices significantly outnumbers lets and stock. This suggests moderate to high demand.

### **Homelessness**

- 2.29 Within East Ayrshire the total number of homeless households has increased over the last eight years with applications peaking in the last recorded year, 2002/03. In the last eight years applications have increased by over 33% in East Ayrshire, which compares to an increase of 6% in Scotland overall.

### **Key Performance Indicators**

- 2.30 East Ayrshire's housing service performance over the last three years has been reviewed.
- 2.31 In terms of the numbers of empty council properties that are re-let within a two week period, East Ayrshire Council was ranked 11<sup>th</sup> out of the 32 assessed local authorities in 2003/04.
- 2.32 For rent lost during tenancy changes the Council was ranked 18<sup>th</sup> out of 32 in 2003/04. This performance puts East Ayrshire around the Scottish average, demonstrating improvement that the Council has made in this area, moving from 25<sup>th</sup> place in previous years.
- 2.33 For rent arrears, the Council's ability to collect monies owed to them was assessed. Again, recent improvements were highlighted over recent years. The Council is now ranked 9<sup>th</sup> overall and with rent arrears as a percentage of net rent due sitting at 4.9% in 2003/04 this is well below the Scottish average of 7.9%.
- 2.34 For serious rent arrears where by the tenant owes more than thirteen weeks rent, East Ayrshire once again performs well. EAC is ranked third best performer in terms of serious rent arrears. During 2003/04 the percentage of tenants with more than thirteen weeks arrears stood at 1.3% compared to the Scottish average of 4.9%.

### **Tenant Satisfaction**

- 2.35 The most recent tenants' satisfaction survey shows that 76% of tenants are satisfied with the Council as their landlord. Eighty eight per cent of tenants were satisfied with their current heating systems, 94% felt safe in their home and 94% feel generally satisfied with the overall design of their home. However, only 57% of tenants felt that the housing service took their views into account before making decisions, and 53% of tenants were happy with the time taken to complete repairs.

### **Housing Association Activity in East Ayrshire**

- 2.36 There are 13 housing associations, which operate in East Ayrshire. Between them they owned 2,873 properties throughout East Ayrshire as at March 2004. The average weekly rent level for Housing Associations in East Ayrshire at March 2003 was £45.93, which compares to the Council's average rent of £38. 24 at the same time. Two of the most prominent housing associations in the area are Atrium Homes and Shire Housing with 907 and 987 properties respectively.

### 3 Consultation

3.1 The next element of the option appraisal process was an in-depth, face to face consultation with Council members, staff, tenants and other key stakeholders. The purpose of this consultation is to add more depth to the desk-top strategic review – providing the consultants with more information on how the housing service is run, perceptions of it, and plans and prospects for improvement and change.

3.2 The consultation was undertaken in line with DTZ Piedad Consulting quality standards, with topic guides used to inform debate and consultees informed of individual confidentiality. The most common themes arising from the consultation programme were reported through a full consultation report at interim report stage. The following summarises the key issues.

3.3 Consultees were drawn from:

- **East Ayrshire Council housing staff:** those with responsibility for the direction of the overall service, strategic and enabling role, partnership and development, policy formulation, housing maintenance and improvement, area renewal and the area offices.
- **East Ayrshire Tenants:** the Tenants' Steering Group.
- **East Ayrshire Council non-housing staff:** including Building Works, Finance, Social Work and the Chief Executive departments.
- **East Ayrshire Council Members:** senior members including the Leader of the Council and the Chair of Housing.
- **External Organisations:** Communities Scotland, Atrium Homes, Shire Housing Association, UNISON and the TGWU.

#### Structure of the Report

3.4 The consultation comments are organised as follows:

- Key issues and priorities affecting social housing and delivery of housing services in East Ayrshire; and
- Views expressed about the future management options available to the Council.

#### Stock Condition and Investment Requirements

3.5 The majority of consultees thought that the stock condition of the East Ayrshire Council housing stock was fairly good. Several consultees thought that there had been high investment over the years through specific central heating, double-glazing and kitchen and bathroom programmes. It was thought that East Ayrshire Council stock is comparable to other similar local authorities. Several consultees thought that the better stock had been sold through the Right To Buy.

### **Supply and Demand for Affordable Housing**

- 3.6 Consultees stated that there were some areas of localised low demand throughout East Ayrshire. It was felt that the South of the area (Cumnock and Doon) had been hit hardest by mining closures, unemployment and low demand issues. In Kilmarnock where demand is greater, there are pockets of stock which have become stigmatised and suffer low demand adjacent to more popular areas. Areas such as Riccarton West and Longpark have been identified as regeneration priorities to address the lack of demand.

### **Wider Housing Market**

- 3.7 Consultees identified distinct differences in the area with Kilmarnock and the North attracting commuters to Glasgow and demonstrating higher prices and an increased demand in owner occupation. The opening of the new A77 will further increase demand and lead to higher prices. The owner occupied market in the North was described as 'buoyant'. In the South of East Ayrshire the impact of the Ayr housing market was felt with a ripple of greater demand reaching as far as Cumnock.

### **Housing Service Issues**

- 3.8 The majority of consultees thought that the housing service provided is good overall. The housing management staff were described as 'hands on', 'community based', 'motivated' and with 'high morale'. Staff participate in various team meetings, training sessions, groups and panels.
- 3.9 Consultees were aware that over recent years complaints had reduced, void turn around was quicker and rent arrears had reduced – this was evidenced through the Key Performance Indicators.

### **Repairs**

- 3.10 A number of consultees thought that there was a lack of satisfaction with the repairs service. This was mainly due to the length of time taken to complete a repair. However, several consultees mentioned that Building and Works had improved over recent years from a low base, and that more work was underway internally to establish robust systems to improve the repair service.
- 3.11 Several consultees mentioned a shift away from responsive repairs to a more planned approach. To a certain extent, this is thought to have been achieved, but consultees felt more could be done. Tenants mentioned a 'grey area' of non-urgent repairs, which are then categorised as 'planned maintenance'.

### **Tenant Participation**

- 3.12 Consultees agreed that the Council was approaching tenant participation from a very low starting point but was now showing progress. During the past two years the Tenants Information Service (TIS) had been appointed to work with tenants to develop the Tenant Participation Strategy. This arms length support was acknowledged as beneficial, and if maintained should enable a good foundation for improvement in this area.

### **Interface with other Council Services**

- 3.13 Relationships within the housing service were described as very good, with a committed workforce. There were some issues of tensions between housing and building works, although these were most commonly described as improving or having improved since both services were located under the same directorate. Other internal relationships within the council were described as working well. The Finance Department operates an out-posted financial services teams which helps foster good relationships and greater understanding of the individual departments including housing.

### **Interface with external agencies**

- 3.14 The local housing associations described good working relationships at both a strategic and operational level. The associations have recently been named as preferred development partners of the council. It was felt that the council works well with Communities Scotland and has an appreciation of the 'bigger picture'. The relationship with the Health Board was also described as good.

### **Implications of Full Retention**

- 3.15 Each of the strategic options were described to consultees and they were asked for their perceptions of these, and how they may impact on tenants and the council.
- 3.16 Several consultees thought that the ability to deliver a quality standard of housing was the most important issue when considering the future management options for the housing stock. Several questioned whether the council could achieve the investment requirements to retain the housing stock.
- 3.17 Problems identified with retention included the continuing diminishment of stock numbers through the Right To Buy and the consequent increased management costs for a smaller number of units. The need to develop the stock to meet certain community care housing needs requirements was also highlighted and it was thought this was unlikely to happen under transfer.
- 3.18 Consultees thought that full retention would offer greater democratic accountability, and would provide the opportunity to further develop and strengthen the building works department. It was also thought that the full range of landlord and non-landlord services would be easier to deliver under one corporate body.

### **Implications of Partial Transfer**

- 3.19 Consultees felt that partial transfer may be appropriate in certain areas where there are pockets of low demand and transfer may help to regenerate these areas.
- 3.20 Consultees viewed partial transfer as likely to have a negative impact on the retained stock. Partial transfer would lead to a reduction in workload for the council housing and building works staff and may lead to the need to downsize these, and other departments. Partial transfer was also thought to lead to a fragmented service.

### **Implications of Full Transfer**

- 3.21 The full transfer of all the housing stock was thought to be likely to have a major impact on the housing service provided and other council services. This impact would affect the services provided but also the numbers, terms and conditions of staff. It was also thought that a full transfer would mean a loss of knowledge and experience from the council.
- 3.22 The strategic role of the council was thought to be diminished under transfer – especially the homeless provision if the link between statutory duty and provider is broken.

## **4 Stock Condition, Valuation and Financial Analysis**

### **Introduction**

- 4.1 This section provides findings from the stock condition survey validation exercise, and the financial analyses.
- 4.2 The financial analysis is undertaken on two bases. First, analysis of the HRA was undertaken, and through discussion with the Council assumptions have been made on how the account it will perform in the future, with projections developed over 30 years. This enables us to see what capacity the HRA has to deliver the investment requirements, including the SHQS over the next 10 years and beyond.
- 4.3 Secondly, a valuation is undertaken, using the Scottish Executive pricing model, based on net present value (discounting income and expenditure cashflows). These valuations are undertaken on an area and consolidated basis for both retention and Tenanted Market Valuation (used for stock transfer purposes).

### **Stock Condition Survey Costs**

- 4.4 A stock condition survey was previously undertaken in 2000. As part of the option appraisal work, the John Martin Partnership (as sub-contractor to DTZ Piedad Consulting) has undertaken the following work:
- Reviewed the previous stock condition survey database
  - checked stock database prices against industry norms, which were deemed as acceptable
  - took account of capital works that had been undertaken on the stock since 2000
  - projected the future life cycle costs to bring the stock up to the SHQS within 10 years
  - categorised the costs by 6 housing management areas: Cumnock, Doon Valley, Irvine Valley, Kilmarnock Central, Kilmarnock North and Kilmarnock South.
- 4.5 Results of the analysis and costings are summarised in Table 4.1 and 4.2 below. The full JMP reports were issued separately to the Council in December 2004 and February 2005 detailing costs by five-year bands over the next 30 years.
- 4.6 These costs exclude fees and prelims, but these have been added-on to the financial analysis and valuations at the following rates:
- Prelims at 12%
  - Fees at 10%.

- 4.7 It should be noted that the results of the stock condition survey are not necessarily how the capital investment in the stock will be delivered – a combination of using the Council’s Building Works, tendering and packaging of works may mean a different spend emerges in practice. However, the stock condition survey does give a picture of the priorities for investment, demonstrated through peaks and troughs of expenditure by year and by area.
- 4.8 In particular the analysis shows a high level of spend in the first two years, which represents an element of previous under-spend in investment in certain components - therefore an element of ‘catch-up’ is required in the early years. However, in practice it will not be feasible to deliver £38m and £31m levels of expenditure in two years, due to constraints imposed by procurement processes, borrowing capacity, and the capacity in the construction industry. Therefore, in the financial analysis we have run a scenario where the investment is spread evenly over the first ten years
- 4.9 Table 4.1 below, shows the level of spend required on major component replacements (e.g. roofs, windows, bathrooms, kitchens, rewiring etc) over the 30 years, broken down by area.

**Table 4.1 Life Cycle Costs – Major Component Replacement Costs over 30 years by Area (excluding Fees & VAT) £millions**

Area	Total Cost over 30 years	Cost per unit over 30 years
Cumnock	£82.0m	£20,773
Doon Valley	£42.3m	£22,368
Irvine Valley	£43.9m	£17,703
Kilmarnock Central	£39.3m	£15,874
Kilmarnock North	£55.5m	£21,103
Kilmarnock South	£40.8m	£21,930
<b>Total</b>	£304.08m average £10m per annum	£19,877

- 4.10 Table 4.2 shows the level of contingent major repairs spend over 30 years – this estimates the level of expenditure required on non-traditional house types.

**Table 4.2 Contingent Major Repair Allowances (excl. Fees & VAT) £millions**

Construction type	Area	Nr. of units	£ per unit	£ total	Timing
Dorran	Irvine Valley	5	£30,000	£0.15	Years 15-20
Orlit	Doon Valley	24	£30,000	£0.72	Years 15-20
Stuart Steel	Central	5	£20,000	£0.10	Years 15-20
Cruden Steel	Irvine Valley	6	£20,000	£0.12	Years 15-20
Cruden Steel	North	10	£20,000	£0.20	Years 15-20
Blackburn	Central	24	£20,000	£0.48	Years 15-20
Blackburn	Cumnock	50	£20,000	£1.00	Years 15-20
Blackburn	Irvine Valley	6	£20,000	£0.12	Years 15-20
Prefabs	Cumnock	9	£20,000	£0.18	Years 15-20
<b>Total</b>		<b>139</b>		<b>£3.0m</b>	<b>Years 15-20</b>

- 4.11 A number of SHQS elements cannot be costed through the stock condition database, as the original 2000 based survey did not collect all the relevant data (as the Standard was only defined in 2004).
- 4.12 An estimate of the extra costs of meeting the SHQS not already identified in the major component replacement costs, has been made through review of the Council's internal information relating to capital works undertaken. This review estimates that the 'extra cost' to meet the SHQS is £10.08m.
- 4.13 The total cost of investment over the 30 years is therefore £317m, or an average of £10.5m per annum (including the major component replacement, contingent major repairs and SHQS)
- 4.14 All future condition surveys undertaken by the Council must ensure that information is collated on all elements defined by the Standard.

### **Financial Analysis**

- 4.15 The financial analysis undertaken has been modelled on the DTZ Pidea Consulting HRA business planning model. The financial analysis is based on:
- stock condition survey findings as the investment requirement (rather than the Council's current capital spend)
  - rent increases of 3.1% from 2004/5 to 2005/6 and then RPI +1% (i.e. 3.5%)
  - 100% use of capital receipts, in line with the freedom of the prudential code
  - all costs based on current and historical performance
  - historic HRA debt costs

- costs reducing with stock numbers (tranche to reduce every five years, rather than year on year).
- 4.16 From this, we can then establish whether there is adequate capacity within the HRA to cover the investment requirement – if the income and expenditure requirements result in a cumulative deficit then we must consider the capacity for new borrowing within the prudential framework.
- 4.17 The analysis excludes any contribution the HRA makes to external strategic and enabling contributions to ensure the HRA has the capacity to cover the core landlord and investment costs.
- 4.18 The assumptions used in the financial analysis are summarised in Appendix 1 – these are in line with the HRA current budget, with the exception of the ‘Capital Spend’ which is in line with the stock condition survey findings. Assumptions used for projecting forward have been discussed and agreed with the Council’s study manager and financial officers.
- 4.19 The results of the financial analysis for the first ten years are summarised in Table 4.3. The detailed income and expenditure cashflows are included as Appendix 2.

**Table 4.3 HRA Forecast Summary (£ms)**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total income	41.4	41.2	40.8	40.5	40.1	39.8	39.4	39.1	38.7	38.4
Total expenditure	-64.9	-33.5	-33.4	-33.1	-33.0	-26.1	-29.9	-30.0	-30.1	-30.3
Total Income net of expenditure after historical debt payments	-29.0	2.19	1.97	1.86	1.59	8.12	4.02	4.30	4.20	4.36
New debt requirements	29.9	1.20	1.55	1.80	2.30	0	0	0	0	0
Annual surplus (deficit) after new debt costs	0.0	0.0	0.0	0.0	0.0	4.0	0.0	0.3	0.2	0.3
Cumulative Operating surplus / deficit after new debt costs	0.0	0.0	0.1	0.1	0.1	4.2	4.2	4.5	4.7	5.0

## Sensitivity Tests

4.20 The cashflows shown above assume that there will be a total investment of £42.3m in the first year (investment plus fees). However, this level of investment will not be achievable in practice and so a smoother investment programme of an average of £12.7m per annum has been tested against the cashflows. The results are shown in Table 4.4, and demonstrate that assuming 100% use of Right to Buy sales, no or low new borrowing will be required to meet the SHQS. The detailed cashflows are included in Appendix 2a.

**Table 4.4 HRA Forecast Summary (£ms) – smoothed investment programme at rent inc. RPI +1% pa**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total income	41.4	41.2	40.8	40.5	40.1	39.8	39.4	39.1	38.7	38.4
Total expenditure	-35.7	-35.6	-35.4	-35.2	-35.1	-33.5	-33.0	-33.1	-33.2	-33.4
Total Income net of expenditure after historical debt payments	0.23	0.08	-0.1	-0.2	-0.4	0.79	0.8	1.15	1.07	1.26
New debt requirements	0	0	0	0	0	0	0	0	0	0
Annual surplus (deficit) after new debt costs	0.23	0.08	-0.1	-0.2	-0.4	0.79	0.8	1.15	1.07	1.26
Cumulative Operating surplus / deficit after new debt costs	0.23	0.31	0.19	0.0	-0.4	0.2	1.15	2.3	4.64	6.95

## Conclusion

4.21 Based on the assumptions agreed (including RPI+1% rent increases, management costs reducing with stock numbers, and the stock condition survey costs) the HRA requires a large input of borrowing in the early years, and then requires no or low new borrowing. In summary:

- There will be a deficit of £29m in year 1
- New HRA borrowing of £36m to service this up-front capital investment will be required in the first 5 years
- Thereafter, there will be average surpluses of £1m per annum in years 6 to 10.

- 4.22 If the Council was to spread the investment in the first ten years (but still increasing rents by RPI +1% per annum, and reducing management costs in line with stock numbers) we may conclude the following:
- Deficits average £98,000 per annum in years 1 to 5.
  - Surpluses average £1m per annum in years 6 to 10.
  - Therefore no, or low new borrowing requirements in years 1 to 10.
- 4.23 Again, if the Council was to spread investment costs, but rent increases were restricted to RPI only, then the following would result:
- Deficits average £0.5m per annum in the years 1 to 5.
  - Deficits average £0.6m per annum in the years 6 to 10.
  - Estimated new borrowing of £8m over the first ten years, and thereafter increasing and unaffordable debt levels would be required over 30 years.
- 4.24 With spread investment costs, rent increases at RPI + 1% per annum, but management cost reductions in line with stock numbers not being applied, then the following would likely result:
- Deficits average £98,000 per annum in the years 1 to 5
  - Surpluses average £300,000 per annum in years 6 to 10.
  - Low levels of new HRA debt would be required in the first ten years. However after 10 years, substantial new debt would be required.
- 4.25 The DTZ model has been discussed with Council finance officers who have agreed with the main assumptions in the business plan model. However, the Council staff are projecting higher levels of borrowing is required, even with a smoothed capital programme. It is the opinion of DTZ Piedad Consulting that the Council has adopted conservative projections on the levels of CFCR based on lower than RPI + 1% increases. However, if a rent policy of RPI+1% is adopted, then low levels of new borrowing should be required to achieve the Scottish Housing Quality Standard. However, if costs are not managed and rent increases are lower than these assumptions, then higher levels of new borrowing may be required. In the long term this would not be affordable.

## Valuations

- 4.26 DTZ Piedad Consulting has undertaken two types of valuation of the housing stock, one based on the Council retaining the stock and the other assuming a transfer of ownership of the stock to a Registered Social Landlord (RSL). The methodology employed in undertaking the valuations is in accordance with the Pricing Model and Scottish Executive guidance.
- 4.27 The assumptions used in the valuations are included in Appendix 3 and 4.
- 4.28 Both the Retention and Tenanted Market valuations calculate the value of the net income from the stock, not the open market value. This is because both assume that the dwellings will remain in social letting (other than those sold through the right to buy). The value to the landlord is therefore the net income available after meeting all costs incurred through the management and maintenance of the housing stock. The valuation methodology forecasts income and expenditure over 30 years, excluding inflation and interest costs. This calculation results in a series of annual surpluses or deficits which are then 'discounted' to achieve an overall Net Present Value (NPV). As a result, surpluses and deficits in later years are discounted more than those in earlier years. This reflects the fact that income received in say five years time is worth less to the recipient than the same sum received now. The cumulative value of these surpluses and deficits is thus the valuation.
- 4.29 Although the principle of discounting cashflows to establish the value is relevant to the valuation where the Council is retaining the housing stock, the concept is more easily understood in the context of stock transfer. The alternative landlord would have to pay the Council if it purchases its housing stock (assuming that the stock has a positive value). It would pay the agreed sum at the point of transfer, but in accordance with current guidance, the purchase price is calculated on the basis of the net income over thirty years. Thus, it has to borrow in the first instance to pay the Council and therefore has to pay loan interest. The discounting process, therefore, should reflect the cost of borrowing those funds. The same principle applies to the retention option as the Council has existing debt to service from rent and other income collected.
- 4.30 Thus, the higher the income or the lower the expenditure projected, the greater the value. Because of the discounting process, timing is also important. A sum forecast to be spent now will reduce the valuation more than the same sum forecast to be spent in five years. In the case of East Ayrshire the Stock Condition Survey has indicated a fairly constant investment profile, although there is a peak in the first two years (already discussed) and then again to a lesser extent in years 11-15.
- 4.31 The valuation does not take account of Right to Buy sales or borrowing. The valuation is therefore not a forecast of an actual position but rather an illustration of the financial performance of the stock that may then later be used to draw policy conclusions.

## Summary of the Valuations

- 4.32 Tables 4.5 and 4.6 summarise the valuations by area. For the TMV (used in transfer) the overall valuation is negative £18m (-£1,202 per unit) and four out of the six areas show negative valuations. The retention valuation is positive at £9.2m or £607 per unit.

**Table 4.5 Tenanted Market Valuation (used in transfer)**

Area	Stock	Valuation	Per Unit
Cumnock	3,949	(£12,826,938)	(£3,248)
Doon Valley	1,894	(£6,780,855)	(£3,580)
Irvine Valley	2,481	£4,353,596	£1,755
Kilmarnock North	2,477	(£8,563,170)	(£3,457)
Kilmarnock Central	2,633	£13,476,510	£5,118
Kilmarnock South	1,864	(£8,046,676)	(£4,317)
<b>Total</b>	<b>15,298</b>	<b>(£18,387,533)</b>	<b>(1,202)</b>

**Table 4.6 Retention valuation**

Area	Stock	Valuation	Per Unit
Cumnock	3,949	(£4,542,611)	(£1,150)
Doon Valley	1,894	(£2,726,175)	(£1,439)
Irvine Valley	2,481	£7,680,860	£3,096
Kilmarnock North	2,477	(£3,169,021)	(£1,279)
Kilmarnock Central	2,633	£15,868,066	£6,027
Kilmarnock South	1,864	(£3,828,361)	(£2,054)
<b>Total</b>	<b>15,298</b>	<b>£9,282,758</b>	<b>607</b>

## Conclusion

- 4.33 These valuations reflect substantial disparities between the performance of the stock between the six management area. This will be caused by a combination of higher investment costs, and lower demand in some areas.
- 4.34 The lower value in the TMV is a reflection of the VAT that would be charged to an RSL, where the Council has exemption from VAT.
- 4.35 The fact that there is a negative overall valuation in TMV means that if the Council was to decide to sell its stock through transfer, then the Council would receive subsidy from the Scottish Executive to cover the deficit – which would then in turn be handed to the RSL. In addition to the deficit subsidy, the Scottish Executive would also repay the Council's historical debt of £66.7m.

## 5 Option Appraisal

### The Evaluation Framework

- 5.1 The evaluation framework provides the systematic means of appraising the strategic options under consideration – retention of ownership and management of the housing stock by the Council, partial or whole stock transfer to an alternative landlord.

### The Options

- 5.2 The options under consideration are defined as follows:

- **Retention.** The entire housing stock is owned and managed by the Council under existing arrangements. All existing legislative, policy and financial frameworks are assumed to remain i.e. that the Council will move to achieve the SHQS within 10 years, it will be regulated by Communities Scotland, and it will continue to bear the cost of historic HRA debt.
- **Whole Stock Transfer.** The entire housing stock is transferred to a Registered Social Landlord – normally a new or existing housing association. The RSL will also have to deliver the SHQS within 10 years and will be regulated by Communities Scotland. However, the Council's historical HRA debt will be 'written off' by the Scottish Executive, and there will be regeneration funding available to the Council under transfer. In the case of a negative valuation (as is the case in East Ayrshire) the Scottish Executive would provide subsidy to cover this deficit. Those staff employed in the housing 'undertaking' would also transfer with the stock under the TUPE regulations.
- **Partial Transfer.** The Council would chose to transfer a proportion of its stock to an RSL (new or existing) while the Council would retain a proportion of the stock. As with whole stock transfer, the Scottish Executive would repay historical HRA debt (but only in proportion to the stock transferred), and regeneration funding may be available. Again, in the case of a negative value transfer the Scottish Executive would deficit fund the transfer. A proportion of the staff would transfer under TUPE. However, the Council must prove that partial transfer would not be detrimental to the retained stock, tenants and staff, particularly in relation to achievement of the SHQS.

### The Scoring and Weighting System

- 5.3 The scoring and weighting mechanism used to appraise each of the options was discussed at interim report stage and with consultees, including tenants. The following table presents the final scoring and weighting system used in the option appraisal.

<b>OPTION APPRAISAL SCORING AND WEIGHTING SYSTEM</b>				
<b>Criteria Heading</b>	<b>Detailed criteria</b>	<b>Maximum Score (grouped criteria)</b>	<b>Maximum Group Score</b>	<b>Percentage of Total</b>
<b>Housing Objectives</b>				
<i>Access to social housing</i>	1-2	40		
<i>Repairs &amp; planned maintenance</i>	3-5	70		
<i>Rent levels</i>	6-7	70		
<i>Acceptable performance Standards</i>	8	20	200	40
<b>Financial Appraisal</b>				
<i>Financial outcomes</i>	9-11	100	100	20
<b>Accountability</b>				
<i>Council influence</i>	12	25		
<i>Tenant involvement</i>	13	20		
<i>Tenant control</i>	14	15		
<i>Tenant priorities</i>	15	15	75	15
<b>Staff</b>				
<i>Impact on staffing levels and employment</i>	16	50	50	10
<b>Strategic / Enabling Role</b>				
<i>Compatibility with the Council's strategic and enabling role</i>	17-18	40	40	8
<b>Other Council Objectives</b>				
<i>Effect on other council policies</i>	19-21	25	25	5
<b>Other Impacts</b>				
<i>Other stakeholders</i>	22-23	5		
<i>Other Impacts</i>	24	5	10	2
<b>TOTAL</b>			<b>500</b>	<b>100</b>

### **The Option Appraisal**

- 5.4 The option appraisal process is designed to summarise the information collected during the study and to measure the relative merits of each option against the weighted criteria. The evaluation is undertaken independently by the consultants, and the findings are provided in tabular form below – these provide a comprehensive written appraisal and a score for each option. Finally, the scores are then presented in tabular summary format in the concluding chapter to enable easy comparison.

<b>Criteria Heading</b>	<b>Retention</b>	<b>Transfer</b>	<b>Partial Transfer Positive Value</b>	<b>Partial Transfer Negative Value</b>
<b>Housing Objectives</b> <b>1. Access to Housing</b>	<p>Under retention, access to affordable housing continues to be determined by the balance of Right to Buy sales and the addition of new stock through the existing housing associations' new build programme (determined through level of grant from Communities Scotland).</p>	<p>The access to available housing for rent will be determined through level of Right to Buy and addition to new stock through the housing associations' new build programmes.</p> <p>If the new landlord was a charitable existing RSL it may be less susceptible to stock depletion through RTB.</p>	<p>As with whole stock transfer, access to social housing will be determined by Right to Buy levels and new build programmes, but if the new landlord was a charitable existing RSL it may be less susceptible to stock depletion through RTB. This would only apply to the stock transferred.</p>	
<b>2. Capacity to deliver additional housing</b>	<p>Under the retention option the Council would be able to bid for regeneration funding, but according to the Scottish Executive's current policy and practice, there is less likelihood of gaining access to additional regeneration funds and new affordable housing funding under retention.</p>	<p>Full transfer would enable the Council to secure regeneration and new affordable housing funding.</p> <p>This funding could assist with regenerating low demand areas and provide additional social housing in areas of higher demand/pressure.</p>	<p>As with whole stock transfer, this option would widen options for regeneration and new affordable housing funding, although resources would not be available to the extent as under whole stock transfer.</p>	
<b>Score</b> <b>Access to Social Housing</b>	20	30	25	25

Criteria Heading	Retention	Transfer	Partial Transfer Positive Value	Partial Transfer Negative Value
<b>3. Backlog of repairs</b>	<p>There would be no backlog of repairs and maintenance spend (both revenue and capital). This is because HRA projections suggest there are sufficient resources (through cashflows and borrowing) in order to deliver SHQS within ten years and maintain that standard over 30 years. The regulator would monitor delivery of SHQS.</p> <p>100% of houses should be maintained over the 30 years.</p>	<p>There would be no backlog of repairs and maintenance spend (both revenue and capital). This is because the RSL's business plan would be developed in such a way to ensure delivery of the SHQS within ten years and maintenance of that standard over 30 years. The funders, as well as the regulator would monitor delivery of the business plan.</p> <p>In addition, promises would be made to tenants through the transfer agreement.</p> <p>100% of houses should be maintained over the 30 years.</p>	<p>As with whole stock transfer, there should be no backlog in repairs / SHQS in the transferred stock, and delivery of the investment programme would be strictly monitored through the business plan and the transfer agreement.</p> <p>However, by transferring the positive valued stock, this would leave the negative valued stock behind which may present risks to the cashflow and thus the ability to deliver the SHQS in the retained stock. The Scottish Executive would not approve a transfer where a risk or negative impact was likely on the retained stock.</p>	<p>As with whole stock transfer, there should be no backlog in repairs / SHQS in the transferred stock, and delivery of the investment programme would be strictly monitored through the business plan and the transfer agreement.</p> <p>In the case of a negative transfer, the negative valuation would be managed through subsidy from the Scottish Executive, so there would be no negative impact on the transferred stock, or the retained stock which would comprise positive value stock.</p>
<b>4. Percentage of houses fully maintained over 30 years</b>	Capital investment spend should on average be £10.5m per annum or £20,721 per property.	Capital investment spend should on average be £10.5m per annum or £20,721 per property, plus VAT.		
<b>5. Average spend per house on repairs and maintenance and improvements</b>	<p>The current backlog of repairs is in the region of £30m. In addition there is a requirement to improve the repairs system. Together this may suggest lack of historical investment planning, and may imply a risk to actual delivery of the SHQS. However, the discipline of the Standard Delivery Plan and long term business planning should ameliorate this risk.</p>			
<b>Score Repairs and Improvements</b>	60	62	60	62

<b>Criteria Heading</b>	<b>Retention</b>	<b>Transfer</b>	<b>Partial Transfer Positive Value</b>	<b>Partial Transfer Negative Value</b>
<b>6. -7. Rent Levels</b>	Rental comparisons between EAC, other neighbouring local authorities and across Scotland as a whole show that East Ayrshire rents are lower than the Scottish average and lower than the majority of its neighbours. Compared to local RSL rents EAC rents are considerably lower. <sup>12</sup>			
	Under retention rents would be subject to annuality and political will. There would be no guarantees that rents would not rise above RPI+1%. Financial analysis and projections show that under the retention option, RPI+1% would provide sufficient resources to enable delivery of the SHQS.	Rent increases would very likely be RPI+1% under the transfer option. Tenants would be given legally binding guarantees on rent increase over a period specified in the transfer agreement which typically would be between three and five years.	With both partial transfer options rents would be likely to be RPI+1% for the transferred stock, and possibly the retained stock (based on HRA projections) However, there would be a rent guarantee in the transfer agreement for the transferred stock, while the retained stock would remain subject to annuality which may cause rents in the council stock to increase at a lower or higher rate to the transferred stock. Disparity of rents may be the result, which tenants of both landlords may see as unfair.	
<b>Score Rent Levels</b>	60	62	58	58

<sup>1</sup> Hsg Statistical Bulletin: HSG/2003/6

<sup>2</sup> Scottish Registered Social Landlord Statistics 2003-2004

<b>Criteria Heading</b>	<b>Retention</b>	<b>Transfer</b>	<b>Partial Transfer Positive Value</b>	<b>Partial Transfer Negative Value</b>
<b>8. Performance standards</b>	From a relatively low starting point EAC has shown some recent and sustained improvements in key performance indicators over the past three years.			
	The recent and sustained nature of the improvements in performance suggest the Council may succeed in building momentum in this area to create further increased and continuous improvement. There must be a clear demonstration of a commitment to continuous improvement. This process will be assisted by Communities Scotland regulatory role.	The RSL is likely make a commitment to service improvements in the Business Plan, and in promises to tenants.  As a separate entity, there is likely to be culture change which may assist in performance improvement over the longer term. However, there may be a short-term dip in performance through the transfer implementation process and in the organisation's early years.	With both partial transfer options there will be short-term service disruption as with the whole stock transfer, but promises built into the transfer agreement will provide an incentive to the RSL to ensure it delivers on long term service improvements. While the Council has shown recent service improvements, it may not be as able to sustain long term service improvements  Disparity of performance may develop between the service provided to the stock which has transferred and that which has been retained.	
<b>Score Performance Standards</b>	15	15	14	14

Criteria Heading	Retention	Transfer	Partial Transfer Positive Value	Partial Transfer Negative Value
<p><b>9. Valuation and financial analysis</b></p>	<p>The Council is able to deliver the SHQS within RPI + 1% rent increases, due to relatively low historic debt and assuming use of 100% RTB sales.</p> <p>However, small annual surpluses may present risk to delivery which may be managed through the SDP and business planning approach.</p> <p>The current debt of £68m will not be repaid within the 30 years planning period.</p> <p>A positive valuation of £9.2m (£607 per unit). This masks low financial performance in four of the six housing management areas which have negative retention valuations.</p> <p>The Council may be able to access regeneration funding, although this will probably be less certain than under transfer.</p>	<p>The RSL's business plan will be developed on the basis of RPI +1% rent increases, underpinned by tenant promises and the transfer agreement.</p> <p>The RSL will start with zero debt and new borrowing required to undertake its investment programme will be repaid within the 30 year business planning period.</p> <p>An overall negative valuation of -£18.3m (1,202) would be met through subsidy from the Scottish Executive, enabling the RSL to start its business plan from a nil cost position.</p> <p>The Council may have access to a regeneration and affordable housing funding package as a direct result of transfer.</p>	<p>As with whole stock transfer, the RSL's business plan would be based on RPI+1% rent increases, underpinned by promises to the transferring tenants.</p> <p>The RSL will start with zero debt and new borrowing required to undertake its investment programme will be repaid within the 30 year business planning period.</p> <p>With a positive valuation, the Council would be required to use this receipt to pay off the HRA debt of the stock transferred. If the receipt did not cover the total relevant debt, the Scottish Executive may provide providing to meet the balance of debt cost. This assumes the Scottish Executive would be satisfied that partial transfer would not undermine the financial viability of the retained stock.</p> <p>The Council will have access to a regeneration and affordable housing funding package as a direct result of transfer, but to a lesser than would be available under whole stock transfer.</p>	<p>As with whole stock transfer, the RSL's business plan would be based on RPI+1% rent increases, underpinned by promises to the transferring tenants.</p> <p>The RSL will start with zero debt and new borrowing required to undertake its investment programme will be repaid within the 30 year business planning period.</p> <p>With a negative partial transfer valuation, the Scottish Executive would pay off the HRA of the stock transferred – assuming it was satisfied the partial transfer was not detrimental to the retained stock.</p> <p>The Council will have access to a regeneration and affordable housing funding package as a direct result of transfer, but to a lesser than would be available under whole stock transfer.</p>

<b>10. Capital receipt</b>	Does not apply	No receipt as negative valuation	Using the two positive areas as examples, the receipt could be either £4.3m or £13.4m	No receipt as negative valuation.
<b>11. Residual debt</b>	£68m not repaid within 30 years. £28m new debt repaid within 30 years. If a smoothed investment programme is adopted then there will be no or low debt requirements.	The Council's historic HRA debt of £68m will be repaid by the Scottish Executive.	Proportional to the stock retained.	Proportional to the stock retained.
<b>Score Financial Appraisal</b>	65	72	62	68

<b>Criteria Heading</b>	<b>Retention</b>	<b>Transfer</b>	<b>Partial Transfer Positive Value</b>	<b>Partial Transfer Negative Value</b>
<b>Accountability</b> <b>12.Council influence on policies</b>	<p>The Council influence on housing management issues would be retained, and the Council would continue in its present strategic and enabling role influencing strategic housing policy matters.</p> <p>EAC is the largest social housing provider in the area and has good relationships with local RSLs which provides the opportunity to influence external policies.</p>	<p>The Council influence on policies would be considerably diminished, especially in respect of the landlord role. Councillors and Council staff representatives may be members and Committee members of the RSL but they would be there to work in the best interests of the RSL and not represent the Council position / interest.</p> <p>The Council would continue to have the statutory lead in the strategic and enabling role including development and monitoring of the LHS and other strategic housing policies. It would retain its statutory duties in relation to homelessness.</p>	<p>The Council influence on policies would only be diminished in terms of the landlord role of the transferred stock. The Council would continue with its lead in the strategic and enabling role and influence over wider housing policy matters.</p>	
<b>Score</b> <b>Accountability</b>	25	8	16	16

<b>Criteria Heading</b>	<b>Retention</b>	<b>Transfer</b>	<b>Partial Transfer Positive Value</b>	<b>Partial Transfer Negative Value</b>
<b>13. Tenant involvement</b>	Tenant involvement East Ayrshire Council is starting from a low base – but is now showing progress. TIS were appointed two years ago to work with tenants to develop the tenant participation (TP) strategy. Tenants are involved in setting repair response times, estate management plans and a tenant participation conference is now held annually. There is potential to build on this foundation and further improve tenant involvement.			
	Each of the options would have the same statutory requirements for tenant involvement including funding for set up and administration of tenants groups, development of the TP Strategy and consultation on policies and rent setting.  Tenant involvement would be monitored by Communities Scotland (as with all the options).	As with retention and partial transfer options, all social landlords would work to the same legislative and regulatory requirements on tenant involvement and consultation.  Transfer of the stock will provide the impetus for greater tenant involvement through the transfer implementation process, and then post transfer in monitoring delivery of promises.	As with retention and whole transfer options, all social landlords would work to the same legislative and regulatory requirements on tenant involvement and consultation.  Transfer of the stock will provide the impetus for greater tenant involvement through the transfer implementation process, and then post transfer in monitoring delivery of promises. Under retention there may not be the imperative to consult and involve tenants to the same extent, and as a result disparities may result between the transferred and retained tenants.	
<b>Score Tenant involvement</b>	8	10	9	9
<b>14. Tenant Control</b>	Tenant control of the housing service would remain unchanged. The Council would have total control and decision making powers. Tenants have no direct control.	There would be greater tenant control in transfer. Tenants would have the opportunity to become members of the association. Tenants could also have representation on the board/ committee of management.	There would be greater tenant control in transfer. Those tenants who had transferred would have the opportunity to become members of the association and tenants could also have representation on the board/ committee of management. For those tenants in the retained stock control would remain unchanged – the Council would have total control and decision making powers. Retained tenants would have no direct control.	
<b>Score Tenant Control</b>	0	7	3	3

Criteria Heading	Retention	Transfer	Partial Transfer Positive Value	Partial Transfer Negative Value
<b>15. Tenant Priorities</b>	Tenant priorities have been identified through the consultation process as <ul style="list-style-type: none"> <li>• Improvement in the repairs service</li> <li>• improvement in void levels</li> <li>• improvement in communication and involvement</li> </ul>			
	The Council may undertake to deliver on tenants priorities and give assurances about rent increases. It will also have to deliver the SHQS through the SDP. Undertakings would not however be legally binding, although risks could be managed through adherence to the SDP and adopting a business planning approach.	Under transfer the RSL will have the compulsion of tenant promises and the transfer agreement to adhere to. This will provide an imperative to deliver on tenants priorities. The RSL will have the threat of sanctions through sanctions in the transfer agreement if tenant promises are not met.	The Business Plan for the transferred stock will include a commitment to service improvement. Disparity of performance may develop between the service provided to the tenants which has transferred and those that remain as council tenants.	
<b>Score  Tenant priorities</b>	10	12	11	11

Criteria Heading	Retention	Transfer	Partial Transfer Positive Value	Partial Transfer Negative Value
<p><b>Staffing</b> <b>16. Change / Impact on Staff</b></p>	<p>The majority of housing staff would remain unchanged, although strong financial performance assumes reduction of costs in line with stock numbers. The housing service will therefore have to manage gradual staff cost savings in line with stock numbers.</p> <p>There would be no immediate impact on other departments which would continue to function as at present. If the housing service continued to decline through RTB – there would eventually be an impact on recharge income of other services, although this could be a gradual, managed process.</p>	<p>The majority of housing staff would transfer to the RSL, while some strategic and enabling staff would be retained by the Council to carry out the strategic role. Some Council staff would also be required to monitor the RSI performance against the transfer agreement.</p> <p>A decision would need to be taken whether the Building Works staff directly involved in housing repairs would transfer to the RSL.</p> <p>Other departments may transfer some staff, and as a result of transfer these departments suffer from depleted workload, HRA revenue and economies of scale.</p> <p>This option would cause uncertainty, disruption and lack of continuity for staff and the service provided. However, in the long term there may be considerable satisfaction for housing professionals working for a single purpose housing organisation.</p>	<p>The level of transfer of staff would depend on the amount of stock transferred. As with whole transfer, some staff would remain to run the strategic and enabling role, and a proportion of staff would remain with the Council to run the retained landlord function.</p> <p>The decision on who to transfer and who to retain will likely be determined by the area office structure, although the process of determining ‘who will stay’ and ‘who will go’ would be very unsettling for all staff.</p> <p>Other departments may also transfer some staff, and these services will see a downturn in workload, revenue and economies of scale, although to a lesser extent than in whole transfer.</p> <p>Over the longer term there may be disparity between terms and conditions and working environment between the two organisations, which may have an impact on performance and services to tenants.</p>	
<p><b>Score</b> <b>Impact on staff</b></p>	<p>30</p>	<p>19</p>	<p>23</p>	<p>23</p>

<b>Criteria Heading</b>	<b>Retention</b>	<b>Transfer</b>	<b>Partial Transfer Positive Value</b>	<b>Partial Transfer Negative Value</b>
<b>Strategic and Enabling Role 17. Meet the needs of the homeless</b>	The Council will have to ensure statutory duties to the homeless are fulfilled and will work in partnership to do this. The statutory role will be easier through the council as a landlord and internal relationships will be less complex under retention.	Transfer of the housing stock would result in access to the same number of homeless units as under retention but arrangements for and delivery of this accommodation would be more complex through an arms length organisation. There may be some disengagement of the homeless function from the HRA, which may have a negative impact on the General Fund.	Transfer of the housing stock would result in access to the same number of homeless units as under retention but arrangements for and delivery of this accommodation would be more complex (and even more complex than full transfer).	
<b>18. Compatibility with enabling role</b>	The Council is currently in a good position to fulfil its strategic and enabling role and works well with partners, RSLs and Communities Scotland. Partnering arrangements would be maintained and arguably, is more easily managed through the retention option. However, some may argue that the Council could concentrate efforts on the landlord role to the detriment of the strategic and enabling role and those households in other tenures.	The Council will continue to work in partnership to fulfil statutory obligations but the number of partners involved will increase and co-ordination of the strategic role will be more complex. Production of strategies such as the LHS will require interaction with all local RSLs and will therefore be more complex than the situation where the Council is a sizeable landlord.	The Council will continue to work in partnership to fulfil statutory obligations but the number of partners involved is likely to increase and co-ordination of the strategic role will be more difficult (although to a lesser extent than under whole transfer).	
<b>Score Strategic and enabling role</b>	27	18	22	22

Criteria Heading	Retention	Transfer	Partial Transfer Positive Value	Partial Transfer Negative Value
<p><b>Other Council Objectives</b> <b>19. Effects on delivery of other council objectives</b></p>	<p>Retention of the housing stock would enable the Council to continue with a joined up corporate approach.</p> <p>The Council may have the advantage of additional regeneration funding which may contribute to the Council's wider strategic objectives, but this would be less certain than under the transfer option.</p>	<p>Delivery of other council objectives may be more complex dealing with an arms length housing provider, rather than having housing services in-house, thereby optimising 'joined-up' working within the Council.</p> <p>However, the prospect of new regeneration funding offered as a direct result of transfer may contribute to the Council's wider strategic objectives.</p>	<p>As with whole transfer, delivery of other council objectives may be more complex dealing with an arms length housing provider, rather than having housing services in-house, thereby optimising 'joined-up' working within the Council.</p> <p>However, the prospect of new regeneration funding offered as a direct result of transfer may contribute to the Council's wider strategic objectives.</p>	
<p><b>20. Impact of option on other service expenditure</b></p>	<p>Retention of the housing stock would have no impact on the expenditure of Council services. Current recharges to other department would either continue or be managed down gradually over time with reducing stock numbers.</p>	<p>Transfer would result in a decrease of income to other council services due to the loss of recharge from housing services . The Council services may also suffer from a loss of economies of scale due to the size of the undertaking that would transfer.</p>	<p>As with whole transfer, this would result in a decrease of income to other council services due to the loss of recharge from housing services . The Council services may also suffer from a loss of economies of scale due to the size of the undertaking that would transfer.</p>	
<p><b>21. Net change in employment in 'non-council' bodies</b></p>	<p>Retention would have no impact on employment in non council bodies and any investment in the housing stock may result in increased employment in the construction sector.</p>	<p>Investment in the housing stock may result in increased employment in the construction sector.</p>	<p>Investment in the housing stock may result in increased employment in the construction sector.</p>	
<p><b>Score</b> <b>Other Council objectives</b></p>	18	23	23	23

<b>Criteria Heading</b>	<b>Retention</b>	<b>Transfer</b>	<b>Partial Transfer Positive Value</b>	<b>Partial Transfer Negative Value</b>
<b>Other Impacts</b> <b>22. Effects on existing housing associations</b>	Retention would have no impact for existing housing associations.	The creation of a large local RSL may dominate other RSLs already active in East Ayrshire. Partnership relationships may be adversely affected by the change in dynamics.	If local RSLs were given the opportunity to bid for the partial stock transfer they would benefit from increased economies of scale and be able to build on existing new relationships with EAC.	
<b>23. Effects on other bodies</b>	Retention would have no direct impact on other bodies.	Small bodies funded through the HRA may suffer as a result of transfer.	Small bodies funded through the HRA may suffer as a result of transfer.	
<b>24. Other Impacts</b>	None Identified	None Identified	None Identified	None Identified
<b>Score</b>	8	7	9	9

## 6 Conclusions and Recommendation

- 6.1 Table 6.1 below provides a summary of the option appraisal result. This shows that whole stock transfer and transfer are joint lead options followed jointly by partial transfer (negative value) and finally partial transfer (positive value) .
- 6.2 The scores are extremely close, and directly reflect the reality of the evidence presented. Transfer (both whole stock transfer and partial negative transfer) presents strong financial incentives both for the Council and its tenants, but it means less control for the Council, and the process is certainly unsettling for staff (although in the long term this has been proven from other transfers to be rewarded through greater satisfaction of working for a single purpose housing organisation).
- 6.3 If the Council was to decide to pursue transfer (either whole or partial) it should consider the options through a detailed feasibility study considering the type of landlord (new or existing, constitution etc), staffing issues, the area of stock to be transferred and the impact on the remaining stock (in the case of partial transfer), and the General Fund.
- 6.4 Retention may be possible for the Council, but only when managed very carefully within the context of the Standard Delivery Plan (SDP) and by adopting a robust business planning approach to the delivery of the housing service. This will involve a number of actions to mitigate the risks involved in retention including:
- Development of the SDP to ensure delivery of SHQS
  - Development of robust investment planning systems to ensure the SDP is delivered in practice
  - Continued development of the tenant involvement and consultation process to ensure tenants are more fully involved in service development and monitoring
  - Continued change management to deliver performance improvement across the housing service, including Building and Works as it relates to delivery of the repairs service
  - Consideration of whether some negative value partial transfers may be of benefit to the stock (retained and transferred) and contribute to the Council's wider regeneration objectives
  - Managing costs down in line with reducing stock numbers, including HRA and General Fund costs
  - Increasing rents at RPI + 1% per annum
  - Development of an HRA business plan to articulate the change required under retention, approved by the Council with commitment to deliver over the long-term.
- 6.5 If the Council is unable to make the level of commitment required to deliver a robust business planning approach in stock retention, then it should seriously consider the whole transfer option if it is to meet its housing objectives in full.

Criteria Heading	Detailed criteria	Maximum Score	Maximum Group Score	Retention	Full Transfer	Partial Transfer Positive	Partial Transfer Negative
<b>Housing Objectives</b>							
Access to social housing	1-2	40		20	30	25	25
Repairs & planned maintenance	3-5	70		60	62	62	62
Rent levels	6-7	70		60	62	58	58
Acceptable performance Standards	8	20	200 (40%)	15	15	14	14
<b>Score</b>				<b>155</b>	<b>169</b>	<b>159</b>	<b>159</b>
<b>Financial Appraisal</b>							
Financial outcomes	9-11	100	100 (15%)	65	72	62	68
<b>Score</b>				<b>65</b>	<b>72</b>	<b>62</b>	<b>68</b>
<b>Accountability</b>							
Council influence	12	25		25	8	16	16
Tenant involvement	13	20		8	10	9	9
Tenant control	14	15		0	7	3	3
Tenant priorities	15	15	75 (20%)	10	12	11	11
<b>Score</b>				<b>43</b>	<b>37</b>	<b>39</b>	<b>39</b>

<b>Staff</b>							
<b>Impact on staffing levels and employment</b>	16	50	50 (10%)	30	19	23	23
<b>Score</b>				<b>30</b>	<b>19</b>	<b>23</b>	<b>23</b>
<b>Strategic / Enabling Role</b>							
<b>Compatibility with the Council's strategic and enabling role</b>	17-18	40	40 (8%)	27	18	22	22
<b>Score</b>				<b>27</b>	<b>18</b>	<b>22</b>	<b>22</b>
<b>Other Council Objectives</b>							
<b>Effect on other council policies</b>	19-21	25	25 (5%)	18	23	23	23
<b>Score</b>				<b>18</b>	<b>23</b>	<b>23</b>	<b>23</b>
<b>Other Impacts</b>							
<b>Other stakeholders</b>	22-23	5		3	2	4	4
<b>Other Impacts</b>	24	5	10 (2%)	5	5	5	5
<b>Score</b>				<b>8</b>	<b>7</b>	<b>9</b>	<b>9</b>
<b>TOTAL SCORE</b>			<b>500</b>	<b>346</b>	<b>345</b>	<b>337</b>	<b>343</b>
<b>TOTAL PERCENTAGE</b>			<b>100%</b>	<b>69.2%</b>	<b>69.0%</b>	<b>67.4%</b>	<b>68.6%</b>

## Appendix 1 HRA analysis assumptions

### 1. Opening Housing Stock

• Cumnock	3,949
• Doon Valley	1,894
• Irvine Valley	2,481
• Kilmarnock North	2,477
• Kilmarnock Central	2,633
• Kilmarnock South	1,864
• <b>Total</b>	<b>15,298</b>

**Demolitions** Year 1 – 86

Year 2 – 34

Home loss and disturbance Year 2 - £60,000

### 2. Housing – Average Weekly Rent per Unit (2004/05)

• Cumnock	£45.40
• Doon Valley	£45.56
• Irvine Valley	£45.10
• Kilmarnock North	£45.83
• Kilmarnock Central	£45.03
• Kilmarnock South	£45.63
• <b>Total</b>	<b>£45.41</b>

### 3. Garages/Garage Sites

Gross Rental Income (2004/05) = £349,440 (based on HRA Budget) – income apportioned across housing areas:

• Cumnock	£56,098
• Doon Valley	£5,478
• Irvine Valley	£55,558
• Kilmarnock North	£46,177
• Kilmarnock Central	£166,032
• Kilmarnock South	£20,097
• <b>Total</b>	<b>£349,440</b>

### 4. Other Annual Income (2004/05)

Sheltered Housing Service Charges:

• Cumnock	£20,420
• Doon Valley	£9,777
• Irvine Valley	£12,419
• Kilmarnock North	£17,161
• Kilmarnock Central	£14,729
• Kilmarnock South	£2,461
• <b>Total</b>	<b>£76,968</b>

### 5. Rent Loss to Voids & Bad Debts

- Housing = 5.0% per annum (Yrs 1-30)
- Garages/Garage Sites = 15.0% per annum (Yrs 1-30)

### 6. Management Cost (as per analysis of 2004/05 HRA Budget)

• Annual Cost per Unit	£528
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### 7. Heat Leasing Costs

- Costs apportioned across housing areas

• 2004/05	£1,461,750
• 2005/06	£1,274,395
• 2006/07	£1,020,424
• 2007/08	£648,406
• 2008/09	£490,172
• 2009/10	£490,172

**8. Catch Up Repairs**

- Nil

**9. Major Component Replacement**

- Based on JMP Validation Report & Life Cycle Costs
- Major Component Renewals - total cost (Yrs 1-30) = £304,081,350 (£19,877 per unit)

• Cumnock	£82,033,630 (£20,773 per unit)
• Doon Valley	£42,364,663 (£22,368 per unit)
• IrvineValley	£43,922,293 (£17,703 per unit)
• Kilmarnock North	£55,563,950 (£21,103 per unit)
• Kilmarnock Central	£39,318,681 (£15,874 per unit)
• Kilmarnock South	£40,878,133 (£21,930 per unit)

- Contingent Major Repairs – total cost (Yrs 16-20) = £3,070,000

• Cumnock	£1,180,000
• Doon Valley	£720,000
• IrvineValley	£390,000
• Kilmarnock North	£200,000
• Kilmarnock Central	£580,000
• Kilmarnock South	£0

- Costs exclude fees@10%

**10. SHQS Improvements**

- Based on JMP Validation Report & Life Cycle Costs
- Total cost (Yrs 1-10) = £10,089,400

• Cumnock	£3,722,647
• Doon Valley	£989,086
• IrvineValley	£1,059,070
• Kilmarnock North	£1,387,985
• Kilmarnock Central	£744,271
• Kilmarnock South	£2,186,341

- Costs exclude fees@10%

**11. Repairs & Maintenance (as per analysis of 2004/05 HRA Budget)**

- Responsive & Voids Maintenance - £600 per unit
- Cyclical Maintenance (Gas Maintenance) - £76 per unit
- Other Maintenance (Grounds Maintenance/Garden Care) - £1,255,340 per annum - costs apportioned across housing areas

**12. Real Growth**

- Housing RentsRPI + 1.0% (Yrs 2-30)
- Garage/Garage Site RentsRPI + 1.0% (Yrs 2-30)
- Other IncomeRPI + 0.5% (Yrs 2-30)
- Management CostRPI + 0.5% (Yrs 2-30)
- Major Component Renewals, CMR & SHQS
 

	RPI + 2.0% (Yr 2)
	RPI + 1.0% (Yrs 3-4)
	RPI + 0.5% (Yrs 5-10)
	RPI only (Yrs 11-30)
- Repairs & Maintenance
 

	RPI + 0.5% (Yrs 2-10), RPI + 0.25% (Yrs 11-30)
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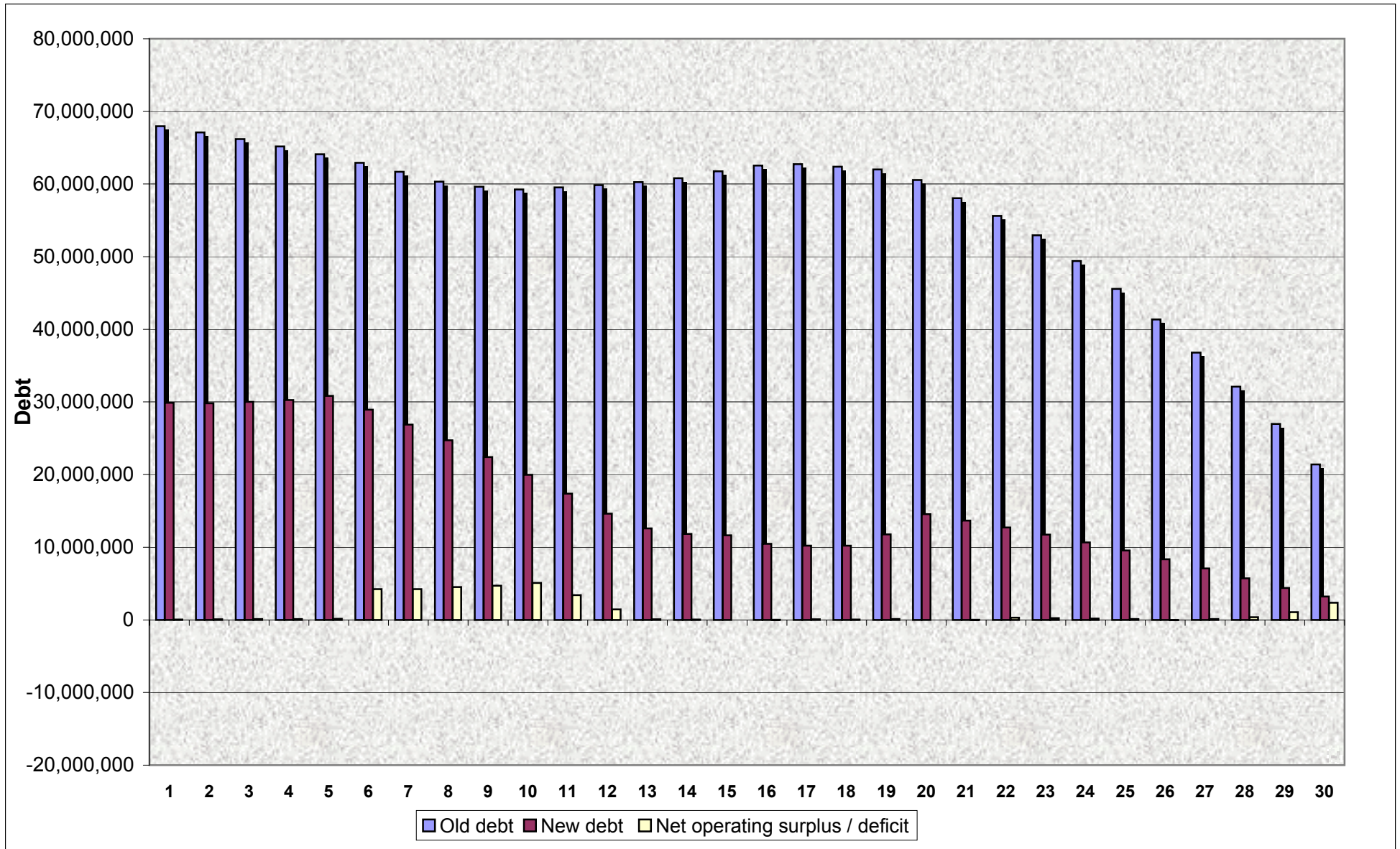
**13. Inflation**

- Inflation2.5%

# Appendix 2a Cashflows (as per stock condition survey results)

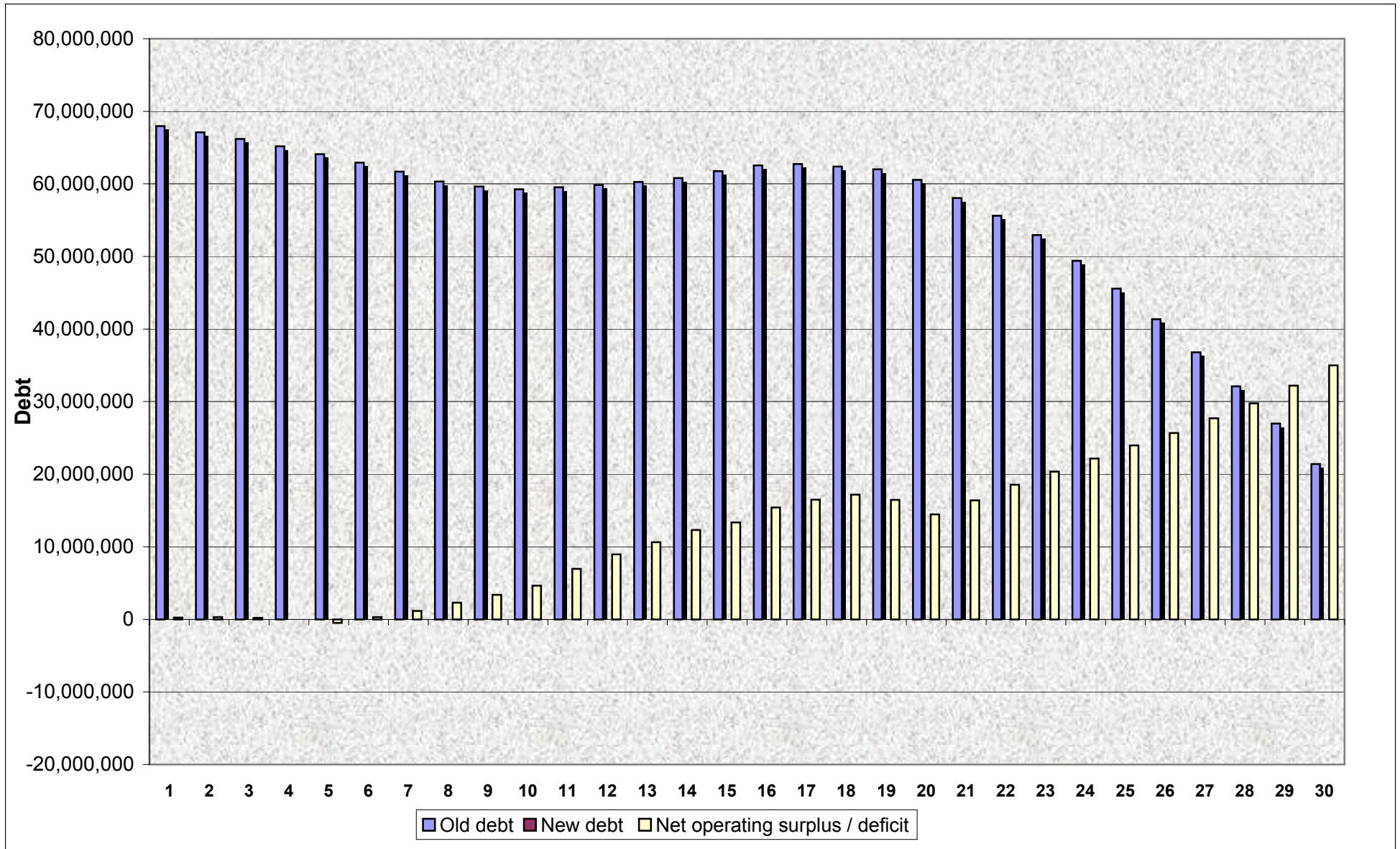
East Ayrshire Council HRA Business Plan		Return to contents					Go to debt profile								
Cashflows	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>Income</b>															
Dwelling Rents	32,597,114	32,152,531	31,930,008	31,753,629	31,588,078	31,436,510	31,302,362	31,189,375	31,101,613	31,043,479	31,019,747	31,035,573	31,096,532	31,208,633	31,378,352
Garages/Garage Sites	349,440	361,670	374,329	387,430	400,990	415,025	429,551	444,585	460,146	476,251	492,920	510,172	528,028	546,509	565,637
Sheltered Housing Service Charges	76,968	78,892	80,865	82,886	84,958	87,082	89,259	91,491	93,778	96,122	98,526	100,989	103,513	106,101	108,754
Property rents	52,000	53,300	54,633	55,998	57,398	58,833	60,304	61,812	63,357	64,941	66,564	68,229	69,934	71,683	73,475
Internal recharges	227,505	233,193	239,022	244,998	251,123	257,401	263,836	270,432	277,193	284,123	291,226	298,506	305,969	313,618	321,459
Homeless hostel	884,257	884,257	884,257	884,257	884,257	884,257	884,257	884,257	884,257	884,257	884,257	884,257	884,257	884,257	884,257
RTB Sales Income	9,240,000	9,067,750	8,881,675	8,681,229	8,465,851	8,234,962	7,987,967	7,724,253	7,443,189	7,144,129	6,826,406	6,489,334	6,132,212	5,754,316	5,354,906
Rent Loss to Voids & Bad Debts	-1,994,943	-1,607,627	-1,596,500	-1,587,681	-1,579,404	-1,571,825	-1,565,118	-1,559,469	-1,555,081	-1,552,174	-1,550,987	-1,551,779	-1,554,827	-1,560,432	-1,568,918
<b>Total Income</b>	<b>41,432,341</b>	<b>41,223,966</b>	<b>40,848,288</b>	<b>40,502,746</b>	<b>40,153,252</b>	<b>39,802,245</b>	<b>39,452,418</b>	<b>39,106,736</b>	<b>38,768,452</b>	<b>38,441,128</b>	<b>38,128,657</b>	<b>37,835,282</b>	<b>37,565,619</b>	<b>37,324,685</b>	<b>37,117,921</b>
<b>Expenditure</b>															
Management - Total Cost including hostel costs	-8,980,436	-9,182,840	-9,390,305	-9,602,956	-9,820,924	-8,351,057	-8,537,727	-8,729,064	-8,925,184	-9,126,207	-7,902,947	-8,078,414	-8,258,268	-8,442,618	-8,631,577
Other Costs (1) - Aids and adaptations	-912,995	-940,385	-968,596	-997,654	-1,027,584	-1,058,411	-1,090,164	-1,122,869	-1,156,555	-1,191,251	-1,224,011	-1,257,671	-1,292,257	-1,327,794	-1,364,308
Other Costs (2) -	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Capital Spend	-42,276,668	-10,908,959	-10,833,460	-10,773,617	-10,665,672	-5,271,061	-9,316,549	-9,238,075	-9,167,578	-9,106,237	-12,078,876	-11,968,275	-11,875,920	-11,803,575	-11,753,101
Responsive, voids and cyclical	-10,109,580	-9,962,026	-9,845,288	-9,743,604	-9,645,980	-9,553,320	-9,466,599	-9,386,862	-9,315,229	-9,252,901	-9,178,828	-9,116,964	-9,068,677	-9,035,417	-9,018,723
Garden and Grounds Maintenance	-1,255,340	-1,293,000	-1,331,790	-1,371,744	-1,412,896	-1,455,283	-1,498,942	-1,543,910	-1,590,227	-1,637,934	-1,682,977	-1,729,259	-1,776,814	-1,825,676	-1,875,882
Heat Leasing Costs	-1,461,750	-1,274,395	-1,020,424	-648,406	-490,172	-490,172	0	0	0	0	0	0	0	0	0
<b>Total Expenditure</b>	<b>-64,996,769</b>	<b>-33,561,606</b>	<b>-33,389,863</b>	<b>-33,137,981</b>	<b>-33,063,228</b>	<b>-26,179,305</b>	<b>-29,909,981</b>	<b>-30,020,780</b>	<b>-30,154,773</b>	<b>-30,314,531</b>	<b>-32,067,639</b>	<b>-32,150,583</b>	<b>-32,271,935</b>	<b>-32,435,080</b>	<b>-32,643,592</b>
Income net of expenditure	-23,564,428	7,662,361	7,458,424	7,364,765	7,090,025	13,622,940	9,542,437	9,085,956	8,613,679	8,126,597	6,061,018	5,684,698	5,293,684	4,889,606	4,474,329
Balances carried forward	0	55,748	91,821	122,566	121,122	151,383	4,232,711	4,224,625	4,504,731	4,701,391	5,078,555	3,411,215	1,457,243	75,174	66,004
<b>Net current income before interest</b>	<b>-23,564,428</b>	<b>7,718,109</b>	<b>7,550,246</b>	<b>7,487,332</b>	<b>7,211,146</b>	<b>13,774,323</b>	<b>13,775,149</b>	<b>13,310,581</b>	<b>13,118,409</b>	<b>12,827,989</b>	<b>11,139,573</b>	<b>9,095,913</b>	<b>6,750,927</b>	<b>4,964,780</b>	<b>4,540,333</b>
Interest receivable	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000	50,000
Minimum cash reserves	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Net position before debt</b>	<b>-23,514,428</b>	<b>7,768,109</b>	<b>7,600,246</b>	<b>7,537,332</b>	<b>7,261,146</b>	<b>13,824,323</b>	<b>13,825,149</b>	<b>13,360,581</b>	<b>13,168,409</b>	<b>12,877,989</b>	<b>11,189,573</b>	<b>9,145,913</b>	<b>6,800,927</b>	<b>5,014,780</b>	<b>4,590,333</b>
Principal repayment on historic debt	-846,363	-922,527	-1,005,562	-1,096,431	-1,164,091	-1,248,101	-1,359,404	-698,963	-360,752	289,417	315,463	413,404	515,249	965,674	789,097
Interest payable and other charges	-4,556,915	-4,497,239	-4,432,193	-4,361,280	-4,285,018	-4,203,640	-4,115,672	-4,046,231	-4,010,480	-4,008,073	-4,028,480	-4,053,069	-4,084,398	-4,134,359	-4,193,558
Expenses	-101,306	-99,979	-98,533	-96,957	-95,261	-93,452	-91,497	-89,953	-89,158	-89,105	-89,558	-90,105	-90,801	-91,912	-93,228
Covenant repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Other Debt repayment	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
<b>Operating surplus / (deficit) before new debt</b>	<b>-29,019,012</b>	<b>2,248,363</b>	<b>2,063,958</b>	<b>1,982,664</b>	<b>1,716,776</b>	<b>8,279,130</b>	<b>8,258,576</b>	<b>8,525,434</b>	<b>8,708,019</b>	<b>9,070,228</b>	<b>7,386,998</b>	<b>5,416,143</b>	<b>3,140,976</b>	<b>1,754,183</b>	<b>1,092,643</b>
New annual borrowing	29,900,000	1,200,000	1,550,000	1,800,000	2,300,000	0	0	0	0	0	0	0	900,000	2,400,000	3,250,000
Principal repayment on new debt	0	-1,260,322	-1,389,673	-1,541,862	-1,714,101	-1,918,180	-2,038,066	-2,165,446	-2,300,786	-2,444,585	-2,597,372	-2,759,707	-2,932,189	-3,153,387	-3,451,637
Interest payable and other charges on new debt	-825,240	-2,096,220	-2,101,718	-2,119,680	-2,151,292	-2,128,239	-1,995,884	-1,855,258	-1,705,842	-1,547,088	-1,378,412	-1,199,193	-1,033,613	-934,792	-906,268
<b>Net operating surplus / (deficit) after new debt</b>	<b>55,748</b>	<b>91,821</b>	<b>122,566</b>	<b>121,122</b>	<b>151,383</b>	<b>4,232,711</b>	<b>4,224,625</b>	<b>4,504,731</b>	<b>4,701,391</b>	<b>5,078,555</b>	<b>3,411,215</b>	<b>1,457,243</b>	<b>75,174</b>	<b>66,004</b>	<b>-15,262</b>
<b>Old debt outstanding</b>	<b>67,960,572</b>	<b>67,114,209</b>	<b>66,191,682</b>	<b>65,186,120</b>	<b>64,089,689</b>	<b>62,925,598</b>	<b>61,677,497</b>	<b>60,318,093</b>	<b>59,619,130</b>	<b>59,258,378</b>	<b>59,547,795</b>	<b>59,863,258</b>	<b>60,276,662</b>	<b>60,791,911</b>	<b>61,757,585</b>
<b>New debt outstanding</b>	<b>3,356,542</b>	<b>29,839,678</b>	<b>30,000,005</b>	<b>30,258,143</b>	<b>30,844,042</b>	<b>28,925,861</b>	<b>26,887,795</b>	<b>24,722,350</b>	<b>22,421,564</b>	<b>19,976,979</b>	<b>17,379,607</b>	<b>14,619,900</b>	<b>12,587,711</b>	<b>11,834,324</b>	<b>11,632,688</b>
<b>Total debt</b>	<b>71,317,114</b>	<b>96,953,887</b>	<b>96,191,687</b>	<b>95,444,263</b>	<b>94,933,731</b>	<b>91,851,459</b>	<b>88,565,292</b>	<b>85,040,443</b>	<b>82,040,694</b>	<b>79,235,357</b>	<b>76,927,402</b>	<b>74,483,158</b>	<b>72,864,373</b>	<b>72,626,235</b>	<b>73,390,273</b>
<b>Debt per dwelling</b>	<b>4,769</b>	<b>6,776</b>	<b>7,007</b>	<b>7,236</b>	<b>7,488</b>	<b>7,535</b>	<b>7,552</b>	<b>7,532</b>	<b>7,542</b>	<b>7,553</b>	<b>7,596</b>	<b>7,608</b>	<b>7,688</b>	<b>7,902</b>	<b>8,220</b>
<b>Total debt costs</b>	<b>6,329,824</b>	<b>8,876,288</b>	<b>9,027,679</b>	<b>9,216,210</b>	<b>9,409,763</b>	<b>9,591,612</b>	<b>9,600,524</b>	<b>8,855,850</b>	<b>8,467,018</b>	<b>7,799,434</b>	<b>7,778,358</b>	<b>7,688,670</b>	<b>7,625,753</b>	<b>7,348,776</b>	<b>7,855,594</b>
<b>Net income</b>	<b>31,028,579</b>	<b>30,985,467</b>	<b>30,788,701</b>	<b>30,636,264</b>	<b>30,494,623</b>	<b>30,366,792</b>	<b>30,256,054</b>	<b>30,165,983</b>	<b>30,100,456</b>	<b>30,063,679</b>	<b>30,060,204</b>	<b>30,094,955</b>	<b>30,173,247</b>	<b>30,300,811</b>	<b>30,483,825</b>
<b>Debt cost/net income ratio</b>	<b>20.4%</b>	<b>28.6%</b>	<b>29.3%</b>	<b>30.1%</b>	<b>30.9%</b>	<b>31.6%</b>	<b>31.7%</b>	<b>29.4%</b>	<b>28.1%</b>	<b>25.9%</b>	<b>25.9%</b>	<b>25.3%</b>	<b>25.3%</b>	<b>24.3%</b>	<b>25.8%</b>
<b>Capital Spend/Capital Borrowing</b>	<b>70.7%</b>	<b>11.0%</b>	<b>14.3%</b>	<b>16.7%</b>	<b>21.6%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>0.0%</b>	<b>7.6%</b>	<b>20.3%</b>











## Appendix 3

### PRICING MODEL – RETENTION VALUATION ASSUMPTIONS (Yr 1 = 2004/05)

#### 14. Opening Housing Stock

• Cumnock	3,949
• Doon Valley	1,894
• Irvine Valley	2,481
• Kilmarnock North	2,477
• Kilmarnock Central	2,633
• Kilmarnock South	1,864
• <b>Total</b>	<b>15,298</b>

#### 15. Housing – Average Weekly Rent per Unit (2004/05)

• Cumnock	£45.40
• Doon Valley	£45.56
• Irvine Valley	£45.10
• Kilmarnock North	£45.83
• Kilmarnock Central	£45.03
• Kilmarnock South	£45.63
• <b>Total</b>	<b>£45.41</b>

#### 16. Garages/Garage Sites

Gross Rental Income (2004/05) = £349,440 (based on HRA Budget) – income apportioned across housing areas:

• Cumnock	£56,098
• Doon Valley	£5,478
• Irvine Valley	£55,558
• Kilmarnock North	£46,177
• Kilmarnock Central	£166,032
• Kilmarnock South	£20,097
• <b>Total</b>	<b>£349,440</b>

#### 17. Other Annual Income (2004/05)

Sheltered Housing Service Charges:

• Cumnock	£20,420
• Doon Valley	£9,777
• Irvine Valley	£12,419
• Kilmarnock North	£17,161
• Kilmarnock Central	£14,729
• Kilmarnock South	£2,461
• <b>Total</b>	<b>£76,968</b>

#### 18. Rent Loss to Voids & Bad Debts

- Housing = 5.0% per annum (Yrs 1-30)
- Garages/Garage Sites = 15.0% per annum (Yrs 1-30)

#### 19. Management Cost (as per analysis of 2004/05 HRA Budget)

• Annual Cost per Unit	£528
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#### 20. Heat Leasing Costs

- Costs apportioned across housing areas

• 2004/05	£1,461,750
• 2005/06	£1,274,395
• 2006/07	£1,020,424
• 2007/08	£648,406
• 2008/09	£490,172
• 2009/10	£490,172

**21. Catch Up Repairs**

- Nil

**22. Major Component Replacement**

- Based on JMP Validation Report & Life Cycle Costs
- Major Component Renewals - total cost (Yrs 1-30) = £304,081,350 (£19,877 per unit)

• Cumnock	£82,033,630 (£20,773 per unit)
• Doon Valley	£42,364,663 (£22,368 per unit)
• IrvineValley	£43,922,293 (£17,703 per unit)
• Kilmarnock North	£55,563,950 (£21,103 per unit)
• Kilmarnock Central	£39,318,681 (£15,874 per unit)
• Kilmarnock South	£40,878,133 (£21,930 per unit)

- Contingent Major Repairs – total cost (Yrs 16-20) = £3,070,000

• Cumnock	£1,180,000
• Doon Valley	£720,000
• IrvineValley	£390,000
• Kilmarnock North	£200,000
• Kilmarnock Central	£580,000
• Kilmarnock South	£0
• Costs exclude fees@10%	

**23. SHQS Improvements**

- Based on JMP Validation Report & Life Cycle Costs
- Total cost (Yrs 1-10) = £10,089,400

• Cumnock	£3,722,647
• Doon Valley	£989,086
• IrvineValley	£1,059,070
• Kilmarnock North	£1,387,985
• Kilmarnock Central	£744,271
• Kilmarnock South	£2,186,341
• Costs exclude fees@10%	

**24. Repairs & Maintenance (as per analysis of 2004/05 HRA Budget)**

- Responsive & Voids Maintenance - £600 per unit
- Cyclical Maintenance (Gas Maintenance) - £76 per unit
- Other Maintenance (Grounds Maintenance/Garden Care) - £1,255,340 per annum - costs apportioned across housing areas

**25. Real Growth**

• Housing Rents	RPI + 1.0% (Yrs 2-30)
• Garage/Garage Site Rents	RPI + 1.0% (Yrs 2-30)
• Other Income	RPI + 0.5% (Yrs 2-30)
• Management Cost	RPI + 0.5% (Yrs 2-30)
• Major Component Renewals, CMR & SHQS	RPI + 2.0% (Yr 2)
•	RPI + 1.0% (Yrs 3-4)
•	RPI + 0.5% (Yrs 5-10)
•	RPI only (Yrs 11-30)
• Repairs & Maintenance	RPI + 0.5% (Yrs 2-10), RPI + 0.25% (Yrs 11-30)

**26. Discount Rate**

- Discount Rate Assumption 7.0%

## Appendix 4

### **PRICING MODEL - TMV ASSUMPTIONS**

As for Pricing Model (Retention) except:

#### **VAT Included:**

- Major Component Replacement Yrs 1-30 17.5%
- SHQS Improvements Yrs 1-30 17.5%
- Responsive & Voids Maintenance Yrs 1-30 6.0%
- Cyclical Maintenance Yrs 1-30 6.0%
- Open Space Maintenance Yrs 1-30 6.0%

Note: lower VAT costs for Responsive/Voids Maintenance, Cyclical Maintenance & Open Space Maintenance assume these services are provided in-house from Yr 1.

#### **Leasing Costs**

- Leasing costs excluded as they would not transfer to the alternative landlord – the costs would remain with the Council

#### **Management Costs**

- Management costs are assumed to remain unchanged – there will potentially be some cost savings with the Strategic Role remaining with the Council; on the other hand, extra costs may be incurred, such as VAT, the impact of TUPE, Monitoring & Auditing, and greater community involvement.

#### **Voids & Bad Debts**

- Rent Loss to Voids & Bad Debts is assumed to reduce from 5% in Yr 1 to 3% by Yr 5