COUNCIL HOUSING – FINANCING THE FUTURE

Final Report

Prepared for the
Chartered Institute of Housing
by

Graham Moody Associates Ltd.

October 1998

The Chartered Institute of Housing

The Chartered Institute of Housing is the professional organisation for all people who work in housing. Its purpose is to take a strategic and leading role in encouraging and promoting the provision of good quality affordable housing for all. The Institute has more than 14,000 members working in local authorities, housing associations, the private sector and educational institutions.

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Council Housing – Financing the Future

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"When you can measure what you are speaking about, and express it in numbers, you know something about it"

William Thomson, Lord Kelvin
Popular Lectures and Addresses (1891-1894)

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Foreword

The government has declared its intention to regenerate the worst of the country's council estates. This will involve tackling problems of crime, low educational attainment, lack of jobs, poor health, and many other symptoms of social exclusion.

But many council estates also provide poor housing, because they are badly in need of repair and improvement after years of under-investment. As Frank Dobson, the Health Minister, has said, *"Everybody with a grain of sense knows that it's bad for your health if you don't have somewhere decent to live"*.

Whilst the new government has acted swiftly to boost housing investment through the Capital Receipts Initiative, the injection of new funds following the Comprehensive Spending Review only restores investment to the level it was at three years ago.

Hilary Armstrong, English housing minister, has said that it is essential to develop and adopt policies which are sustainable in the medium to long term and that tackle housing problems systematically: that we need to develop a new vision for social housing that generates the required level of investment.

This study for the Chartered Institute of Housing by Graham Moody Associates quantifies the backlog of disrepair in council housing and evaluates alternative ways of bringing in the investment needed to tackle it. It compares strategies that use only public money with alternatives that bring in private finance – comparing them on a range of factors.

The study sets out a framework for the sustainable financing of council housing in England, Scotland and Wales, within which the government's objective of generating the required investment might be met.

The study represents a challenge to the government to make clear its own long-term strategy for council housing – an objective that it set for itself when the Comprehensive Spending Review began.

Chartered Institute of Housing
October 1998

Summary

1 The government's Comprehensive Spending Review was to have led to a longer term strategy for the ownership and funding of local authority housing. However, whilst the review led to a welcome increase in housing investment, a longer term strategy is only now beginning to emerge. This study argues that such a strategy is urgently needed, and aims to set out its main components, looking at the financial future of council housing over an initial investment period of ten years and beyond.

2 Part of the case for having a long term strategy is that existing mechanisms are not likely to deliver the scale of investment required within a reasonable time scale. Progress with stock transfer to new housing associations and local housing companies has been slow and faltering. Alternative models which would depend on changes in measures of public borrowing have been rejected by the Treasury. New methods of bringing in private finance are under development but as yet are untested.

3 Some reforms are set to flow from the Comprehensive Spending Review that may offer new scope to local authorities. These will include revised rules for investment decisions that reflect the efficient use of resources as well as public sector debt, applying resource accounting principles to Housing Revenue Accounts and the piloting of "local housing corporations", albeit subject to public sector borrowing constraints.

4 Local authorities are therefore badly in need of overall guidance to help them to decide what strategies to pursue at local level. Until this study was carried out, no value for money assessments of the options had been undertaken which took as their context the overall backlog of repair and improvement work in council housing which needs to be tackled. But before undertaking this we first set out to assess the investment needed.

5 Our main findings about the extent of the investment needs of the country's council housing are these:

- The investment needed to remedy disrepair and to bring the whole of Britain's council homes up to modern standards amounts to £21 – £23 billion.
- This estimate is in line with the government's estimate of £10 billion to renovate English council housing, but includes Scotland and Wales and allows for some modernisation and energy efficiency improvements.
- If this investment requirement were met there would be offsetting savings in repair and maintenance costs, and it would be reasonable to increase rents to reflect the improved standards.

6 We have developed and examined seven different ways of bringing in this investment, some using solely public funds and others using private finance in different ways. Our conclusions are:

- Stock transfer (to a housing association or local housing company) or one of the two models using the Private Finance Initiative offer lowest PSBR cost. However, these might not offer best value for money if public sector borrowing becomes less important.
- The stock transfer regime should be reviewed in order to improve both public sector value for money and acceptability to local authorities and tenants.

- PFI approaches to investment should be piloted to test their ability to deliver value for money. The PFI Super VCT model appears to offer advantages over stock transfer in a range of circumstances. However, developing a regime within which it could be applied swiftly and on a large scale would take time.
- Full investment to modern standards using these private finance vehicles can actually be cheaper in PSBR terms than a minimal investment option using solely public funds.
- Whilst councils and tenants might prefer models such as the CIH's local housing corporations, which retain public sector control, the outcome of the Comprehensive Spending Review has not included the radical changes for which the Institute was arguing. There may, however, be opportunities to develop this approach, but (at this stage) only as a means of separating and strengthening strategic and landlord roles within public sector borrowing constraints.

7 Based on these findings, we believe that it is possible to construct a stable financial framework within which the nation's council housing can be refurbished and maintained to modern standards, costing no more than the amount required to keep housing lettable under continued public ownership and traditional borrowing.

8 Our vision is one where council housing is established on a financial and business basis comparable to housing associations, receiving the full amount of housing benefit subsidy to support rental income. Using a mixture of traditional borrowing and private finance vehicles there would then be adequate investment available to refurbish the nation's housing stock.

9 To develop a national housing investment strategy the government should:

- Establish target housing standards in terms of condition, management and tenant satisfaction, and what is needed to achieve them;
- Set a timescale for achieving those standards (possibly, the lifetime of two parliaments);
- Identify options or a menu of options to achieve them at local authority level;
- Evaluate the options against key criteria – both financial and non-financial, and develop guidance on "what works best where";
- Determine a strategy and the resources required to implement it.

10 Within this national strategic framework, local authorities together with their tenants would need to carry out their own appraisals, mirroring and guided by the national strategy. Ideally there should be a menu of options from which local authorities and tenants can choose their local approach. Some will be happy to pursue large scale voluntary transfer. Others will wish to examine options under the PFI, or a mixture of solutions. In either case, decision rules and financial arrangements are needed both to provide for the options and ensure that those chosen meet value for money criteria and fit within the national strategy.

11 There may be difficult choices at both local and national levels. Guidance will be needed to help local authorities identify value for money in developing their local housing investment strategies. Controls will have to be put in place at national level to keep spending and debt within government limits. But on the basis we propose, there is a real prospect of achieving a robust and stable framework for the investment required to provide good quality housing on a long term basis.

1 Introduction

Why a new study of council housing?

101 The genesis of this study was the announcement of the government's Comprehensive Spending Review in the middle of last year. One of the issues which was to have been addressed by the review was "the longer term strategy for ownership and funding of existing and new local authority housing, including transfer to registered social landlords, establishment of public corporations or retention by local authorities, and innovative market sources of funding."

102 It was the inclusion of the words "longer term strategy … for local authority housing" which was the inspiration for a project that seeks to take a much-needed overview of this part of the rented sector. It has the ambition of sketching out a longer term future, in financial terms, of a major provider of Britain's housing which has, for at least two decades, led a hand-to-mouth existence and whose future has been, at best, uncertain.

103 A second factor was the burgeoning array of models and ideas for bringing investment into a sector which badly needs it but which has seen its public funding fall to one fifth of the levels it enjoyed in the mid-1970s. The Chartered Institute of Housing (CIH) has itself been responsible for promoting many of these ideas – notably local housing companies, local housing corporations and, more recently, the Private Finance Initiative (PFI.)

104 As these ideas have developed, however, so have some important questions about their use. For example, as the range of possibilities grows, how should an individual local authority choose between one approach or another, particularly given the time and effort involved in considering even one of the options? This question became particularly pertinent in the wake of last year's tenant ballot at Sandwell, rejecting one of the pioneer proposals for a local housing company. The Sandwell outcome raised questions not just for individual authorities who could now see the high price attached to failure, but also for the government and for those seeking to take a longer term view of council housing.

105 At about the same time as the Comprehensive Spending Review was announced, the government also declared its aim of tackling deprivation on the worst council estates, initially identified as totalling about 1,300. Even though a numeric target was later dropped, it drew attention to the scale of the problem. Insofar as these estates require modernisation as well as wider social and economic regeneration, based upon a combination of public and private funds, this is unlikely to be delivered through stock transfer in its present form, which in nearly a decade has only covered a small part of the stock.

106 In England, the Estates Renewal Challenge Fund (ERCF), aimed at inner city areas, had in its first two years started the transfer process in only a few such estates, and was proving an expensive way of delivering housing investment. Progress in Scotland has been greater in inner city areas, but with a much more advantageous

financial regime. In Wales, no large scale voluntary transfers of local authority stock have taken place. Many more ballot results like Sandwell's would not only delay the process in individual cases but would call into the question the viability of inner city transfers as a mainstream approach to raising the investment needed.

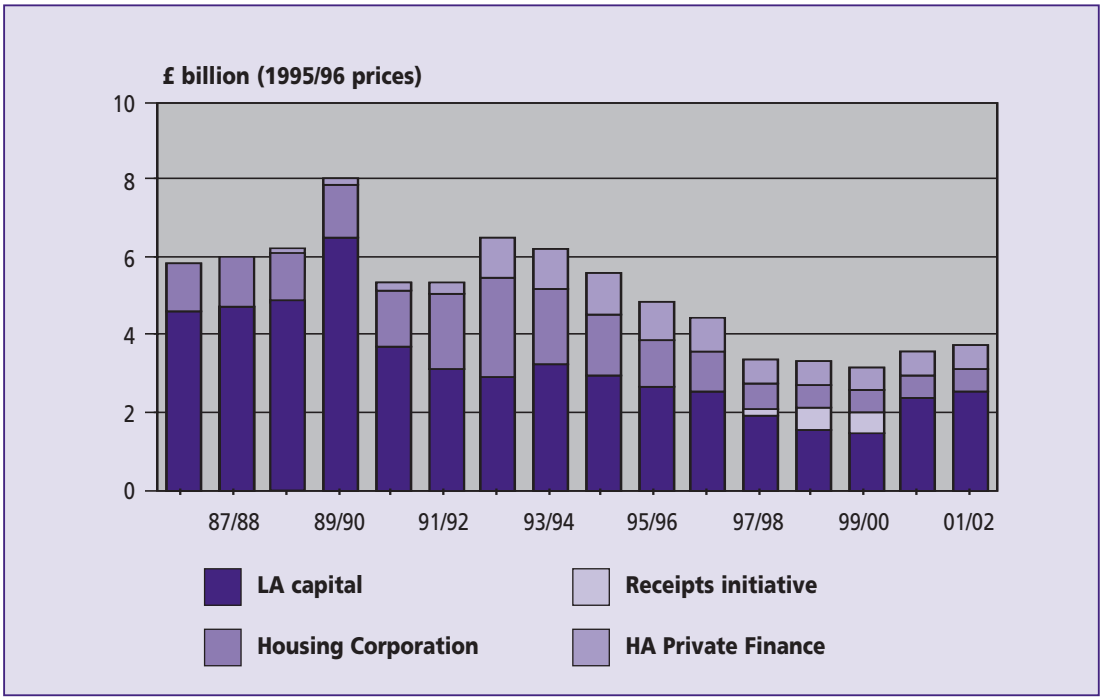
107 Encouragingly, the Comprehensive Spending Review (CSR) seemed to acknowledge the need to step back from the project-based approach represented by the ERCF and similar initiatives, and take a wider and longer view. Implicit in the terms of reference quoted above seemed to be recognition of the need for a "big picture" of council housing, showing how it would be given a viable future, if not within the life of this parliament, then at least within, say, a decade.

108 It offered the prospect of council housing being given a new direction to replace the uncompleted privatisation agenda of previous governments, recognising not just that service quality needed to be improved, but that this cannot be done unless the massive backlog of disrepair is also addressed. In short, the government seemed to be saying that, even if progress was going to be less than speedy because of continuing public expenditure constraints, the CSR heralded a significant change of direction and a clear new destination.

Outcome of the Comprehensive Spending Review

109 Whilst the outcomes of the Comprehensive Spending Review announced in July included a very welcome boost to public housing investment, the budgets projected for the next three years do little more than restore local authority capital availability in England to the levels of the middle part of this decade. The picture is not likely to be dissimilar in Scotland and Wales.

Housing Investment after the CSR – England



(Source: Wilcox (1998), *Housing Finance Review* 1998/99, JRF).

110 There is also little by way of the "big picture" promised in the terms of reference. Within the main themes of tackling social exclusion, developing integrated strategies, improving service delivery and empowering tenants, there appears to be a set of piecemeal reforms that may or may not add up to a coherent strategy for council housing in the longer term. Whilst the DETR statement on *Housing and Regeneration Policy* made reference to most of the options considered in this study's Interim Report, public sector borrowing constraints accompany those where there is continuing public sector control. However, a wider range of private finance options is in prospect.

111 In Scotland the lion's share of the additional £300 million earmarked for housing over the next three years is devoted to the New Housing Partnerships initiative, which is focussed mainly on promoting stock transfer. Indeed, the Housing Minister signalled a more restricted future for council housing than in England when giving evidence to the Scottish Affairs Select Committee. He made a strong call for councils to transfer their stock, assuming support from tenants, to community-based housing companies, leaving councils with a strategic rather than a landlord role. In doing so, he appeared to rule out (or at least place much less emphasis on) the options emerging south of the border which would not involve transfer to bodies classified as in the private sector.

112 In Wales there are as yet no detailed announcements on the CSR. Consultation is promised for later in the year. However, the Welsh housing minister addressing a CIH seminar in September stated that private finance would be needed to fund council housing investment. He expected local authorities to consider large scale voluntary transfer as a means of achieving this. He recognised the need for a long-term strategy but, as in England, such a strategy has not yet emerged.

113 Significantly, however, the Comprehensive Spending Review and subsequent work by DETR and the Treasury appears to be opening up the possibility of more fundamental reforms in council housing finance in England, albeit within the continuing constraints of public borrowing limits. There are three elements to this:

- Reform of decision-making rules about the private finance options available to local authorities, reflecting a dual approach to public expenditure control, with a greater concern for current expenditure and underlying efficiency of service provision alongside conventional public borrowing considerations.
- Applying resource accounting principles to Housing Revenue Accounts (HRAs), which should highlight the need for investment to protect and enhance assets and help to support the case for increased investment using conventional public finance (whether from borrowing or revenue).
- Offering councils the option of setting up "local housing corporations" to help strengthen the landlord role and improve efficiency, but within rather than outside "normal public sector borrowing constraints."

114 These changes, not yet fully defined, open up the prospect of councils having a wider degree of choice than hitherto. There is an emerging menu of options based on private finance, offering the prospect of full stock investment and in some cases a usable receipt. These will sit alongside the option of continued local authority control, possibly through local housing corporations, perhaps offering more investment than has been available recently, but under continued public sector borrowing constraints.

115 For the stock in council ownership, the extent to which continued public sector constraints will loosen to provide the investment needed not just to remedy disrepair but to modernise council homes will depend upon:

- The emphasis of public expenditure control mechanisms on current spending or debt;
- The demands of other higher priority public sector spending programmes; and
- The performance of the economy.

116 Whether these changes will produce any fundamental differences to the broad options open for the future of council housing – public sector ownership with constrained investment and private sector options providing full investment, is unclear. In the short term it appears to us that while alternative private finance mechanisms will develop, *full* investment solely under council ownership or control will not be possible for the majority of authorities.

117 The approach we have taken to the final report of this study (as compared with the Interim Report) reflects this. We have:

- Updated our financial analysis of the cost to the public purse of a range of options described in our Interim Report, reflecting the revised framework for public expenditure control announced by the Chancellor as part of the CSR outcome and other developments;
- Extended our analysis to cover other criteria, financial and non financial;
- Made suggestions for improving the existing housing transfer regime to facilitate its implementation; and
- Sought to develop and describe the components of a national strategy for achieving full investment in the stock at a price affordable to the public sector.

Study objectives and report structure

118 Against this background, the key objectives of the study are to:

- Ascertain the extent of investment required to regenerate local authority housing and to contribute to wider community regeneration by providing homes to good, fit and modern standards;
- Assess the costs and benefits of the various options for securing that investment; and
- Develop an affordable strategy for achieving the investment and sustaining it in the longer term.

119 Following this introduction, we describe our investigations into the condition of council housing stock. We have assessed both short and long term investment requirements, and the extent of investment necessary to remedy disrepair and to bring council homes up to modern standards.

120 We describe and develop seven options for delivering the investment in the stock in different ways, and summarise their public expenditure effects. We have updated the analysis contained in our Interim Report, and have included consideration of the government's recent announcements on public expenditure control.

121 We have developed a "do minimum" scenario, under which investment continues to be severely constrained and is limited to keeping stock in lettable condition, and we compare its effects on public expenditure with full investment under our seven options. We also offer suggestions for improving public sector value for money and the acceptability of the current private finance option – large scale voluntary transfer (LSVT).

122 We continue by comparing the "least cost" private finance options under a range of other criteria, including acceptability to local authorities and tenants. We then develop proposals for a sustainable strategic framework for delivering the investment necessary to provide modern and well-maintained social housing at a cost affordable to the public purse. We conclude by setting out the steps needed to develop and implement such a strategy, describing central government and local authority roles.

123 This report builds upon our Interim Report published in March 1998 (Graham Moody Associates,1998.) Following this we have had the benefit of discussions with DETR and Treasury officials concerning public expenditure issues, and with the Local Government Association (LGA) concerning local housing corporations and quasi corporations. We have updated our analysis in the light of these discussions and we are grateful to all concerned for their helpful comments and assistance.

124 This Final Report sets out our investigations for the whole of the Britain's council housing, covering England, Scotland and Wales. While the financial framework for council housing in Scotland has differences in both terminology and application to England and Wales, we use the terminology of the English and Welsh systems unless reference is specific to Scotland. We also use the term housing association to refer to both registered housing associations and registered social landlords.

2 Stock condition

Introduction

201 An important part of our study has been to assess the extent of investment needed to put council housing stock into good and modern condition, and to keep it there. This is in part so that our financial analysis is based on a realistic view of the resources necessary to provide tenants with good quality housing, but also so that government budgets for housing can be viewed against requirement. Thus we have sought to quantify the cost of:

- Remedying current disrepair, not by a "quick fix" but by the cost-effective renewal or repair of building elements;
- Providing a range of facilities in homes that we believe represent reasonably modern standards and expectations. These include the installation of central heating and double glazing where this is not present, and replacement kitchen and bathroom facilities where these are over 20 years old; and
- Long-term investment in renewing/replacing major building elements in order to maintain standards.

202 In developing the range of facilities to achieve our "modernised standards", we have been conscious of looking to a 10-year programme to achieve the standards across the whole stock. During this time tenants' expectations will rise and government will be seeking to make significant improvements in domestic energy efficiency. These considerations have helped form our view on the need for the facilities outlined above to be provided.

Data sources

203 In order to assess the investment required to remove the backlog of disrepair and to provide modern amenities and facilities in council housing, we have considered both national stock condition surveys and local authorities' own estimates. This approach has not been without its problems. Each of the three national house condition surveys collects and reports on condition data on a different basis, and each country has a different system of returns from individual local authorities to central government.

The sections below set out our analysis of stock investment requirements by country and the individual data sources used. This is followed by a description of our investigations into the long-term investment needs of the stock, the impact of full investment availability on routine maintenance, and a summary of our findings.

England

204 Since our Interim Report was published, the results of the English House Condition Survey (EHCS) 1996 have become available. We have focussed on two aspects of the Survey report, namely:

- Disrepair; and
- Facilities and services.

205 In terms of disrepair, the estimate for the "comprehensive repair" of local authority homes averages £2,240 per dwelling. However, in common with earlier EHCSs, estimates are based on visual inspections, thereby tending to overlook structural problems, and omit works required outside the curtilage of the house or block of flats/maisonettes. Allowing for these further costs and professional fees, we believe that an estimate of £2,500 for disrepair is reasonable.

206 In addition to disrepair, the survey also records the presence/absence of standard facilities and services. The table below sets out the presence of those facilities that, if present to current standards, we judge as representing modern housing conditions.

Table 1: Presence of Facilities in Council Homes (EHCS 1996)

Facility/service	Proportion of stock with
Central heating	83%
Double glazing	40%
Post-1964 kitchens	93%
Post-1964 bathrooms	80%

207 In our experience it is common to programme kitchen and bathroom renewals on a 15-20 year life cycle. We have, therefore, assumed in our assessment that all pre-1965 facilities and one-third of the post-1964 facilities noted above, which were up to 30 years old at the time of the survey, are in need of modernisation. On this basis we have estimated that the average unit cost of modernising the average English local authority home is £3,000 (see Appendix 1).

208 Taken together these give an estimated investment requirement of £18.2 billion to repair and modernise English council housing.

209 We have also assessed the extent of investment required on the basis of English local authorities' own estimates set out in their 1996 Housing Investment Programme (HIP3) returns. The total HIP3 returns, adjusted for missing data, amount to approximately £20.4 billion at 1996/97 prices, and we understand DETR have checked this against their own data sources and arrived at an estimate of £20.7 billion. However, the basis of assessment for the HIP3 returns is not entirely clear, so that authorities may well have included a degree of anticipated future as well as current refurbishment requirements.

210 In 1994 the ADC and AMA estimated the investment requirement for local authority housing stock over the next 10 years as £10.5 billion in repairs, with a further £8 billion in improvements. Similarly, the survey of local housing authority set-aside receipts, undertaken in 1996/97 by KPMG for the CIH, produced an estimated investment requirement of some £18.4 billion (KPMG, 1996.)

211 These various approaches all suggest a total investment requirement in the £18-20 billion range, and we have used the estimates derived from the EHCS 1996 noted in paragraph 208 above in our financial analysis. We recognise that there may be some underestimation in this total as an amount of the homes with central heating will have partial systems serving the living areas only. We anticipate being able to amend our estimates in the autumn on publication of the EHCS energy efficiency report.

Scotland

212 Unlike the English and Welsh House Condition Surveys, the Scottish survey includes the estimated cost of both the backlog of repair and the absence of modern facilities and amenities.

213 The Scottish House Condition Survey 1996 records estimated comprehensive repair and improvement costs of £2,170 and £1,097 respectively per dwelling. Allowing for the same possible omissions noted for the EHCS 1996 in paragraph 205, we have assumed that the total investment requirement for Scotland's approximately 600,000 council homes is about £2.1 billion.

214 We were unable to compare the Scottish HCS estimates with local authority returns since, following the reorganisation of local government in Scotland, many authorities have yet to assess their own investment needs on a comparable basis. However, recent investigations into the condition of Glasgow's stock in the context of a possible LSVT have suggested an investment requirement in the order of £1.3 billion for some 100,000 homes. If this is borne out and is representative of Scottish council housing stock condition, then the SHCS figures would be a significant under-estimate of the true position.

Wales

215 In Wales the latest national survey data is contained in the 1993 Welsh House Condition Survey, and estimates the average council dwelling repair cost as £1,130. However, the basis of estimating disrepair is different from the so-called "comprehensive" approach used in England and Scotland, and is more like the EHCS's short-term "repair and replacement" definition. In the EHCS 1996 this approach resulted in estimates at about 54% of the level of "comprehensive" repairs. If the same proportionate relationship applied to Wales, the corresponding "comprehensive" repair estimate would be approximately £2,100 per council home.

216 Unlike the EHCS 1996 and SHCS 1996, the WHCS 1993 report does not contain information on facilities and services. In view of this and the repair definition used we have turned to a review and analysis of Welsh local authorities' Housing Strategies and Operational Plans (HSOPs). We were able to identify HSOPs with reasonable stock condition information covering about 45% of the housing stock of the recently-formed Welsh local authorities. Including both repair and modernisation requirements, our resulting estimate is of average disrepair of £1,500 and modernisation needs of £2,200 per dwelling.

217 In total, the available evidence supports an estimate of £740 million to bring the Welsh council housing stock to good modern standards. .

The long term investment position

218 In order to gauge long-term investment requirements for financial modelling purposes we sought stock condition information used for valuation/business planning purposes from local authorities and (prospective) transfer landlords that had or were pursuing large scale voluntary transfer. In total we received adequate information from 24 LSVT authorities/new landlords.

219 The stock investment information was processed to exclude catch-up repairs, and to bring it to a common price base. While this produced a considerable range of long-term investment requirements, the bulk of returns lay within 25% of the average of £590/unit pa (including allowance for contractors' preliminaries, contingencies and fees).

220 In considering this analysis it is evident that the stocks concerned contain less than average homes built post 1964. Therefore, a greater proportion of major elements, such as roofs, is likely to have been renewed than in other stocks. Moreover, our sample is drawn primarily from the shire districts, comprising mainly houses rather than flats. This means that some features of urban stocks and estates, such as lifts, block communal areas and hard landscaping, will be under-represented. To allow for some additional expenditure on renewal of these elements, we have assumed a long term unit investment cost of £600 per annum.

On-going repair and maintenance

221 Again, for financial modelling purposes, we have assumed that the average cost of repair and maintenance per unit is, initially, £640 per annum net of supervision and administration costs (see chapter 4). Our experience indicates that many authorities have significant amounts of expenditure within their repair and maintenance budgets which either is capital or would be unnecessary if there was full capital availability. Consequently we have assumed that overall repair and maintenance costs will fall to some £510 per unit per annum in real terms (i.e. a reduction of approximately 20%) over the 10-year investment period.

222 We are conscious that this level of reduction is not based on any detailed examination of local authorities' repair and maintenance budgets. However, a reduction in the long term level of repair and maintenance costs is supported by our analysis of LSVT stock condition surveys noted above, where the average long term spending is around £350 per unit per annum. This is low compared with our assumption of £510 per annum. While a higher national average cost level is justified in relation to the likelihood of LSVT stocks being in better condition and having lower levels of communal facilities, full investment in Housing Revenue Account (HRA) stocks could lead to scope for further long term savings.

Summary of investment requirements

223 There is no single reliable estimate of the backlog of repair and improvement needed in UK council housing, but the available evidence supports an estimate of £21 – £23 billion, with an on-going need to invest about £600 per unit each year thereafter, about £2.5 billion pa in total. If this level of investment were made, we believe that current maintenance budgets could be cut by about 20% per annum.

224 In our base case appraisal of the various options available for investing in the stock (see chapters 3 & 4) we have assumed that the investment needed is spread as follows:

- Short-term catch-up costs of £2,400 per unit spread over 5 years;
- Improvement/modernisation costs of £2,700 per unit spread over 10 years;
- On-going investment of £600 per unit annually;

- VAT added to this expenditure for the private sector options;
- Reductions in ordinary repair expenditure annually from £640 to £510 over a ten-year period.

225 The government has recently estimated the extent of the backlog in the English housing stock as some £10 billion. This is based on the EHCS comprehensive repair figure that we have used, but does not allow for any central heating or double glazing installations, and costs replacement kitchens and bathrooms only where they were installed pre 1965. If we exclude corresponding refurbishment/improvement costs from our estimates, they fall to £9.6 billion for England only – in line with the government's estimate.

3 The options

Introduction

301 Having arrived at estimates for the investment needed to refurbish the nation's council housing, we now consider a variety of different options for the management and ownership of the stock under which that investment could take place. Our aim is to examine the public expenditure effects of the different options, and to seek to identify scenarios that minimise public expenditure costs while achieving full investment.

302 We have considered seven ownership, management and investment options, and have assessed them against key public expenditure measures and other criteria (see chapters 4 and 5). The options are:

- Retention of the housing stock by the local authority, with credit approvals increasing to meet the investment requirement in full, referred to as the HRA Capital case;
- Retention of the housing stock, but with progressive revenue contributions replacing credit approvals to provide the necessary investment levels, referred to as the HRA Revenue case;
- Large scale voluntary transfer – the new LSVT landlord can be either a housing association or local housing company, but is assumed to be in the private sector;
- Local housing corporations and quasi-corporations (the LHCo and LHQCo cases);
- PFI arrangements under a long lease from the local authority involving a change of landlord (and a consultation process similar to LSVT) – the PFI-Long Lease case; and
- PFI arrangements where the local authority remains as landlord and the private sector provides the full range of housing management, repair, maintenance and investment services, referred to as "Super Voluntary Competitive Tendering" or the PFI-Super VCT case.

303 We have looked for options that represent long term whole stock solutions to the problem of investment in council housing, and have assumed that the full investment required is made under each one.

304 Because we have assumed that PFI solutions will apply to the whole of an authority's stock, there are some consequences for the treatment of PFI payments and charges, which are set out in paragraphs 340-375 below.

Illustrative stock and the Base Case

305 We have developed an illustrative local authority HRA stock using a combination of DETR and national survey information as set out in Appendix 2, and representing the "average" local authority situation. We have also developed a set of assumptions for a "base case" scenario, which includes projections for key items such as rents, investment in the stock and HRA Subsidy. These are set out in Appendix 3. We use the "average" stock and the base case scenario to illustrate the financial effects of the

various ownership and investment options that are described in the following paragraphs.

306 In summary, the illustrative stock consists of 10,000 homes with average rents of £41 per week, management and maintenance costs of £980 per annum, and an average debt of £6,200 per unit. The investment requirements are £2,400 for catch-up repairs and a further £2,700 for improvements, in addition to ongoing elemental renewals. However, we have assumed that if the investment in these major works is made, then revenue repair and maintenance costs can be reduced as argued in the previous chapter.

307 For HRA Subsidy purposes, notional rents have been set initially at £1,875 per annum (£36.06 per week), while Management and Maintenance Allowances amount to £880 per annum. Taken together with the actual HRA assumptions, the base HRA generates revenue contributions to capital outlay to the extent of approximately £150 per unit in year one, in line with recent experience.

308 The Scottish housing subsidy system is materially different from that in England and Wales in so far as Housing Support Grant (the equivalent of housing element subsidy in the English and Welsh systems) is non-negative. That is, there are no "local contributions to housing benefit" and each authority receives the full amount of housing benefit payments from central government. This is in stark contrast to the situation in England and Wales where the vast majority of HRAs make these local contributions to housing benefit, to a total of approximately £1.4 billion in this financial year.

309 Our set of "average" UK HRA assumptions accommodates this difference, as does our base case scenario for projecting the options (described above and in Appendix 3) where the local authority retains ownership of its housing stock. This is because our base case projections do not involve rent increases above government guidelines (in the English and Welsh systems) so that there are no further losses of housing benefit subsidy.

310 The "average" HRA stock described has a positive Tenanted Market Value (TMV) of some £2,400 per unit compared to the average unit debt of £6,200. In order to illustrate different financial circumstances we have also calculated the public expenditure effects of two variants from the average where:

- TMV is in excess of debt: constructed by assuming debt of £3,000 per unit and two-thirds the backlog investment requirement; and
- TMV is negative: constructed by assuming catch-up repairs and debt of £10,000 per unit.

HRA Capital

311 The obvious first option, HRA Capital, is that the council remains as landlord and is allowed to borrow the money needed to deal with the investment backlog. This is modelling by assuming that credit approvals are increased so that, together with revenue contributions, they permit the full extent of investment required. At the same time as the investment programme is implemented, the actual and notional HRA repair and maintenance costs are reduced as noted above.

312 Over the 10-year initial investment programme, we have assumed that local authority rents are increased to "harmonise" with housing association rents, reflecting the value of the increased amenities offered by the improved stock. The total real increase in HRA rents over the 10-year period is some 17%, reflecting the approximate current differential between council and housing association rent levels. Initially, 65% of HRA rents are met by housing benefit (HB), and this increases over the 10-year investment period to 70%, the HB proportion assumed to apply to housing association rents. Housing association rents are assumed to remain static in real terms throughout.

313 We have assumed that for English and Welsh authorities these rent increases are at guideline levels, so that each authority receives full housing benefit subsidy on the increases from central government. Thus the rent increases of tenants in receipt of HB are met by central government as in Scotland, not by other tenants, as is currently the case with increases above guideline in England and Wales. As a consequence of these assumptions, both the rent rebate and housing elements of HRA Subsidy increase while the 10-year investment programme is implemented.

HRA Revenue

314 If government were to keep council rents static for subsidy purposes, whilst allowing councils to increase their actual rents as in the HRA Capital option, the surpluses generated could be used to help finance the investment needed. This is the basis of the HRA Revenue option. In the long term, the majority of the investment could be funded this way.

315 The surpluses are used to increase revenue contributions to capital outlay (RCCOs), and credit approvals are increased to provide the remainder of the full investment requirement. Thus, compared to the HRA Capital option, less credit approvals are needed for the same level of investment.

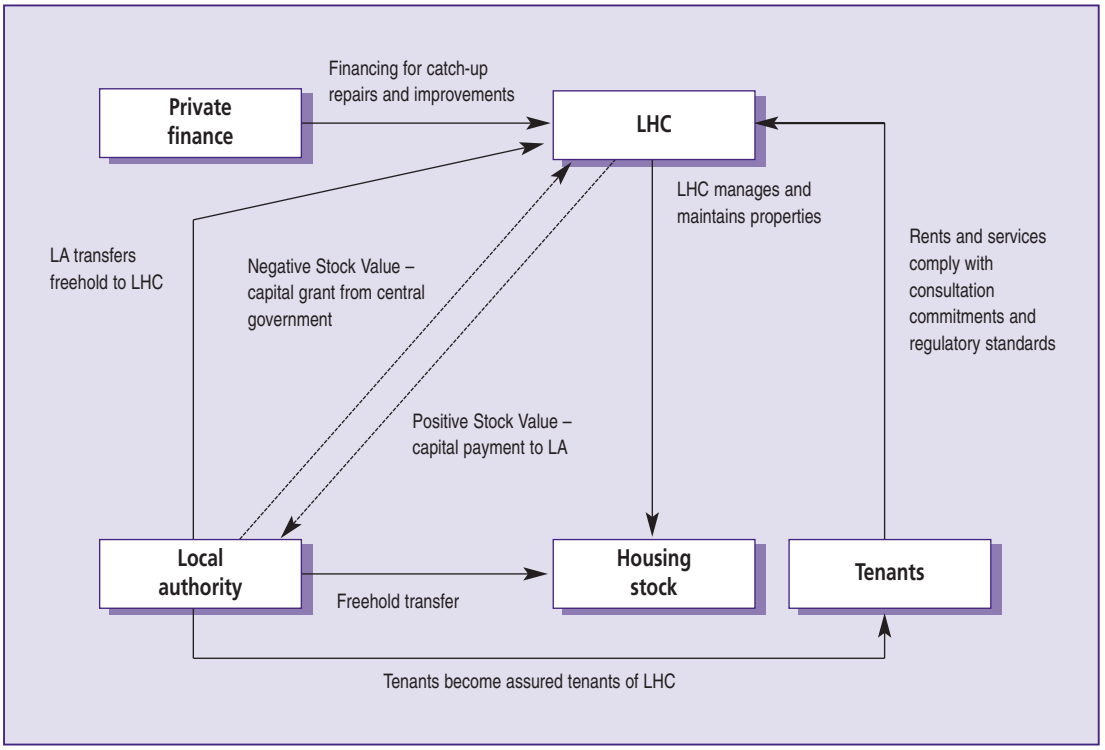
316 The effect is to switch funding of the investment programme from borrowing to revenue, with consequent reductions in interest payments and public expenditure costs. However, this is dependent upon the comparatively higher level of HRA subsidy payments from central government to the HRA not in themselves incurring central government borrowing and interest payments.

Large Scale Voluntary Transfer (LSVT)

317 Under present rules, stock transfer works because the new landlord operates outside the public sector and its borrowing does not count as public sector debt. This option is a standard large scale voluntary transfer (see figure 1), and we have assumed whole stock transfer to a new landlord, whether this is a housing association or local housing company being immaterial to the financial analysis. The important distinction from local housing corporations and quasi-corporations is that the new landlord is a private sector body, not controlled by the public sector.

318 The assumptions are standard for LSVT, and the transfer price (based on Tenanted Market Value – TMV) is the net present value of operating surpluses discounted over a 30-year period at 8% per annum in real terms.

Figure 1



319 Rent levels for transferring tenants follow the pattern of HRA rents; that is, they increase in real terms over the 10-year investment period to harmonise with the higher level of housing association rents. As properties are re-let to new tenants, at an assumed rate of 5% per annum, higher rentals at the assumed housing association level are applied.

320 The investment in the stock and ongoing maintenance levels are as for the HRA, but with VAT applied.

321 We have assumed that management costs increase by 10% over the corresponding HRA levels. In our experience LSVT management costs tend to increase by between 15 and 20% over HRA levels. This generally reflects a number of factors:

- VAT applied to a range of non-staff costs;
- Diseconomies of scale where the new landlord is generally self-standing and does not share costs with other services which local authority HRAs are able to do; and
- Improvements in management services offered as part of the tenant consultation process.

322 Our 10% increase assumption reflects the first of these two points – i.e. VAT and diseconomies of scale – in order to represent an assumed common standard of housing management services as between local authority and housing association control.

323 Where the transfer price net of transaction costs is positive, we have adopted the latest DETR treatment of the receipt as set out in the guidance for applicants to the (English) Housing Transfer Programme 1999/00. That is, 20% of the amount of transfer receipt above debt is paid to central government as a transfer levy. Of the balance, the usable amount is the minimum of 25% or the excess over debt. We assume that any usable amount is spent evenly over the first four years following transfer.

324 Where the set-aside receipt is insufficient to redeem the whole of the housing debt, the residue is assumed to generate interest payments as a public expenditure cost, in common with the DETR model. Where the set-aside receipt is greater than the housing debt, we have assumed that the whole of the excess generates interest as a public expenditure saving. This is in contrast to the DETR model, which scores savings in the same way up to the level of the local authority's General Fund debt, but assumes that any excess over this is spent. Our implicit assumption is that the net transfer receipt is insufficient to redeem the whole of the local authority's debt.

325 We have assumed that new LSVT landlords will have charitable status and avoid Corporation Tax.

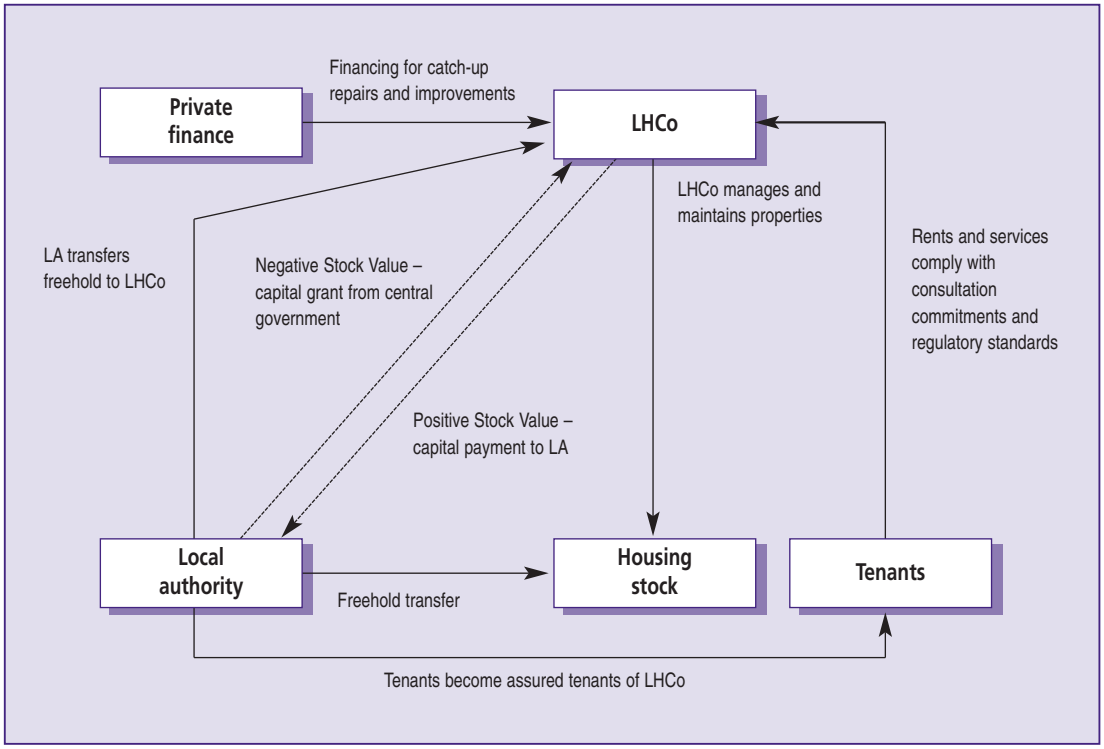
Local Housing Corporation

326 The local housing corporation option (LHCo) is that promoted by the Chartered Institute of Housing and described in the report *Challenging the Conventions* (Coopers et al, 1995.) A transfer process similar to that in LSVT is involved, including the mechanics of negotiating a transfer price and raising finance.

327 LHCos (see figure 2) would be local authority majority owned and controlled but would be separate legal entities (probably registered companies). They could have a mix of councillors, tenants and independent board members, and the mix could potentially be decided at local level.

328 Under present rules there would be no advantage to this as their borrowing would count as public borrowing. But the second part of the proposal was that the government moves away from the PSBR as its way of assessing public expenditure.

Figure 2



329 Instead the CIH proposed that more emphasis be placed on the General Government Financial Deficit (GGFD), the measure used most commonly in the rest of Europe and on which the criteria for European Monetary Union are based. This would pave the way for the government to give more financial freedom to bodies such as local housing corporations, which do not fall within the scope of GGFD.

330 Following the publication of the Chancellor of the Exchequer's *Economic and Fiscal Strategy Report* and the Deputy Prime Minister's statement on *Housing and Regeneration Policy*, as part of the outcome of the Comprehensive Spending Review, it is apparent that this approach to investment has been rejected, at least for the time being.

331 While the *Housing and Regeneration Policy* statement expresses interest in local housing corporations as a means of separating authorities' strategic and landlord roles and helping to improve effectiveness, it also states that such organisations would be subject to normal public sector borrowing constraints. While the CIH would still prefer local housing corporations to be free from these constraints, the Institute has expressed interest in developing the local housing corporation model in line with this policy.

332 There has been some debate as to whether, under the LHCo option, rents should be increased on re-letting to new tenants. While we have assumed that they will not be, the difference will be relatively small. This is because transferring tenants' rents are at housing association levels by year 11, so that the overall rent difference applies to the minority of stock that is re-let over the first 10 years only. Apart from this one difference the LHCo cash flows are the same as those applying to LSVT.

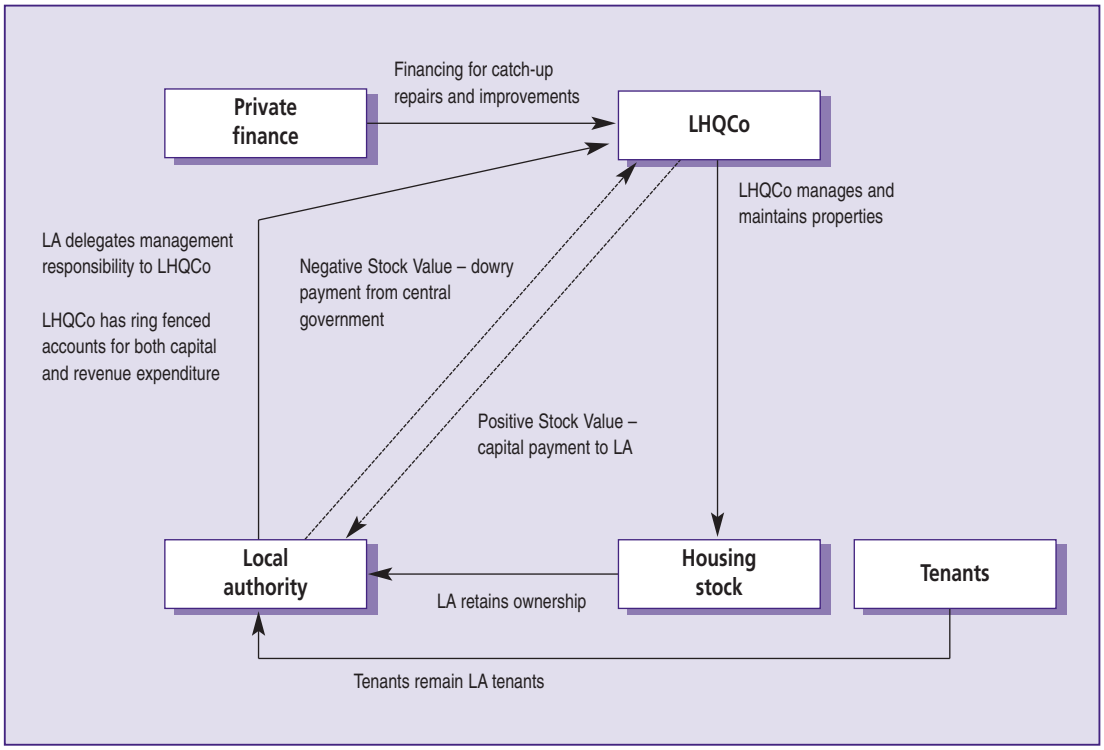
Local Housing Quasi Corporation

333 The local housing quasi-corporation (LHQCo) is the model for future ownership and investment in council housing put forward initially by the CIH in *Challenging the Conventions* but developed more recently by the LGA in their report *A New Financial Framework for Local Authority Housing* (LGA, 1997.) The option involves the local authority establishing the quasi-corporation as a part of its own structure, ring fencing both capital and revenue expenditure and delegating management of the housing stock to a special board.

334 The LHQCo (figure 3) would raise loans for investment and debt redemption against future net rent income. In our Interim Study, and following early discussions with the LGA, we assumed that the LHQCo would thereby re-finance the housing stock, with a net receipt to the local authority where the funds raised exceeded investment and debt redemption needs. In high investment cases, a dowry would be needed together with continued government subsidy on unredeemed debt.

335 We also assumed in our Interim Study that 25% of the receipt would be usable and that, in common with the LHCo model, investment in the stock would be made on the basis of credit approvals, much as in the HRA Capital option. Subsequent discussions with the LGA indicate that the intention is not to generate any usable capital receipt, and that full credit of housing benefit payments from central government would reduce the need for credit approvals.

Figure 3



336 In this Final Report we have, therefore, re-configured our financial models in relation to credit approvals, but have retained usable receipt calculations (reflecting the re-introduction of the transfer levy and set-aside rules) in order to facilitate comparisons between the LHQCo, LHCo and LSVT options. However, this highlights the fact that a comparison of the performance of the models using the PSBR is limited. Factors that differ between the options, such as the benefits produced by usable receipts and residual debt at the end of the evaluation period, are not taken into account. We deal with this issue further in chapter 4.

337 The LGA has argued that the organisational and governance arrangements outlined above should enable the quasi-corporation to be classified as a corporation, and for it to escape the GGFD public expenditure measure in a similar way to the LHCo option. The government's response to the local housing corporation proposals, however, applies equally to quasi-corporations.

338 There is a further obstacle to the formation of quasi-corporations in relation to whether the local authority's delegation to the LHQCo's board, which is said by prospective funders to be necessary in order to raise the loans, is compatible with the Local Government Act 1972. The power for the local authority to grant such long term delegation appears to require changes in primary legislation. Whether this can be done is still under investigation by the LGA. In this study we have assumed that the obstacles can be removed.

339 In the local housing quasi-corporation case, while we have calculated the "transfer" price or dowry in the same way as for LSVT, in common with the LHCo model we have assumed that there is no rent increase on re-letting of the stock. We have also assumed that there are no diseconomies of scale in management costs, and that VAT is recovered. Apart from these factors, we have assumed that the cash flows of local housing quasi-corporations will be the same as those for LSVT.

Overview of PFI

340 Our final two options emerge from the government's Private Finance Initiative (PFI). Wide-ranging measures to promote the PFI in local government were brought into effect on 31 October 1996, and have been supplemented on several occasions since then.

341 The measures provide for complete or partial abatement of the need for credit cover for credit arrangements meeting certain criteria. The aim is that the contracts should be of the "design, build, finance and operate" (DBFO) type, referred to in the regulations as "private finance transactions". The term "build" may include refurbishment and extension of existing public sector assets.

342 The essential feature of such contracts is that they require the private sector contractor to assume a significant part of the risk for the performance of the asset over its useful life. This is so that the investment does not count as public expenditure and efficiencies from long term asset management can be realised. The Local Authorities (Capital Finance) Regulations 1997, as amended, set out definitions of private finance transactions and, in particular, the DBFO scheme details.

343 The normal DBFO route involves the private sector organisation providing the local authority with the use of an asset and associated services in exchange for an index-linked annual charge. Payments are performance related, and to ensure sufficient risk transfer to the private sector contractor, broadly, the minimum payment without there being a breach of contract must be 20% or more below standard performance. The PFI provider will be a separate legal entity, and in many PFI situations a new organisation, a Special Purpose Vehicle (SPV), has been set up as the PFI provider. We have used this terminology in our report.

344 In the case of housing, the service might be new houses, improved houses or their management and maintenance, or any combination of these. The risks taken on by the PFI provider are reflected in the PFI contract with the local authority. Typically they would include delivering new provision or refurbishment programmes to schedule, variations in the cost of works and services, financing, changes in third party income (resulting, for example, from voids or arrears), and penalties for poor performance against the specification.

345 At the time of writing, the contract for the first new provision PFI scheme, in North East Derbyshire District Council, has been signed, and a number of others are at various stages of development.

346 Although the Capital Finance Regulations now permit the use of PFI in the refurbishment of council housing, there is no general access to the government support needed to help pay for PFI charges. Two pilot schemes currently have indicative government financial support, both for improving energy efficiency in council housing, at Manchester and Tower Hamlets.

347 If, as seems likely, the government says "yes" in principle to providing subsidy for PFI council house improvement schemes, much work will still be needed. This will include satisfying risk transfer tests to ensure that the investment does not count as public spending, showing that private finance can actually be raised, and gaining the

confidence of councils and tenants that PFI models can both be accountable and ensure a good service.

348 In our study we assume that these obstacles can be overcome. We look at two PFI options that offer alternative approaches to investment in council housing. These involve either a long lease on the stock granted by the local authority, or else a PFI service contract covering a range of housing investment, maintenance and management services while the stock remains in full local authority ownership.

349 These options together with new provision PFI mechanisms have also being considered in a parallel study undertaken by the "4Ps" – the Public Private Partnerships Programme, the body set up by the LGA to promote public private partnerships in local government. Their report *PFI and social housing – the potential for increasing private sector investment* (Public Private Partnerships Programme, 1998) describes the various models for both new provision and the refurbishment of existing social housing, and outlines the circumstances under which they might generate value for money for the public sector.

350 Under both the PFI options we have assumed that investment and maintenance costs will be the same as for the other options, although experience suggests that there could be significant savings from applying PFI principles and techniques. In contrast with our LSVT assumptions, we have assumed that the PFI provider is a profit-distributing organisation, and will only incur increases in its management costs in respect of VAT.

351 We have also assumed that profits will be at 5% of management costs and are subject to Corporation Tax. The cost of capital is assumed to be 7.5% per annum in real terms, reflecting discussions with the funding markets. The assumed profit level reflects experience with compulsory competitive tendering contracts. The cost of capital is higher than would apply to a housing association, because of banking regulations, the need for equity investment, and a likely initial perception, at least until experience is gained, that PFI carries more risk for lenders than LSVT.

In the Long Lease case, where the PFI provider is the landlord, taxable surpluses are calculated on the assumption that one third of expenditure on improvements is disallowable for tax computation purposes. This reflects the common inclusion under the heading of improvements of kitchen and bathroom refurbishment, where much of the expenditure is in fact the replacement of an existing facility.

352 We have assumed a 30-year PFI contract in order to spread capital repayments over a substantial period and to be comparable with the valuation period for LSVT. In the Long Lease case the properties are assumed to revert to the local authority at nil cost. The PFI provider's cash flows are calculated on these assumptions, with loans being paid back over the contract period.

353 The PFI has been pursued so far where there is a charge for the service to the public sector. To date there have been no HRA PFI schemes, and the treatment of them is under review by government, as noted in its statement on *Housing and Regeneration Policy*.

354 In some scenarios under the PFI-Long Lease option, the calculation of the PFI charges results in a payment from the private sector to the HRA. This arises where the rents

and condition of the stock, and therefore the extent of catch-up repairs, major repairs and improvements, are such that the housing stock generates a positive value for the PFI provider's cash flows.

355 In other cases, typically where the works of repair and improvement are more extensive, a negative value for the PFI provider's cash flows is derived. In these circumstances, the local authority must make a payment to meet those costs not covered by rents.

356 We have sought whole stock PFI solutions to facilitate the comparison with the other options. This has implications for the treatment of the PFI payments, which are dealt with separately for our two PFI options in the sections below.

PFI-Long Lease

357 Under long lease arrangements, tenants become assured tenants of the PFI provider, and we have assumed that the same rent levels for transferring and re-let tenancies as under LSVT would apply. Transferring tenants would also have preserved rights upon transfer, which under current legislation would be subject to the same transfer regulations as for LSVT.

358 The PFI provider would have to be independent of the council, as in LSVT, and the lease would be subject to a contract specifying performance requirements. At the end of the lease the houses would transfer back to the council at nil cost, having been maintained to a reasonable standard.

359 The current view from DETR is that, where there is a change of landlord, then in order to protect tenants' rights and services, the new landlord should be a housing association, regulated (in England) by the Housing Corporation. This would mean a housing association being involved solely or in partnership with other organisations as the PFI provider.

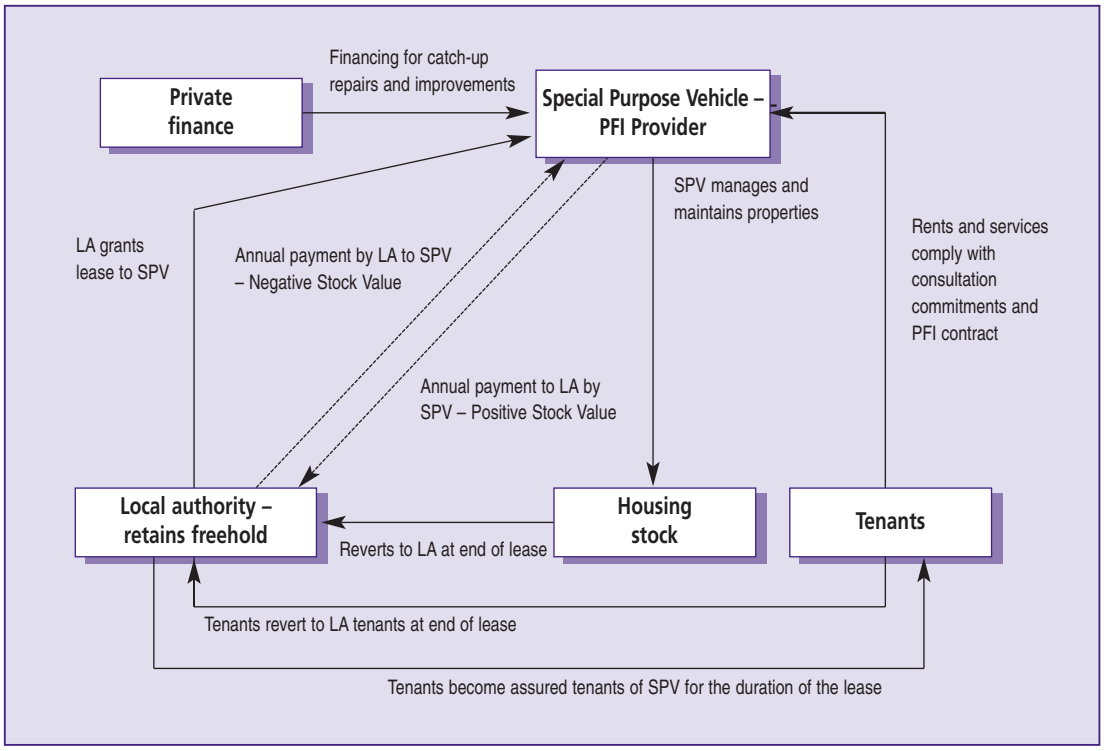
360 In our whole stock PFI-Long Lease scenario (figure 4) the HRA will have no assets generating income, and, apart from charges for capital, little expenditure other than housing strategy and contract monitoring costs. A lease of more than 21 years would rank as a disposal, so that the corresponding notional HRA would have no entries for Management & Maintenance Allowances, housing benefit or notional rent. Furthermore discussions with DETR indicate that under normal PFI payment arrangements, any receipts should count as revenue rather than capital.

361 If such leases were entered into, we think that the General Fund should not bear any charge or gain any benefit as a result. In our financial analysis we have, therefore, assumed that payments to or from the PFI provider should be accounted for in the actual HRA and should also count for HRA subsidy purposes. These arrangements could require changes in legislation.

362 The option is based on the following assumptions:

- Where there is a PFI-Long Lease payment to the local authority, it is treated as a revenue receipt in both the actual and notional HRAs;
- Where there is a PFI-Long Lease charge to the local authority, it is treated as revenue payment from the HRA and is admitted for HRA subsidy purposes.

Figure 4



363 In our financial modelling we have ignored any remaining HRA management costs that might be generated through, for example, the strategic housing role and contract monitoring arrangements. While we have used a 30-year contract for comparison with the other options, actual contracts could be much shorter. This is particularly important since, as already noted, a lease of more than 21 years would rank as a disposal, producing difficulties in the accounting treatment of PFI charges.

364 We have also assumed that the PFI provider pays VAT on bought in goods and services, but is not able to reclaim this where a charge is made to the local authority. In public expenditure terms, if not reclaimed the VAT payments form an income stream to the Exchequer, while if reclaimed they would reduce the charge to the local authority. The difference between the two will therefore depend upon the PFI provider's cost of capital compared with the discount rate used for public expenditure measures (currently 6% per annum in real terms), and is likely to have a marginal effect. However, it will make a significant difference to the PFI provider's cash flows and the potential charge to the local authority itself, and is an issue that needs to be resolved in any real situation.

365 Ownership of the PFI provider would be at arm's length from the local authority and outside its control. Accountability to the local authority would be set out in the PFI contract, which would specify service standards and penalties for non-performance.

366 As with LSVT, any staff transferring as part of the PFI arrangements from the local authority to the PFI provider would be subject to the TUPE regulations.

367 We believe that the long lease PFI option should have no difficulty in passing the risk transfer criteria, as the risks involved for the provider are at least as great as the new landlord's under LSVT.

368 We also believe that funding should be obtainable on the security of the properties and the service contract. This will of course be subject to normal commercial lending criteria. These will include lenders being comfortable with governance arrangements, the business skills and experience of the management team and the risks faced by the PFI provider: for example, the likelihood and extent of the non-performance penalties in the PFI contract.

PFI-Super VCT

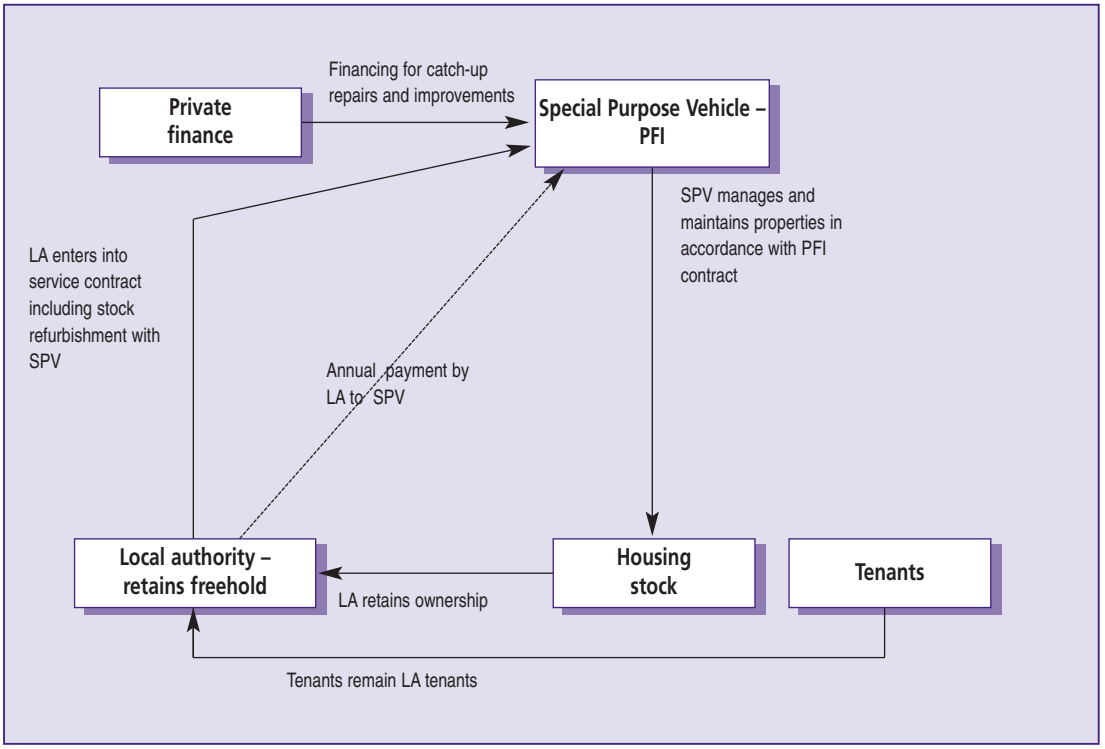
369 A more imaginative PFI model involves the council retaining ownership of the stock with the tenants remaining as secure council tenants. The council sets up a PFI contract, on a similar basis to the contracts set up under voluntary competitive tendering (VCT), including the improvement and maintenance of the stock.

370 Under this "Super VCT" or "service contract" option (figure 5), the PFI provider raises the investment which would otherwise have to be found by the council, and this is reflected in the payments it receives. These payments would have to include a substantial performance element to satisfy the PFI risk transfer requirements.

371 To meet risk transfer criteria, we have assumed in our modelling that the scope of the contract would include housing management as well as improvement and maintenance (hence the term "Super VCT"). In practice it may be possible to transfer sufficient risk through the improvement, repair and maintenance functions, with housing management retained in-house.

372 The HRA receives the rent income, possibly collected by the PFI provider. Rents do not increase on re-letting. Housing benefit and capital charges are met from the HRA,

Figure 5



but the HRA's management and maintenance costs are minimal, as for the PFI-Long Lease model. The authority does not use credit approvals as the PFI provider meets outstanding capital investment requirements, and capital charges reduce over time as minimum revenue provisions reduce the housing debt.

373 The PFI provider's expenditure cash flows are precisely the same as the PFI-Long Lease. However, there is no rent income as tenants remain tenants of the local authority. The only income is from the PFI charge to the local authority, which we have assumed attracts VAT, reclaimed by the local authority.

374 The PFI charge is separated into capital and revenue streams that are met in full from the HRA. The capital part of the charge is assumed eligible for HRA subsidy, which meets this together with capital charges, Management and Maintenance Allowances and eligible housing benefit costs net of notional rents. The rent rebate subsidy limitation is assumed to remain in force.

375 The revenue part of the PFI charge is therefore met from Management and Maintenance Allowances and, if required, from budgets otherwise available for RCCOs. As in the Long Lease option, we have ignored any residual HRA management costs. If present they would also need to be met from Management and Maintenance Allowances or RCCO budgets.

4 Financial analysis

Interim Report findings

401 Our Interim Report showed that in terms of the cost to the public purse:

- LSVT and the PFI options demonstrate lowest cost as measured by the PSBR;
- Local housing corporations rank with these options if we measure public expenditure through the General Government Financial Deficit; and
- The HRA options show better value for money if we measure "resource costs" ignoring the level of public sector debt.

402 This outcome emphasised the need for government to clarify how investment in social housing is to be measured for public expenditure purposes. Clearly most local authorities and tenants would prefer either to maintain the status quo or to establish majority-owned local housing corporations if adequate investment was available under these options.

Comprehensive Spending Review

403 Since our Interim Report was published last April, the results of the government's Comprehensive Spending Review have been published. Most important for social housing are:

- The Chancellor of the Exchequer's *Economic and Fiscal Strategy Report*; and
- The Deputy Prime Minister's statement on *Housing and Regeneration Policy*.

The following paragraphs identify the key issues for our study.

404 Although the *Economic and Fiscal Strategy* does not embrace the radical changes to public expenditure control for which the Institute was arguing, the report emphasises the importance of distinguishing between current and capital expenditure, and sets out twin criteria by which government will control public spending. These are:

- "The Golden Rule": where over the economic cycle borrowing should not be used to fund current (i.e. revenue) expenditure. This will be measured by the surplus on the current budget – the difference between current receipts and current spending; and
- Public sector debt: where control will be exercised through restraining the net public sector debt as a proportion of Gross Domestic Product (GDP), and public sector net borrowing – the extent to which net investment is not financed by current budget surpluses.

405 It can be seen that the current budget surplus/deficit is a measure of the implications of public spending on taxation, and that the more efficiently a public service is procured/provided, the smaller any deficit will tend to be.

406 Using the net public sector debt to GDP ratio and the public sector net borrowing (PSNB) requirement to control public spending will tend to favour those options

where any borrowing is private sector. While the PSNB requirement replaces the PSBR (re-titled the Public Sector Net Cash Requirement), we understand that for the various options we consider the two measures capture the same effects. We have, therefore, continued to refer to the PSBR.

407 Turning to the statement on *Housing and Regeneration Policy*, we see that:

- While the government is honouring its election commitment to release set-aside housing receipts, this is the extent of additional investment over the previous government's plans. The effect is to reinstate the level of local authority housing capital availability to that of the mid-1990s by the end of the current government's term. It is apparent that borrowing considerations remain of significant if not paramount concern.
- LSVT is to continue, and budgets for it are set to more than double. While the Estate Renewal Challenge Fund is to cease, negative value estates may be tackled through the New Deal for Communities programme. As the statement notes "It (LSVT) gives local authorities the scope to ... lever in significant private investment where they consider it sensible to do so – and where tenants agree."
- New ways of promoting public/private partnerships in social housing are being examined, presumed to be a reference to PFI. Pathfinder schemes are to be developed once "a consistent approach to costing the various options" has been established.
- Local authority-controlled companies or corporations will continue to be examined. However, these are seen as beneficial in separating authorities' strategic and landlord roles, rather than enabling freer access to investment finance. As the statement says: "such companies would be subject to normal public sector borrowing constraints."
- Real increases in local authorities' rents (similar to those we have assumed) have been announced for the next three years. However, we must await the report on housing benefit within the welfare reform process for the government's views on long-term rent policy for the social housing sector.

408 These statements apply to England only. In Scotland a total increase of £319 million will be available for housing, and stock transfer is being encouraged under the "New Housing Partnerships" initiative. While additional "released receipts" are expected for Wales, authorities there are also being encouraged to review their strategic options and to consider LSVT.

Cost to the public purse

409 We have been involved in discussions with DETR and the Treasury on the appropriate public expenditure measures to be applied to the various housing investment options. However, as noted in the statement on *Housing and Regeneration Policy*, a consistent approach to costing the options is currently under development.

410 For the purposes of this study, we have sought to make public expenditure assessments that reflect the Chancellor of the Exchequer's *Economic and Fiscal Strategy Report* with its twin emphasis on taxation and debt. We have therefore measured the effects of the housing investment options described in chapter 3 using the PSBR and have also developed a "current budget impact" measure that we have referred to as the Public Sector Net Current Cost (PSNCC).

411 The cash flows captured by the PSBR are in line with DETR guidance for housing transfer options, and Appendix 5 sets out the particular financial effects captured by our Public Sector Net Current Cost measure. Broadly, the difference between the two is that the PSBR scores public sector capital receipts/borrowings (including repayments of principal) in terms of their effect upon the level of public sector debt in the year of receipt and their consequent effect on debt charges. Our Public Sector Net Current Cost measure captures the effects of capital receipts/borrowings upon debt charges but does not score their impact upon the level of debt itself.

412 For example (and ignoring the effects of principal repayments, etc), borrowing £1 million at an interest rate of 10% pa is scored in the PSBR as a cost of £1m plus £100,000 pa interest. Our Public Sector Net Current Cost measure counts the cost of the interest only, i.e. the current or revenue effects of the debt.

413 In measuring the costs to the public purse of the options we are conscious of the fact that we are measuring and comparing "regimes" rather than undertaking a strict economic appraisal. We have therefore taken two further factors into account:

- The spending of usable receipts produces public sector benefits, and we have re-calculated the PSBR and PSNCC costs of the options in the case that all receipts are set aside; and
- The options result in widely differing outstanding debt levels at the end of the 30-year term over which the financial effects are measured. Again we have re-calculated the measures and taken this into account by counting the net present value of the outstanding debt as a public sector cost.

414 There are other financial effects that could also be measured, although in a less clear-cut way. For example, the fact that actual LSVT borrowing rates are less than the 8% pa real rate used to calculate TMV produces surpluses in LSVT business plans. However, while these surpluses may only be used to further the housing association's objects, the extent to which they should be counted as a public sector benefit is debatable. Similar considerations apply to the LHCo and LHQCo options.

415 These uncertainties have led us to focus on the better-defined financial effects, and the tables below show the PSBR and PSNCC effects of the models, including the variations if all receipts are set aside and if the outstanding debt is counted.

Table 2: Evaluating the Options: PSBR Costs per Unit – Base Case Stock

Option	PSBR	PSBR – all receipts set aside	PSBR – receipts set aside & end debt counted
HRA Capital	£26,000	£26,000	£28,200
HRA Revenue	£23,800	£23,800	£24,700
LHQCo	£23,500	£23,500	£23,500
LHCo	£24,100	£24,100	£24,400
LSVT	£19,400	£19,400	£19,800
PFI LL	£19,600	£19,600	£19,900
PFI SVCT	£19,200	£19,200	£19,500

Table 3: Evaluating the Options: Public Sector Net Current Costs per Unit – Base Case Stock

Option	PSNCC	PSNCC – all receipts set aside	PSNCC – receipts set aside & end debt counted
HRA Capital	£17,900	£17,900	£20,100
HRA Revenue	£19,500	£19,500	£20,400
LHQCo	£22,100	£22,100	£22,200
LHCo	£21,500	£21,500	£21,900
LSVT	£21,500	£21,500	£21,900
PFI LL	£20,800	£20,800	£21,000
PFI SVCT	£20,300	£20,300	£20,600

Note these tables reflect the changes made to the LHCo and LHQCo models outlined in Chapter 3.

416 Unsurprisingly, when measured using the PSBR the private finance options of stock transfer and PFI offer significantly lower costs to the public purse. While if our Public Sector Net Current Cost is used – our measure of the impact upon taxation – the HRA options are clearly least cost.

417 However, the costs are much closer once usable receipts and residual HRA debt differences are taken into account. While the LSVT, LHCo and LHQCo options as a group still give higher costs than the HRA and PFI models, accounting for the surpluses generated by these options in later years (see paragraph 414) would reduce the gap.

418 Appendix 5 shows the public expenditure effects of the base case options as measured by the PSBR and their tax effects (i.e. the PSNCC measure). It illustrates the first five years of the cash flows included, followed by years 10, 20 and 30, and their net present values.

419 Our Interim Report set out a detailed analysis and comparison of the behaviour of the various options in financial terms, and reference to the cash flows in Appendix 5 will enable a similar analysis of the revised measures and models described there.

420 Some points to bear in mind are:

- Under the PSBR the HRA Revenue option comes out cheaper than the HRA Capital option because of the way borrowing costs are counted in the PSBR;
- The local housing corporation and quasi-corporation PSBR costs are in line with the HRA options. However, their tax implications are greater primarily because of the assumed cost of capital/discount rate and "end debt" differences;
- Measured under the PSBR, stock transfer performs well because of the now well-established advantage that capital spending is outside the PSBR, although housing benefit costs rise;
- Compared with transfer, the main advantages of the PFI options are assumed lower spending on management and the absence of any usable receipt. However, PFI schemes in other areas have resulted in building works savings over traditional procurement methods – a factor that we have not taken into account; and
- Measuring Public Sector Net Current Costs, the HRA options, particularly HRA Capital, are least cost. However, once residual debt and usable receipt differences

are taken into account, there is little difference between the options. Taking into account the future surpluses generated by the "transfer" options of LHQCo, LHCo and LHC would further reduce their comparative costs.

421 The following tables show the PSBR and PSNCC measures for the options applied to a high value/low debt stock and a low value/high debt stock.

Table 4: Evaluating the Options: PSBR Costs per Unit – High Value/Low Debt Stock

Option	PSBR	PSBR – all receipts set aside	PSBR – receipts set aside & end debt counted
HRA Capital	£19,800	£19,800	£21,700
HRA Revenue	£17,100	£17,100	£17,500
LHQCo	£22,100	£18,400	£18,400
LHCo	£21,100	£18,500	£18,500
LSVT	£14,200	£11,500	£11,500
PFI LL	£14,500	£14,500	£14,700
PFI SVCT	£14,100	£14,100	£14,200

Table 5: Evaluating the Options: Public Sector Net Current Costs per Unit – High Value/Low Debt Stock

Option	PSNCC	PSNCC – all receipts set aside	PSNCC – receipts set aside & end debt counted
HRA Capital	£12,500	£12,500	£14,400
HRA Revenue	£14,300	£14,300	£14,600
LHQCo	£19,700	£17,800	£17,800
LHCo	£18,600	£17,200	£17,200
LSVT	£18,600	£17,300	£17,300
PFI LL	£15,100	£15,100	£15,200
PFI SVCT	£14,600	£14,600	£14,800

Table 6: Evaluating the Options: PSBR Costs per Unit – Low Value/High Debt Stock

Option	PSBR	PSBR – all receipts set aside	PSBR – receipts set aside & end debt counted
HRA Capital	£40,100	£40,100	£42,800
HRA Revenue	£37,900	£37,900	£39,300
LHQCo	£37,000	£37,000	£37,800
LHCo	£34,500	£34,500	£35,300
LSVT	£30,500	£30,500	£31,300
PFI LL	£29,600	£29,600	£30,100
PFI SVCT	£29,100	£29,100	£29,500

Table 7: Evaluating the Options: Public Sector Net Current Costs per Unit – Low Value/High Debt Stock

Option	PSNCC	PSNCC – all receipts set aside	PSNCC – receipts set aside & end debt counted
HRA Capital	£27,500	£27,500	£30,300
HRA Revenue	£29,100	£29,100	£30,500
LHQCo	£31,100	£31,100	£31,900
LHCo	£30,400	£30,400	£31,300
LSVT	£30,500	£30,500	£31,300
PFI LL	£31,400	£31,400	£31,900
PFI SVCT	£30,900	£30,900	£31,300

422 In the high value stock, LSVT out-performs other options on PSBR costs if usable receipts are taken into account as a benefit. This reflects the weight that the PSBR gives to reducing public sector debt and to capital receipts. However, if usable receipt benefits are ignored, the PSBR benefit of LSVT against PFI is marginal.

423 When measuring the PSNCC of the high value stock the HRA options are least costly, closely followed by PFI once residual debt is accounted for.

424 In the low value stock, the PFI options have least PSBR cost. In this case the effect of the LSVT dowry payment and the absence of any receipt to reduce debt makes LSVT cost more than PFI, again reflecting the effect of debt in PSBR calculations.

425 While the HRA options still have least PSNCCs, once usable receipt and residual debt differences are scored, all options produce very similar effects.

The "do minimum" option

426 Within the above analysis the PSBR costs of the least cost options in the base case, representing the average HRA, approach £20,000 per council home. This covers the cost of the initial refurbishment programme, ongoing management, maintenance and elemental renewal, and servicing the existing debt. It is difficult to see whether this represents good or poor value for money without some yardstick against which to judge it. To provide this we have calculated the PSBR cost of a "do minimum" option.

427 This "do minimum" option assumes that sufficient investment is provided only to remedy the repair backlog identified in the various national stock condition surveys of £2,400 per dwelling, together with ongoing investment at the government guideline of £500 per dwelling per annum to secure lettability. At this minimal level of investment the savings in maintenance spending assumed under full investment would not be realised, and it would not be reasonable to increase rents above current levels in real terms.

428 Using these assumptions we have calculated the PSBR cost of investing in stock retained in council ownership and using traditional public sector borrowing – the HRA Capital option. This produces a PSBR cost of £22,200 per unit (£23,700 if

residual debt is taken into account). This is considerably more than the private finance options of LSVT and PFI, and we can see that full investment in the stock using a mix of HRA retention, LSVT and PFI vehicles could result in lower overall PSBR costs than the "do minimum" case.

429 Examining the PSBR cost table at paragraph 415 indicates that a move towards the HRA Revenue option with LSVT and/or PFI solutions covering a third to a half of the stock could achieve full investment within the "do minimum" PSBR cost. If there is value in separating the strategic and landlord roles, then the local housing corporation (or quasi corporation if *vires* issues can be overcome) could replace the HRA models. It therefore appears to us that, as measured by the PSBR, the private finance solutions offer opportunities to provide the full investment required to bring council housing up to modern standards *within the likely cost that government must meet in any event*.

Summary of financial analysis

430 It is apparent that, for the immediate future, achieving the Chancellor's targets for the public sector debt ratio will mean constraints on investment and a probable emphasis on the PSBR. However, if in future borrowing becomes of less concern and taxation implications predominate, then our Public Sector Net Current Cost measure indicates that HRA investment options may become more attractive in some circumstances.

431 Under the PSBR, the private finance options of LSVT, PFI-Long Lease and PFI-Super VCT are superior in reducing public expenditure. This is to be expected as a consequence of their borrowings not scoring under it.

432 However, the PSBR impact of these options is considerably less than that of a "do minimum" scenario, which provides sufficient investment under HRA ownership to keep homes lettable but not to modernise them. This indicates that a strategy that mixes HRA and private finance options is capable of providing full investment within the "do minimum" PSBR cost.

We return to these issues in chapter 6.

433 Although the component cash flows of the three private finance options are different, they all score similarly under the PSBR in 30-year NPV terms. This is because the business plan cash flows of the service providers are all similar in terms of their expenditure patterns (net of VAT), and the rental incomes are also similar, albeit that the Super VCT option's income accrues to the HRA. This is largely to do with our assumptions. On the one hand those concerning management costs and the cost of capital/discount rates favour the PFI options; on the other, the fact that LSVT generates a capital receipt, as opposed to PFI revenue charge/payment streams, favours LSVT.

434 As noted above, the LSVT management costs have been assumed to increase by 5% before VAT on transfer, while the PFI costs have been assumed constant before VAT, and with 5% of management costs distributed in dividends each year. Removing the increased management costs from LSVT, but retaining the dividend payments under

the PFI, reduces the LSVT PSBR cost to £20,200 per unit, a relatively small change and still more than the PFI options.

435 More significantly, reducing the LSVT discount factor to 6% per annum in real terms, nearer to LSVT landlords' actual cost of capital than the 8% used for calculating TMV, decreases its PSBR cost to approximately £18,400 per unit, less than the PFI options. This raises issues connected with the LSVT regime – the basis of calculation of the transfer price and the implications for lenders' security valuations.

436 We referred earlier to the twin criteria of risk transfer and "bankability" required for successful PFI projects. We have also noted that the PFI-Long Lease option appears to us to satisfy risk transfer criteria and, while requiring market testing, in many cases is also likely to produce "bankable" propositions. The Super VCT option, as well as requiring testing on "bankability", also requires more investigation in relation to risk transfer. This is because it would probably not carry rent income and long term demand risks to the same extent as LSVT and PFI-Long Lease options.

437 The statement on *Housing and Regeneration Policy* refers to developing pathfinder schemes for new public/private partnerships in social housing, which we assume will include piloting PFI for HRA refurbishment with either or both the Long Lease and Super VCT models. We hope that these pathfinders will explore the above issues.

438 Subject to schemes being able to satisfy Treasury criteria, it is clear that the PFI offers options to local authorities, which may sit alongside LSVT, as means of levering private finance into much needed HRA investment and at comparable PSBR costs.

Securing efficiency

439 Within what we might regard as a developing "mixed economy" of social housing provision, the government's greater emphasis on current costs also suggests changes. Current costs to the public purse are driven by the efficiency of the provider, including procurement, finance and operating costs. More efficient procurement, perhaps drawing on the findings of the Construction Task Force, and better managed operations will be expected by government whatever the particular option followed.

440 The private sector PFI Super VCT option involves full competition in the selection of provider, and can be expected to bring efficiencies in procurement and operation with it. However, it is clear that the LSVT and PFI Long Lease options need further consideration in relation both to reducing the discount factor used to determine the transfer price/PFI charge and how to secure future operating surpluses to maximum public benefit.

441 Within the public sector options, and in consultation with tenants, local authorities might set up local housing corporations to help establish specialist, focused housing management organisations. Here use of the full amount of rent income, including full housing benefit contributions from central government, could fund much of the investment required directly from revenue, helping to restrain public sector borrowing. Again, however, the cost of capital/discount factor will require careful consideration together with the use of future operating surpluses.

Improving the private finance regime

442 In addition to piloting the PFI, there are a number of changes that the government could make in order to improve public sector value for money, generate additional resources that could be available for housing investment, and remove disincentives to local authorities and their tenants in moving towards a private finance solution. These include:

- Considering the discount rate used for calculating TMV or, if funding considerations preclude or limit this, examining ways of securing that housing association surpluses produce the maximum additional social housing benefits.
- Addressing the situation where whole stock TMV is positive but less than debt. In these circumstances authorities in England have been prevented from pursuing whole stock transfers because decisions on the treatment of residual debt are outstanding, although in the latest guidance to housing transfer applicants DETR say they hope to resolve the situation.
- In the above circumstances authorities also gain no advantage for their General Funds to offset diseconomies of scale from the transfer and the short term impact of the local contribution to rent allowances. If operating at cap, authorities transferring their stock would have to make significant savings in their General Fund budgets as a result of transfer. Government should consider ways of easing these costs, perhaps through the General Fund Revenue Support Grant system, if it wishes to encourage such transfers.
- The transfer levy is being re-introduced for the 1999/00 English transfer programme. The government's receipts should be ploughed back into housing and could be used to fund pre-transfer works to assist transfer of otherwise negative value estates.
- In Scotland, where stock transfer is being vigorously encouraged, two of the main unresolved issues are the mechanisms by which residual debt will be dealt with and the means by which the community-based housing companies (which the government favours) will be regulated.
- In our experience, across Britain, one of the major barriers to authorities and their tenants pursuing transfer is its one-way nature and the prospect, albeit remote, that greater future capital availability will resolve investment difficulties. Together with the CIH, we have suggested previously to government that local authorities could own a "golden share" in local housing companies, giving them the right to repurchase the stock if they could afford to do so in the future (CIH, 1997.) Arguments that this would give the authority undue influence over the company's decisions could be negated by making repurchase subject to the agreement of the board and a ballot of tenants. Removing this obstacle would have the effect of facilitating many potential transfers and secure the stock investment needed.

5 Other assessment criteria

Introduction

501 Investigating particular circumstances where one of the private finance options performs better than the other in public expenditure terms is beyond the scope of this study. Indeed, DETR has commissioned research to undertake such analysis, the outcome of which may lead to restrictions on the choices available for particular councils or estates.

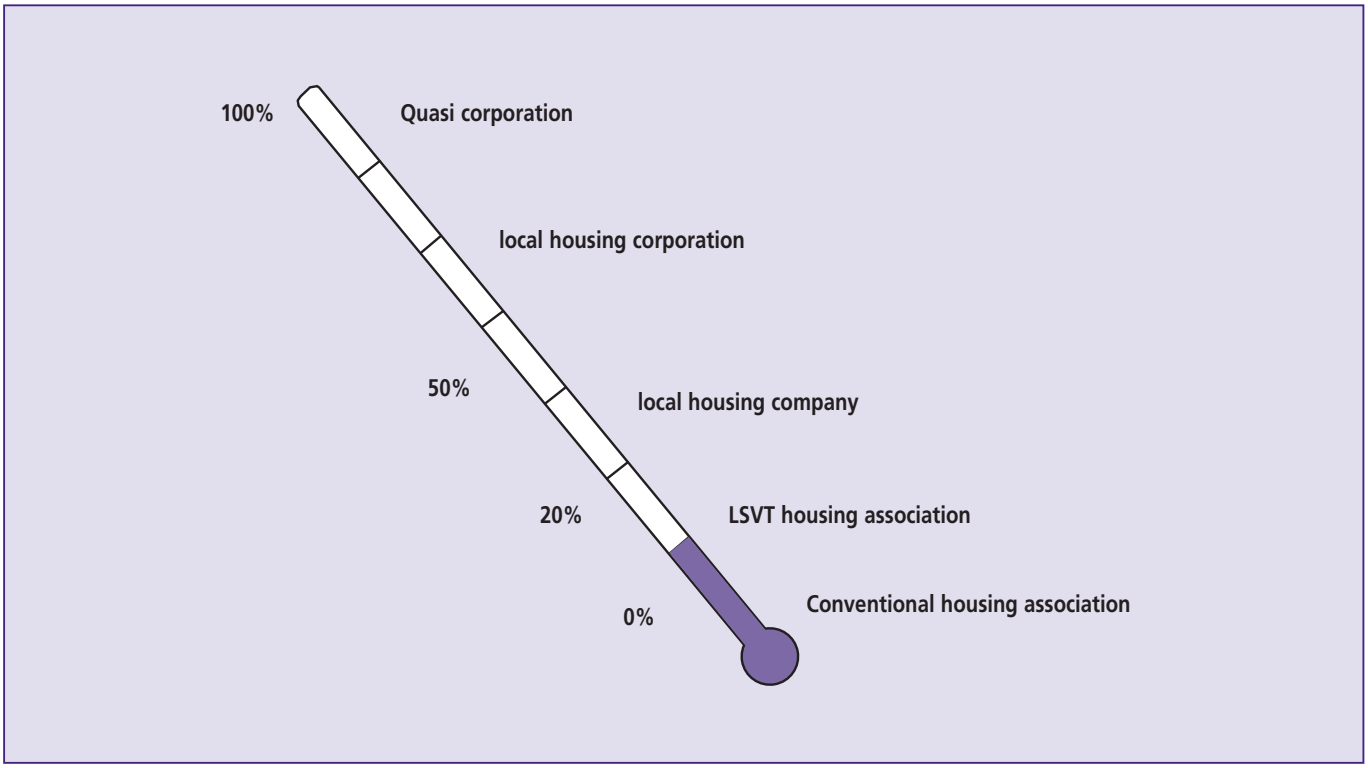
502 Setting this aside and assuming that choices are available, we have developed other criteria that councils and their tenants may wish to consider in comparing the options, as follows:

- Accountability and ownership of the housing stock;
- Flexibility to engage in wider regeneration activities and to adapt over time;
- Basis of tenancy ; and
- Impact upon the local authority.

Ownership and accountability

503 Most local authorities and their tenants are likely to feel more comfortable with least transfer of ownership to the private sector. Figure 7 illustrates the degree of local authority ownership permitted under the different options that we have considered.

Figure 7: Council representation on the board of the new organisation



504 Other matters being equal, the options that preserve the HRA, including quasi corporations and Super VCT, are likely to be most favoured by councils and their tenants. There are, however, some additional points to note:

- The stock transfer (including the corporation model) and PFI options all allow tenant representatives to act as owners/directors, whereas the HRA and quasi corporation options do not. Indeed, the "norm" for LSVT now is that local authority and tenant ownership should together amount to two thirds of the total, offering a form of community accountability. We note that it could be difficult for PFI vehicles to accommodate similar levels of community ownership as equity investment will probably be needed and investors will want to retain majority control.
- The PFI options offer control of services by the local authority through long-term contracts. By contrast, LSVT offers only very limited local authority control of services through the transfer contract, replacing it with regulation by the Housing Corporation (and its equivalents in Wales and Scotland). Local authorities and tenants may prefer the closer control offered by PFI options, although flexibility of the service specification will need to be built in to cater for almost inevitable changes in legislation, standards and expectations over the contract term.

Flexibility

505 In many ways this criterion is similar to the last. The ability of an authority to harness social housing resources to regeneration objectives and to alter service standards to meet changing needs will depend to a large extent upon its ownership and control of them.

506 The Housing Act 1996 places limitations on the ability of housing associations in England and Wales to engage in regeneration initiatives, even though "housing plus" has attracted much attention recently. Recent proposals by the Charities Commission may, however, widen the opportunities for charitable housing associations to engage in regeneration.

507 What is apparent in developing PFI contracts is the need to build in the ability to vary the specification for *reasonable* variations to PFI payments. With the Super VCT option, where stock is retained within the HRA and it may be possible to provide housing management services in-house, co-operation with wider regeneration initiatives is likely to be easier to secure.

Basis of tenancy

508 The LSVT process involves tenants changing from secure tenants of the local authority to assured tenants of the new landlord. Although secure tenancy rights are usually embodied in the new assured tenancy agreement, the change can be a deterrent to tenants, which is often underlined in their perceptions by the loss of a "secure" tenancy.

509 The Chartered Institute of Housing has published the report *One for All – A Single Tenancy for Social Housing?* (Hood, 1998) which sets out in detail the case for reform in this area. We commend this to the government. But as matters stand, on this criterion

the transfer and PFI Long Lease options will be perceived as worse than the others, where a secure tenancy is retained.

Impact upon the local authority

510 This criterion has a number of facets which interact to a degree:

- The role of the local authority;
- Financial impact; and
- Staffing.

511 The change from "providing" to "enabling" involved in transfer requires changes in the attitude and behaviour of local authority members as well as changes to the functions and activities of the remaining local authority housing service. The reaction of councils and tenants to this factor is likely to be similar to that towards ownership and accountability, with PFI contractual arrangements potentially being preferred to transfer.

512 The financial impact upon the council will involve changes to General Fund revenue and capital budgets. The experience of LSVT has demonstrated diseconomies of scale in both the local authority and new landlord as a result of the "disengagement" of the housing service. The general "rule" that local authorities should not engage in significant "cross boundary" trading has inhibited the provision of services to the new landlord that might offset these diseconomies.

513 Relaxations in attitudes towards cross boundary trading that would permit more extensive provision of services by the local authority to the new landlord/service provider could help reduce the costs of both parties and generally be a more efficient use of resources. However, special care would need to be taken with PFI options to avoid reductions in risk transfer, that could bring expenditure back into the public sector, and to avoid conflicts of interest deterring the council from enforcing contract conditions.

514 There are also costs to the General Fund from those options where tenure changes. The change of housing benefit from rent rebate to rent allowance brings with it a 5% local contribution to be met from the General Fund. While these payments do become counted in local authorities' Standard Spending Assessments and generate Revenue Support Grant payments from central government, this only takes place some years after the change.

515 The transfer options can bring about a significant capital receipt for the authority, a feature that distinguishes them from the PFI. Depending upon the size of the receipt and the rules applying to their use, there may be benefits to offset the costs outlined above.

Comparison of private finance options

516 In comparing the options on these criteria we have focussed on the private finance possibilities of stock transfer and PFI, assuming that continued use of the PSBR to

control public expenditure and debt will exclude the corporation and quasi-corporation alternatives.

517 However, it is important to record that, should changes in public expenditure control make our other options available and provide access to the necessary investment, then we believe that the majority of authorities and tenants would prefer them.

518 Our ranking of the other private finance options is set out in the table below, which we put forward as a basis for debate.

Table 8: Ranking of Private Finance options

Criterion	Option		
	Stock transfer	PFI-Long Lease	PFI-Super VCT
Ownership and accountability	3	2	1
Flexibility	3	2	1
Basis of tenancy	3	2	1
Impact on council			
– role	3	2	1
– staffing	2=	2=	1
– financial: large TMV	1	2	3
– financial: small/negative TMV	2=	2=	1

519 We have ranked PFI Super VCT above PFI Long Lease on all criteria except where there is a large Tenanted Market Value (and the prospect of some income to the council under a PFI Long Lease option). Moreover, Super VCT does not involve disposal and a change of landlord, and its public expenditure costs are comparable to the Long Lease option. Providing that concerns around risk transfer/bankability can be overcome, we believe that Super VCT may be more practical than the Long Lease option at least in the short term.

520 Where there is a significant TMV receipt – exceeding the HRA debt and providing the local authority with the ability to fund new social housing provision, LSVT may be preferred to PFI. This is likely to be the case where there is high demand for social housing and resources are inadequate for HRA investment, although stock condition has not yet deteriorated to produce low TMVs. In other circumstances PFI Super VCT might be preferred to LSVT, although as yet it is untested, and, as has been the case with LSVT, a successful regime will take time to develop.

521 Although our illustrations are for particular cases only, our "high TMV" stock shows LSVT to have lower PSBR costs than PFI, while our "low TMV" case shows PFI producing lower PSBR costs than LSVT. Much more research is needed to determine any general decision rules that indicate where value for money lies, but in these particular instances the ranking of the options on PSBR costs and the other criteria coincide.

6 Developing a sustainable investment strategy

Council housing in context

601 The recently published results of the English House Condition Survey 1996 indicate that the condition of local authority stock in England is getting worse, at least in relative terms. Not surprisingly, stock transferred from local authority ownership to housing associations was found to be in much better condition – a consequence of continued borrowing restraint and under-investment in the public sector compared to the freer private sector borrowings of associations. A similar picture can be expected in Scotland and Wales.

602 Yet council housing is big business. In the UK there are more than 4.1 million council homes with annual rent income of £8.5 billion. The problem is that previous government policy has been to:

- Reduce debt;
- Increase rents; and
- Reduce the subsidy bill.

603 Rather than using the subsidy and capital/credit approval systems to distribute resources to secure well maintained and managed homes, the stock has been neglected and council tenants "taxed" through the local contribution to housing benefit (in England and Wales) to reduce Exchequer costs.

604 In contrast, housing associations are allowed to receive the full amount of housing benefit payments, spend more on management, maintenance and investment in their stock, and have among the best maintained homes in the country. Housing associations, despite their regulation by the Housing Corporation (or equivalent), are much more in charge of their own destiny in financial matters, including the freedom to borrow prudentially outside public expenditure constraints.

605 A sustainable strategy for council housing should reverse the previous government's investment policy – as is already happening to a degree – but this alone is not enough. Council housing must – like the housing association sector – become a viable business in each locality. This final chapter of our report sets out how this might be achieved.

Council housing as a business

606 The *Housing and Regeneration Policy* statement aims to encourage authorities to invest efficiently in their housing stock and to introduce resource accounts to put local authority housing on a more business-like footing. Achieving better value from public resources is a consistent theme throughout the Comprehensive Spending Review, and is one with which no sensible person will disagree.

607 Involving and empowering tenants and the community in decision making and in setting service standards is also a consistent CSR theme. Indeed it is consistent with the business imperatives of customer satisfaction, customer care and customer loyalty.

608 But these are only a part of running the housing service in a business-like way. While some elements important to sound business management are already in place – the need to budget to "balance the books", measures to achieve value for money, performance management and accountability to "shareholders", there are fundamental gaps in local authorities' ability to manage efficiently brought about by central government restrictions on their powers. For example, a council faced with insufficient demand for its stock may be able to demolish or sell off surplus stock, but cannot reinvest the full proceeds to make the remaining stock more attractive.

609 Perhaps the most important gap in the ability of councils to run their housing service as a business is adequate investment in the assets – the houses – to ensure that they are in good repair and reflect the standards which customers expect. Without this there is little point in exhorting authorities to improve their asset management, whether through promoting asset management plans or introducing resource accounting. Good money is likely to follow bad as revenue resources are used increasingly to make good under-investment and to arrest asset deterioration.

610 There is also little point in involving tenants in housing investment strategies if the choices are about how to allocate inadequate budgets. Consultation and involvement in these circumstances leads only to disillusion and discontent. If the government is to involve tenants successfully in its plans for a Best Value regime for council housing, it must recognise that tenants' perceptions of service quality are likely to be as much about investment in the buildings themselves as about the way they are managed.

611 We therefore believe that council housing should be established on a business-like footing – much as housing associations are. However, in order to:

- establish Council housing on a business-like footing,
- enable sensible and efficient investment decision-making,
- introduce successfully a Best Value regime, and
- secure meaningful tenant involvement and empowerment within it,

adequate resources to improve the stock to modern standards must be made available.

A basis for a sustainable strategy for council housing

612 When business comparisons are made between council housing and housing associations, the key difference in resource availability is housing associations' receipt of full housing benefit payments. Unlike councils in England and Wales, associations do not have to use rent income to subsidise within their revenue accounts the housing benefit payments received by poorer tenants. It so happens that the current value of this cross-subsidy between council tenants – and the consequent saving to the Exchequer – is running at about £1.4 billion pa, and that this is close to the amount needed to finance the debt charges on the £21-23 billion of stock investment required.

613 Council housing should receive full housing benefit payments from government, or at least as much of it as is needed to finance the modernisation of the stock. If this were done, and the investment "hump" overcome, repair and maintenance bills and corresponding subsidy allowances, currently in part making good capital shortfalls,

could reduce. Additionally, there could be savings in a range of capital budgets (e.g. SRB, usable RTB receipts spent on HRA stocks) which could become available for other purposes.

614 What is more, with the homes brought up to modern standards, it would be reasonable to increase rents to those for comparable housing association homes. With this additional income there would be enough to make provision for future major works without further government subsidy.

615 This would not mean that individual local authorities in England and Wales could retain their "local contributions", or continue to manage and maintain their stock "as is". Considerable redistribution would be essential to get the investment to where it is most needed.

616 Continuing Treasury concern over public sector debt suggests that "private finance" solutions will also be required. If this is indeed the case, then some councils would need either to transfer stock or to enter into PFI contracts to refurbish and maintain it, while others might invest in their stocks using either traditional borrowing or revenue resources produced by reducing their local contributions to housing benefit.

617 Our analysis indicates that a sustainable strategy could be financed within the same PSBR ceiling as would finance what we have called the "do minimum" option. A combination of private finance (through stock transfer and PFI) and public expenditure using credit approvals or revenue contributions could enable the investment to be achieved within feasible Treasury debt limits.

How should a sustainable strategy be developed?

618 In introducing this study, we referred to the original ambitions of the government's Comprehensive Spending Review, and that – despite the welcome injection of additional investment – a sustainable strategy for council housing has yet to be developed. The analysis set out in this report has attempted to show how a combination of options using public and private finance could be the basis of such a strategy, provided that sufficient revenue funding could be injected to enable these solutions to work. However, our study is clearly not the strategy itself – yet aims to point the direction towards one.

619 In our view, a sustainable strategy for council housing would do the following:

- Establish target housing standards in terms of condition, management and tenant satisfaction, and what is needed to achieve them;
- Set a timescale for achieving those standards (possibly, the lifetime of two parliaments);
- Identify a menu of options to achieve them and evaluate them against key criteria – both financial and non-financial;
- Develop guidance on "what works best where";
- Determine a strategy and make available the resources to implement it;
- Establish a framework for implementation at both central and local level.

620 This study has shown in outline how this can be done, but, of course, only the government itself can properly develop a full strategy.

What is the role of local authorities?

621 Local councils must be willing partners in whatever strategy is put forward, since under current legislation they and their tenants must vote to implement it. This, ideally, means choice being available as to what strategy to pursue at local level. Each council needs to carry out its own appraisal, mirroring and guided by the national strategy.

622 It therefore needs a menu of options, which fit within the national strategy, and from which it can choose its local approach. Some councils will be happy to pursue large scale voluntary transfer. Others will wish to examine options under the PFI or a mixture of solutions. In either case, decision rules and financial arrangements are needed both to provide for the options and to ensure that their use meets value-for-money criteria and fits within the national strategy.

623 Many councils and their tenants, as we have noted, would prefer options that secure full investment and enable stock to remain in the public sector, albeit in an arms-length relationship with the local authority. Ideally, strategic options would include one or more public sector options, within the same long-term financial framework that will guide the private sector options. The experiments with local housing corporations, referred to in the CSR, could provide the basis of such an approach.

624 Whatever the "menu", mechanisms will be needed to keep spending and borrowing within Treasury limits. These should comprise a set of financial tests that reflects the objectives of the "golden rule" and of resource accounting, as well as public sector debt. In other words, overall financial effectiveness rather than simply cutting public sector borrowing should be the key objective.

Conclusion: A challenge to government

625 The government has shown a refreshingly positive attitude towards council housing. It has shown its willingness to reverse the decline that has not only made the sector unviable but is blighting the lives of a large proportion of the four million households whose housing is provided by local authorities.

626 What is now required is for this change of direction to develop further – from the pragmatic consideration of policy changes and injections of cash, to the setting out of a new strategy that will show how council housing can be run on a sustainable basis in the longer term.

627 In setting out the elements that could make up such a new approach, our aim is no less than to challenge the government to develop this strategy fully – and to empower councils and tenants to achieve it.

Glossary of terms

CIH	Chartered Institute of Housing
DBFO	Design, build, finance and operate
DETR	Department of the Environment, Transport and the Regions
EHCS	English House Condition Survey
GDP	Gross Domestic Product
GGFD	General Government Financial Deficit
HB	Housing Benefit
HCS	House Condition Survey
HIP	Housing Investment Programme
HRA	Housing Revenue Account
HSOP	Housing Strategy and Operational Plan (in Wales)
LHC	Local Housing Company
LHCo	Local Housing Corporation
LHQCo	Local Housing Quasi-Corporation
LSVT	Large scale voluntary transfer
NPV	Net present value
PFI	Private Finance Initiative
PSBR	Public Sector Borrowing Requirement
PSNB	Public Sector Net Borrowing
PSNCC	Public Sector Net Current Cost
RCCO	Revenue contribution to capital outlay
RPI	Retail Price Index
RTB	Right to Buy
SHCS	Scottish House Condition Survey
SRB	Single Regeneration Budget
TMV	Tenanted Market Value
TUPE	Transfer of Undertakings (Protection of Employment) Regulations
VAT	Value Added Tax
VCT	Voluntary Competitive Tendering
WHCS	Welsh House Condition Survey

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Appendix 1

Stock condition: summary of investment requirements

Country	Repair Backlog per Unit	Basis/Source	Improvement Backlog per Unit	Basis/Source	Stock	Total Investment Requirement
England	£2,500	EHCS comprehensive repairs of £2,239 Add allowance for unseen/structural works and fees	£425 £1,320 £570 £700	17% no central heating @ £2,500 60% no double glazing @ £2,200 7% have pre 1965 kitchens, average life 20 years, cost £1,500 20% have pre 1965 bathrooms, average life 20 years, cost £1,500	3,300,000	£18,199,500,000
			£3,015	Total Unit Improvement Cost EHCS for presence/age of facilities Experience for life cycles and unit costs		
Scotland	£2,300	SHCS comprehensive repairs of £2,170 Add allowance for unseen/structural works and fees	£1,200	SCHS improvement cost of £1,097 Add allowance for fees	600,000	£2,100,000,000
Wales	£1,500	Review of HSOPs covering 90,000+ units	£2,200	Review of HSOPs covering 90,000+ units	200,000	£740,000,000
Average/ Total	£2,422		£2,710		4,100,000	£21,039,500,000

Appendix 2 Illustrative HRA stock – details at Year 1

Number of homes	10,000
Unit Data:	
Actual rent	£2,132 per annum (£41 per week)
Notional rent	£1,875 per annum (£36.54 per week)
Actual Management costs	£340
Actual Repair and Maintenance costs	£640
Notional Management & Maintenance Allowances	£880
RCCO	£150
Debt	£6,200
Investment requirement	
– catch up	£2,400
– improvement	£2,700
– long term	£600 per annum

Appendix 3 Summary of assumptions – Base Case stock

1 Introduction

The following paragraphs set out the key assumptions that are common to the ownership and investment options and the rationale for them. They need to be read in conjunction with the descriptions of the particular models set out in the text.

2 Rents

We have assumed that local authority rents will increase to "harmonise" with housing association rents over a 10-year period. Housing association rents are set at £7 per week (c17%) more than the corresponding HRA rent in year 1, and increase by inflation only. HRA rents increase by approximately 1.6% per annum in real terms for 10 years (see HRA Subsidy below). The increases are set at "guideline" level, i.e. the increases in notional rents, so that rent rebate subsidy limits are not breached.

This assumption mirrors the view that housing association rents are currently at maximum affordable levels, and that there should be rent convergence across the social housing sector. However, it assumes that HRA rents increase to reflect the improved condition of the stock already enjoyed by most housing association tenants. The 10 year period and real growth in HRA rents represents the current position where housing association rents are some 17% above HRA rents (setting aside newly built stock).

The projected rent levels are shown at Appendix 4.

Our analysis ignores the wider cost of real increases in HRA and housing association rent levels. A recent analysis of these effects can be found in *Funding affordable social housing – Capital grants, revenue subsidies and subsidies to tenants* (Holmans and Whitehead, 1997) where the implications of increasing HRA and housing association rents are set out in detail.

3 Housing Benefit

We have assumed that 65% of current HRA rents is met by housing benefit (HB). Similarly we have assumed that HB meets 70% of the higher housing association rents.

This latter percentage is maintained, since housing association rents are assumed not to rise in real terms, whilst HRA/transfer tenant rent levels have the proportion met by HB increasing by 0.5% per annum until the 70% level is reached in year 11.

4 HRA Subsidy

We have set increases in notional rents at 2.1% per annum in real terms so as to drive the higher actual rents to meet housing association levels in year 11. As noted in the section on Rents above, we have assumed that actual rents increase by guideline levels, i.e. by the same amount as the notional rent increases.

Under these assumptions rent rebates remain fully subsidised within the notional HRA if the housing benefit subsidy cap remains.

Notional rents continue to rise in real terms until they meet actual rent levels (in year 16). Management Allowances increase by RPI only, while Maintenance Allowances reduce by 20% in real terms as the investment programme is implemented, and then grow with RPI.

With the total of management, repair and maintenance and RCCO budgets exceeding notional Management and Maintenance Allowances, the effect of balancing the HRA is to reduce budgets towards Management and Maintenance Allowance levels. We have applied these reductions to the RCCO budget rather than management or repairs and maintenance.

5 Investment in the stock

In all options the full investment in the stock, as noted in chapter 2, is assumed to be available. Under the private sector options, this is by way of private finance – not scoring against public expenditure measures, but reflected variously in the transfer price and PFI charges/payments.

In the HRA Capital model, we have assumed that credit approvals are increased so that, together with the RCCOs generated, they provide the investment required. Nationally this represents total investment over a 10 year period averaging about £4.6 billion per annum, considerably more than is available under current capital budgets for council housing, even taking into account the increased resources available under the Capital Receipts Initiative and regeneration budgets. After this, investment levels revert to approximately £2.5 billion per annum (£600 per unit per annum).

The HRA Revenue case generates the additional investment in the stock through a combination of credit approvals and revenue contributions to capital. This is achieved by actual rents increasing in real terms as in the HRA Capital model, while notional rents increase with the RPI only. Hence the higher levels of HRA subsidy compared with the base case are used to replace credit approvals. In this way we explore how replacing capital expenditure with revenue impacts upon the public expenditure measures.

The PFI-Super VCT option also uses its HRA RCCO budgets to offset capital investment, provided in this case by the PFI provider. We have assumed that the PFI contract will specify investment needs net of the available RCCOs, thereby reducing the PFI provider's charge to the HRA.

6 Management and maintenance

While management costs are assumed to grow in line with the RPI, we have assumed that maintenance costs can reduce as the full investment requirement in the stock is achieved. The long term annual maintenance costs are set at some 80% of initial levels in real terms, a reduction of £130 per unit (see chapter 2). These reductions have been applied equally to notional and actual maintenance expenditure.

7 Right to Buy

We have ignored the Right to Buy in our detailed financial analysis. This is because there are different perspectives from which the effect of RTB sales can be viewed.

If consideration is confined to HRA stock, then the greater level of RTB sales under the HRA and Super VCT scenarios will be of benefit in producing greater set-aside receipts and lower capital charges than the LSVT and PFI-Long Lease options. This is because the RTB does not apply to new tenants in these latter two scenarios. Thus including RTBs in such a view would be, relatively, to decrease the public sector cost of the HRA and Super VCT options.

However, if we look at the wider social housing scene, then in those areas where there is outstanding social housing need the effect of a RTB sale will be to produce displacement costs (equivalent to Social Housing Grant plus the additional HB costs of housing association over HRA rents). The overall effect is likely to be a net public sector cost. If viewed from this wider perspective, therefore, RTB sales would, relatively, increase the cost of the HRA and Super VCT options where greater numbers of sales would take place.

8 Assessment period

We have assumed a 30-year assessment period for all options. This is so as to produce comparable investment and valuation periods, and compatibility with the period of long term public expenditure measures. However, PFI contracts for both variants would probably be for shorter periods, particularly in the Super VCT option where investment requirements cover significant proportions of relatively short-life items such as central heating, kitchen and bathroom renewals.

Rent levels – Base Case stock

BASE CASE

Rents Levels (per annum)	Year														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
HRA Capital	2,132	2,218	2,308	2,403	2,502	2,605	2,713	2,826	2,944	3,068	3,195	3,275	3,357	3,441	3,527
HRA RCCO	2,132	2,218	2,308	2,403	2,502	2,605	2,713	2,826	2,944	3,068	3,195	3,275	3,357	3,441	3,527
LHQCo	2,132	2,218	2,308	2,403	2,502	2,605	2,713	2,826	2,944	3,068	3,195	3,275	3,357	3,441	3,527
LHCo	2,132	2,218	2,308	2,403	2,502	2,605	2,713	2,826	2,944	3,068	3,195	3,275	3,357	3,441	3,527
LHCo Relet	2,496	2,558	2,622	2,688	2,755	2,824	2,895	2,967	3,041	3,117	3,195	3,275	3,357	3,441	3,527
LSVT Transfer	2,132	2,218	2,308	2,403	2,502	2,605	2,713	2,826	2,944	3,068	3,195	3,275	3,357	3,441	3,527
LSVT Re-let	2,496	2,558	2,622	2,688	2,755	2,824	2,895	2,967	3,041	3,117	3,195	3,275	3,357	3,441	3,527
PFI Long Lease Transfer	2,132	2,218	2,308	2,403	2,502	2,605	2,713	2,826	2,944	3,068	3,195	3,275	3,357	3,441	3,527
PFI Long Lease Re-let	2,496	2,558	2,622	2,688	2,755	2,824	2,895	2,967	3,041	3,117	3,195	3,275	3,357	3,441	3,527
PFI Super VCT	2,132	2,218	2,308	2,403	2,502	2,605	2,713	2,826	2,944	3,068	3,195	3,275	3,357	3,441	3,527

Rents Levels (per annum)	Year														
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
HRA Capital	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
HRA RCCO	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
LHQCo	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
LHCo	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
LHCo Relet	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
LSVT Transfer	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
LSVT Re-let	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
PFI Long Lease Transfer	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
PFI Long Lease Re-let	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108
PFI Super VCT	3,615	3,705	3,798	3,893	3,990	4,090	4,192	4,297	4,404	4,515	4,627	4,743	4,862	4,983	5,108

Appendix 5 The public expenditure measures and Base Case costs

The following pages set out the summary and full 30-year cash flows for the base case stock under each of our seven options and measured by each of the public expenditure measures described below. Each measure is a 30-year net present value using the Treasury's 6% pa real discount factor.

Public Sector Borrowing Requirement (PSBR)

The effects captured under the PSBR are essentially those as defined by DETR for use in voluntary housing transfer public expenditure comparisons. Exceptionally we have assumed that any receipts from transfer are not adequate to meet both housing and General Fund debt. This means that any excess of receipt over the housing debt scores as a public expenditure gain in relation to the interest generated on the excess.

Our treatment of PFI charges and payments is set out in paragraphs 340-375.

Note that the PSBR scores capital receipts in two ways: as a reduction in debt in the year received, and in subsequently reduced interest and Minimum Revenue Provision (MRP) payments. MRP payments, as repayments of principal, are also scored as capital receipts in this way.

Public Sector Net Current Cost (PSNCC)

To calculate the Public Sector Net Current or Tax Costs we have, effectively, removed the PSBR's direct scoring of borrowing/capital receipts in increasing/reducing debt. However, the revenue effects of changes in (net) debt are captured in consequential changes in interest and Minimum Revenue Provisions.

If a grant is necessary to facilitate LSVT, LHCo or LHQCo options, this is counted in full as a one-off cost in the year paid, in line with DETR guidance on ERCF transfers.

The table below summarises the cash flows captured in our Tax Cost measure for each of the options.

Table 9: Public Sector Net Current Costs

Option	Effects Captured
HRA Capital and Revenue	HRA Subsidy General Fund transfer
LHQCo, LHCo and LSVT	Housing Benefit Interest on net debt (excluding any dowries) Dowry VAT (not on LHQCo)
PFI Long Lease	HRA Subsidy (including PFI charge) General Fund transfer VAT Corporation Tax
PFI Super VCT	HRA Subsidy (including PFI charge) General Fund transfer Corporation Tax

See paragraphs 340-375 for the treatment of PFI charges in calculating HRA Subsidy.

BASE CASE

PSBR – Summary

	Year								Cumulative NPV		
	1	2	3	4	5	10	20	30	10	20	30
HRA CAPITAL	21,764,983	22,923,963	24,100,120	25,294,231	26,507,098	24,780,984	26,902,382	35,290,175	154,309,350	222,176,393	260,354,792
HRA RCCO	21,764,983	22,907,563	24,033,541	25,141,956	26,231,773	23,258,347	21,416,105	23,932,045	151,645,835	210,275,838	238,211,427
LHQCo	21,802,803	22,700,188	23,623,628	24,572,579	25,546,298	22,060,540	15,062,114	35,694,456	147,865,864	198,101,890	234,702,432
LHCo	21,931,393	22,920,396	23,949,600	25,019,880	26,132,046	23,189,996	18,031,485	34,197,915	151,423,328	206,906,904	241,055,835
LSVT	-9,580,597	14,081,180	14,831,230	15,581,479	16,332,356	21,160,305	27,297,870	34,012,994	87,105,653	156,684,919	194,383,479
PFI LONG LEASE	13,020,957	13,557,301	14,146,781	14,737,047	15,328,449	19,363,923	23,909,523	26,315,259	101,892,765	164,189,954	196,418,829
PFI SUPER VCT	17,981,162	17,988,173	17,999,965	18,016,665	18,038,418	18,229,073	18,096,899	21,514,329	117,678,135	167,848,429	192,217,757

Public Sector Net Current Cost – Summary

	Year								Cumulative NPV		
	1	2	3	4	5	10	20	30	10	20	30
HRA CAPITAL	11,023,583	12,054,891	13,097,367	14,151,694	15,218,576	18,222,473	21,159,376	28,130,408	94,962,269	149,157,745	179,406,294
HRA RCCO	11,023,583	12,424,366	13,822,218	15,217,191	16,609,313	20,981,237	22,530,035	24,531,826	103,237,458	165,827,500	194,834,949
LHQCo	14,235,563	14,893,669	15,585,890	16,313,998	17,079,857	21,547,590	28,027,706	35,694,456	111,461,192	181,977,180	221,125,510
LHCo	13,427,283	14,021,865	14,648,973	15,310,340	16,007,789	21,155,995	27,482,791	34,197,915	107,088,347	177,193,370	215,121,274
LSVT	13,330,905	14,081,180	14,831,230	15,581,479	16,332,356	21,160,305	27,297,870	34,012,994	108,193,092	177,772,359	215,470,918
PFI LONG LEASE	14,260,957	14,772,501	15,337,677	15,904,125	16,472,185	20,397,770	24,754,252	27,005,464	109,386,078	174,354,041	207,534,838
PFI SUPER VCT	19,221,162	19,203,373	19,190,861	19,183,743	19,182,154	19,262,921	18,941,627	22,204,534	125,171,447	178,012,517	203,333,766

BASE CASE

	Year														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
HRA CAPITAL															
PSBR Costs															
Credit Approvals	11,981,400	12,323,900	12,674,963	13,034,802	13,403,637	8,350,933	8,602,671	8,860,703	9,125,186	9,396,280	6,254,694	7,016,073	7,824,316	8,271,066	8,477,843
HRA Subsidy – housing element	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	13,580,840	14,238,947	14,931,168	15,659,276	16,425,134	17,230,702	18,078,038	18,969,308	19,906,788	20,892,868	21,918,324	22,466,283	23,027,940	23,603,638	24,193,729
LA Contribution	-2,557,258	-2,184,056	-1,833,801	-1,507,581	-1,206,558	-1,162,771	-1,489,530	-1,848,516	-2,241,513	-2,670,395	-3,142,462	-3,843,103	-4,523,640	-5,200,602	-5,910,924
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	-1,240,000	-1,454,828	-1,672,209	-1,892,265	-2,115,115	-2,340,886	-2,461,087	-2,583,918	-2,709,454	-2,837,769	-2,968,939	-3,034,654	-3,114,282	-3,208,483	-3,309,735
Total PSBR Cost	21,764,983	22,923,963	24,100,120	25,294,231	26,507,098	22,077,978	22,730,093	23,397,577	24,081,006	24,780,984	22,061,618	22,604,599	23,214,334	23,465,619	23,450,914
Public Sector Net Current Cost															
HRA Subsidy – housing element	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	13,580,840	14,238,947	14,931,168	15,659,276	16,425,134	17,230,702	18,078,038	18,969,308	19,906,788	20,892,868	21,918,324	22,466,283	23,027,940	23,603,638	24,193,729
LA Contribution	-2,557,258	-2,184,056	-1,833,801	-1,507,581	-1,206,558	-1,162,771	-1,489,530	-1,848,516	-2,241,513	-2,670,395	-3,142,462	-3,843,103	-4,523,640	-5,200,602	-5,910,924
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSNCC	11,023,583	12,054,891	13,097,367	14,151,694	15,218,576	16,067,931	16,588,508	17,120,792	17,665,275	18,222,473	18,775,863	18,623,180	18,504,299	18,403,036	18,282,805
HRA RCCO															
PSBR Costs															
Credit Approvals	11,981,400	11,938,025	11,875,815	11,793,484	11,689,673	6,132,193	5,845,288	5,528,983	5,181,522	4,801,057	966,186	990,340	1,015,099	1,040,476	1,066,488
HRA Subsidy – housing element	0	0	0	0	184,179	537,078	502,530	418,030	280,913	88,370	0	0	0	0	0
Rent Rebates	13,580,840	14,238,947	14,931,168	15,659,276	16,425,134	17,230,702	18,078,038	18,969,308	19,906,788	20,892,868	21,918,324	22,466,283	23,027,940	23,603,638	24,193,729
LA Contribution	-2,557,258	-1,814,581	-1,108,950	-442,085	0	0	0	0	0	0	-167,898	-674,340	-1,183,404	-1,695,357	-2,210,467
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	-1,240,000	-1,454,828	-1,664,492	-1,868,718	-2,067,214	-2,259,663	-2,337,114	-2,407,277	-2,469,711	-2,523,947	-2,569,490	-2,537,423	-2,506,482	-2,476,654	-2,447,931
Total PSBR Cost	21,764,983	22,907,563	24,033,541	25,141,956	26,231,773	21,640,311	22,088,743	22,509,044	22,899,512	23,258,347	20,147,123	20,244,860	20,353,153	20,472,103	20,601,820
Public Sector Net Current Cost															
HRA Subsidy – housing element	0	0	0	0	184,179	537,078	502,530	418,030	280,913	88,370	0	0	0	0	0
Rent Rebates	13,580,840	14,238,947	14,931,168	15,659,276	16,425,134	17,230,702	18,078,038	18,969,308	19,906,788	20,892,868	21,918,324	22,466,283	23,027,940	23,603,638	24,193,729
LA Contribution	-2,557,258	-1,814,581	-1,108,950	-442,085	0	0	0	0	0	0	-167,898	-674,340	-1,183,404	-1,695,357	-2,210,467
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSNCC	11,023,583	12,424,366	13,822,218	15,217,191	16,609,313	17,767,780	18,580,569	19,387,338	20,187,701	20,981,237	21,750,427	21,791,943	21,844,535	21,908,281	21,983,262

	Year														
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
HRA CAPITAL															
PSBR Costs															
Credit Approvals	8,689,789	8,907,034	9,129,710	9,357,952	9,591,901	9,831,699	10,077,491	10,329,428	10,587,664	10,852,356	11,123,665	11,401,756	11,686,800	11,978,970	12,278,444
HRA Subsidy – housing element	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	24,798,572	25,418,537	26,054,000	26,705,350	27,372,984	28,057,308	28,758,741	29,477,710	30,214,652	30,970,019	31,744,269	32,537,876	33,351,323	34,185,106	35,039,733
LA Contribution	-6,024,769	-6,067,390	-6,113,052	-6,161,782	-6,213,608	-6,268,561	-6,326,671	-6,387,971	-6,452,493	-6,520,273	-6,591,346	-6,665,750	-6,743,521	-6,824,699	-6,909,325
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	-3,413,097	-3,518,631	-3,626,399	-3,736,465	-3,848,895	-3,963,755	-4,081,114	-4,201,041	-4,323,609	-4,448,890	-4,576,959	-4,707,894	-4,841,771	-4,978,671	-5,118,677
Total PSBR Cost	24,050,496	24,739,549	25,444,259	26,165,056	26,902,382	27,656,691	28,428,448	29,218,126	30,026,214	30,853,211	31,699,628	32,565,989	33,452,831	34,360,705	35,290,175
Public Sector Net Current Cost															
HRA Subsidy – housing element	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	24,798,572	25,418,537	26,054,000	26,705,350	27,372,984	28,057,308	28,758,741	29,477,710	30,214,652	30,970,019	31,744,269	32,537,876	33,351,323	34,185,106	35,039,733
LA Contribution	-6,024,769	-6,067,390	-6,113,052	-6,161,782	-6,213,608	-6,268,561	-6,326,671	-6,387,971	-6,452,493	-6,520,273	-6,591,346	-6,665,750	-6,743,521	-6,824,699	-6,909,325
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSNCC	18,773,803	19,351,146	19,940,948	20,543,568	21,159,376	21,788,748	22,432,070	23,089,739	23,762,159	24,449,745	25,152,923	25,872,126	26,607,802	27,360,406	28,130,408
HRA RCCO															
PSBR Costs															
Credit Approvals	1,093,150	1,120,479	1,148,491	1,177,203	1,206,633	1,236,799	1,267,719	1,299,412	1,331,898	1,365,195	1,399,325	1,434,308	1,470,166	1,506,920	1,544,593
HRA Subsidy – housing element	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	24,798,572	25,418,537	26,054,000	26,705,350	27,372,984	28,057,308	28,758,741	29,477,710	30,214,652	30,970,019	31,744,269	32,537,876	33,351,323	34,185,106	35,039,733
LA Contribution	-2,729,004	-3,251,242	-3,777,459	-4,307,933	-4,842,949	-5,382,793	-5,927,756	-6,478,131	-7,034,217	-7,596,317	-8,164,737	-8,739,788	-9,321,785	-9,911,050	-10,507,907
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	-2,420,302	-2,393,759	-2,368,293	-2,343,897	-2,320,563	-2,298,285	-2,277,055	-2,256,868	-2,237,719	-2,219,603	-2,202,514	-2,186,451	-2,171,408	-2,157,383	-2,144,374
Total PSBR Cost	20,742,417	20,894,015	21,056,739	21,230,723	21,416,105	21,613,030	21,821,650	22,042,123	22,274,613	22,519,294	22,776,343	23,045,945	23,328,295	23,623,593	23,932,045
Public Sector Net Current Cost															
HRA Subsidy – housing element	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	24,798,572	25,418,537	26,054,000	26,705,350	27,372,984	28,057,308	28,758,741	29,477,710	30,214,652	30,970,019	31,744,269	32,537,876	33,351,323	34,185,106	35,039,733
LA Contribution	-2,729,004	-3,251,242	-3,777,459	-4,307,933	-4,842,949	-5,382,793	-5,927,756	-6,478,131	-7,034,217	-7,596,317	-8,164,737	-8,739,788	-9,321,785	-9,911,050	-10,507,907
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSNCC	22,069,568	22,167,294	22,276,541	22,397,417	22,530,035	22,674,515	22,830,985	22,999,579	23,180,435	23,373,701	23,579,532	23,798,088	24,029,537	24,274,056	24,531,826

BASE CASE

	Year														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
LHQCo															
PSBR Costs															
Credit Approvals	54,297,382														
Net Borrowings	7,567,241	7,806,519	8,037,738	8,258,581	8,466,441	2,983,251	2,503,384	1,938,394	1,278,502	512,949	-3,797,134	-4,471,162	-5,214,161	-6,032,544	-6,933,309
Rent Rebates	13,580,840	14,238,947	14,931,168	15,659,276	16,425,134	17,230,702	18,078,038	18,969,308	19,906,788	20,892,868	21,918,324	22,466,283	23,027,940	23,603,638	24,193,729
Valuation receipt/dowry	-54,297,382														
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723
Usable spent	0	0	0	0											
Principal Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSBR Cost	21,802,803	22,700,188	23,623,628	24,572,579	25,546,298	20,868,676	21,236,145	21,562,425	21,840,012	22,060,540	18,775,913	18,649,843	18,468,501	18,225,817	17,915,143
Public Sector Net Current Cost															
Rent Rebates	13,580,840	14,238,947	14,931,168	15,659,276	16,425,134	17,230,702	18,078,038	18,969,308	19,906,788	20,892,868	21,918,324	22,466,283	23,027,940	23,603,638	24,193,729
Levy/Dowry	0														
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723
VAT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSNCC	14,235,563	14,893,669	15,585,890	16,313,998	17,079,857	17,885,424	18,732,761	19,624,031	20,561,510	21,547,590	22,573,047	23,121,005	23,682,662	24,258,361	24,848,452
LHCo															
PSBR Costs															
Credit Approvals	20,735,959														
Net Borrowings	8,504,110	8,898,531	9,300,627	9,709,540	10,124,257	3,875,298	3,531,018	3,115,201	2,619,324	2,034,001	-2,680,941	-3,177,752	-3,725,664	-4,329,435	-4,994,258
Rent Allowances central govt	12,901,798	13,526,999	14,184,609	14,876,312	15,603,877	16,369,167	17,174,136	18,020,843	18,911,448	19,848,224	20,822,408	21,342,968	21,876,543	22,423,456	22,984,043
Rent Allowances local authority	679,042	711,947	746,558	782,964	821,257	861,535	903,902	948,465	995,339	1,044,643	1,095,916	1,123,314	1,151,397	1,180,182	1,209,686
Transfer receipt/dowry	-20,735,959														
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443
Usable spent	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT	-3,661,000	-3,724,525	-3,789,638	-3,856,379	-3,924,789	-3,044,525	-3,092,639	-3,141,954	-3,192,503	-3,244,316	-2,720,584	-2,788,598	-2,858,313	-2,929,771	-3,003,016
Total PSBR Cost	21,931,393	22,920,396	23,949,600	25,019,880	26,132,046	21,568,918	22,023,862	22,449,998	22,841,052	23,189,996	20,024,243	20,007,376	19,951,406	19,851,875	19,703,899
Public Sector Net Current Cost															
Rent Allowances central govt	12,901,798	13,526,999	14,184,609	14,876,312	15,603,877	16,369,167	17,174,136	18,020,843	18,911,448	19,848,224	20,822,408	21,342,968	21,876,543	22,423,456	22,984,043
Rent Allowances local authority	679,042	711,947	746,558	782,964	821,257	861,535	903,902	948,465	995,339	1,044,643	1,095,916	1,123,314	1,151,397	1,180,182	1,209,686
Levy/Dowry	0														
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443
VAT	-3,661,000	-3,724,525	-3,789,638	-3,856,379	-3,924,789	-3,044,525	-3,092,639	-3,141,954	-3,192,503	-3,244,316	-2,720,584	-2,788,598	-2,858,313	-2,929,771	-3,003,016
Total PSNCC	13,427,283	14,021,865	14,648,973	15,310,340	16,007,789	17,693,620	18,492,843	19,334,797	20,221,728	21,155,995	22,705,184	23,185,128	23,677,070	24,181,310	24,698,157

	Year														
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
LHQCo															
PSBR Costs															
Credit Approvals															
Net Borrowings	-7,924,088	-9,013,208	-10,209,747	-11,523,608	-12,965,592	-14,547,475	0	0	0	0	0	0	0	0	0
Rent Rebates	24,798,572	25,418,537	26,054,000	26,705,350	27,372,984	28,057,308	28,758,741	29,477,710	30,214,652	30,970,019	31,744,269	32,537,876	33,351,323	34,185,106	35,039,733
Valuation receipt/dowry															
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723
Usable spent															
Principal Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSBR Cost	17,529,206	17,060,051	16,498,975	15,836,464	15,062,114	14,164,555	29,413,464	30,132,432	30,869,375	31,624,741	32,398,992	33,192,598	34,006,045	34,839,828	35,694,456
Public Sector Net Current Cost															
Rent Rebates	24,798,572	25,418,537	26,054,000	26,705,350	27,372,984	28,057,308	28,758,741	29,477,710	30,214,652	30,970,019	31,744,269	32,537,876	33,351,323	34,185,106	35,039,733
Levy/Dowry															
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723	654,723
VAT	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSNCC	25,453,295	26,073,259	26,708,723	27,360,073	28,027,706	28,712,031	29,413,464	30,132,432	30,869,375	31,624,741	32,398,992	33,192,598	34,006,045	34,839,828	35,694,456
LHCo															
PSBR Costs															
Credit Approvals															
Net Borrowings	-5,725,794	-6,530,220	-7,414,271	-8,385,296	-9,451,306	-10,621,041	-11,904,029	0	0	0	0	0	0	0	0
Rent Allowances central govt	23,558,644	24,147,610	24,751,300	25,370,082	26,004,335	26,654,443	27,320,804	28,003,824	28,703,920	29,421,518	30,157,056	30,910,982	31,683,757	32,475,850	33,287,747
Rent Allowances local authority	1,239,929	1,270,927	1,302,700	1,335,267	1,368,649	1,402,865	1,437,937	1,473,885	1,510,733	1,548,501	1,587,213	1,626,894	1,667,566	1,709,255	1,751,987
Transfer receipt/dowry															
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443
Usable spent	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT	-3,078,091	-3,155,043	-3,233,919	-3,314,767	-3,397,636	-3,482,577	-3,569,642	-3,658,883	-3,750,355	-3,844,114	-3,940,217	-4,038,722	-4,139,690	-4,243,182	-4,349,262
Total PSBR Cost	19,502,131	19,240,717	18,913,253	18,512,730	18,031,485	17,461,134	16,792,513	29,326,270	29,971,741	30,633,348	31,311,496	32,006,597	32,719,076	33,449,367	34,197,915
Public Sector Net Current Cost															
Rent Allowances central govt	23,558,644	24,147,610	24,751,300	25,370,082	26,004,335	26,654,443	27,320,804	28,003,824	28,703,920	29,421,518	30,157,056	30,910,982	31,683,757	32,475,850	33,287,747
Rent Allowances local authority	1,239,929	1,270,927	1,302,700	1,335,267	1,368,649	1,402,865	1,437,937	1,473,885	1,510,733	1,548,501	1,587,213	1,626,894	1,667,566	1,709,255	1,751,987
Levy/Dowry															
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443	3,507,443
VAT	-3,078,091	-3,155,043	-3,233,919	-3,314,767	-3,397,636	-3,482,577	-3,569,642	-3,658,883	-3,750,355	-3,844,114	-3,940,217	-4,038,722	-4,139,690	-4,243,182	-4,349,262
Total PSNCC	25,227,925	25,770,937	26,327,524	26,898,026	27,482,791	28,082,174	28,696,543	29,326,270	29,971,741	30,633,348	31,311,496	32,006,597	32,719,076	33,449,367	34,197,915

BASE CASE

	Year														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
LSVT															
PSBR Costs															
Rent Allowances central govt	12,985,914	13,759,024	14,533,428	15,309,569	16,087,891	16,868,841	17,652,871	18,440,434	19,231,988	20,027,994	20,822,408	21,342,968	21,876,543	22,423,456	22,984,043
Rent Allowances local authority	683,469	724,159	764,917	805,767	846,731	887,834	929,098	970,549	1,012,210	1,054,105	1,095,916	1,123,314	1,151,397	1,180,182	1,209,686
Transfer receipt	-22,911,503														
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522
Usable spent	0	0	0	0											
Principal Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT	-3,661,000	-3,724,525	-3,789,638	-3,856,379	-3,924,789	-3,044,525	-3,092,639	-3,141,954	-3,192,503	-3,244,316	-2,720,584	-2,788,598	-2,858,313	-2,929,771	-3,003,016
Corporation Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSBR Cost	-9,580,597	14,081,180	14,831,230	15,581,479	16,332,356	18,034,672	18,811,853	19,591,551	20,374,217	21,160,305	22,520,263	23,000,206	23,492,148	23,996,389	24,513,236
Public Sector Net Current Cost															
Rent Allowances central govt	12,985,914	13,759,024	14,533,428	15,309,569	16,087,891	16,868,841	17,652,871	18,440,434	19,231,988	20,027,994	20,822,408	21,342,968	21,876,543	22,423,456	22,984,043
Rent Allowances local authority	683,469	724,159	764,917	805,767	846,731	887,834	929,098	970,549	1,012,210	1,054,105	1,095,916	1,123,314	1,151,397	1,180,182	1,209,686
Levy/Dowry	0														
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522
VAT	-3,661,000	-3,724,525	-3,789,638	-3,856,379	-3,924,789	-3,044,525	-3,092,639	-3,141,954	-3,192,503	-3,244,316	-2,720,584	-2,788,598	-2,858,313	-2,929,771	-3,003,016
Corporation Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSNCC	13,330,905	14,081,180	14,831,230	15,581,479	16,332,356	18,034,672	18,811,853	19,591,551	20,374,217	21,160,305	22,520,263	23,000,206	23,492,148	23,996,389	24,513,236

	Year														
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
LSVT															
PSBR Costs															
Rent Allowances central govt	23,558,644	24,147,610	24,751,300	25,370,082	26,004,335	26,654,443	27,320,804	28,003,824	28,703,920	29,421,518	30,157,056	30,910,982	31,683,757	32,475,850	33,287,747
Rent Allowances local authority	1,239,929	1,270,927	1,302,700	1,335,267	1,368,649	1,402,865	1,437,937	1,473,885	1,510,733	1,548,501	1,587,213	1,626,894	1,667,566	1,709,255	1,751,987
Transfer receipt															
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522
Usable spent															
Principal Repayments	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT	-3,078,091	-3,155,043	-3,233,919	-3,314,767	-3,397,636	-3,482,577	-3,569,642	-3,658,883	-3,750,355	-3,844,114	-3,940,217	-4,038,722	-4,139,690	-4,243,182	-4,349,262
Corporation Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSBR Cost	25,043,004	25,586,016	26,142,603	26,713,105	27,297,870	27,897,253	28,511,622	29,141,349	29,786,820	30,448,427	31,126,575	31,821,676	32,534,155	33,264,446	34,012,994
Public Sector Net Current Cost															
Rent Allowances central govt	23,558,644	24,147,610	24,751,300	25,370,082	26,004,335	26,654,443	27,320,804	28,003,824	28,703,920	29,421,518	30,157,056	30,910,982	31,683,757	32,475,850	33,287,747
Rent Allowances local authority	1,239,929	1,270,927	1,302,700	1,335,267	1,368,649	1,402,865	1,437,937	1,473,885	1,510,733	1,548,501	1,587,213	1,626,894	1,667,566	1,709,255	1,751,987
Levy/Dowry															
Savings in GF Debt interest	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Cost of residual HRA debt	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522	3,322,522
VAT	-3,078,091	-3,155,043	-3,233,919	-3,314,767	-3,397,636	-3,482,577	-3,569,642	-3,658,883	-3,750,355	-3,844,114	-3,940,217	-4,038,722	-4,139,690	-4,243,182	-4,349,262
Corporation Tax	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total PSNCC	25,043,004	25,586,016	26,142,603	26,713,105	27,297,870	27,897,253	28,511,622	29,141,349	29,786,820	30,448,427	31,126,575	31,821,676	32,534,155	33,264,446	34,012,994

BASE CASE

	Year														
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
PFI LONG LEASE															
PSBR Costs															
HRA Subsidy – incl PFI payment	4,300,174	4,062,633	3,878,979	3,696,428	3,514,893	3,334,287	3,154,524	2,975,518	2,797,183	2,619,433	2,442,181	2,265,341	2,088,827	1,912,551	1,736,426
Rent Allowances central govt	12,985,914	13,759,024	14,533,428	15,309,569	16,087,891	16,868,841	17,652,871	18,440,434	19,231,988	20,027,994	20,822,408	21,342,968	21,876,543	22,423,456	22,984,043
Rent Allowances local authority	683,469	724,159	764,917	805,767	846,731	887,834	929,098	970,549	1,012,210	1,054,105	1,095,916	1,123,314	1,151,397	1,180,182	1,209,686
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	-1,240,000	-1,215,200	-1,190,896	-1,167,078	-1,143,737	-1,120,862	-1,098,445	-1,076,476	-1,054,946	-1,033,847	-1,013,170	-992,907	-973,049	-953,588	-934,516
VAT	-3,652,500	-3,715,813	-3,780,708	-3,847,226	-3,915,406	-3,034,908	-3,082,781	-3,131,851	-3,182,147	-3,233,701	-2,709,703	-2,777,446	-2,846,882	-2,918,054	-2,991,005
Corporation Tax	-56,100	-57,503	-58,940	-60,414	-61,924	-63,472	-65,059	-66,685	-68,352	-70,061	-71,813	-73,608	-75,448	-77,334	-79,268
Total PSBR Cost	13,020,957	13,557,301	14,146,781	14,737,047	15,328,449	16,871,720	17,490,209	18,111,490	18,735,935	19,363,923	20,565,819	20,887,663	21,221,387	21,567,213	21,925,366
Public Sector Net Current Cost															
HRA Subsidy – incl PFI payment	4,300,174	4,062,633	3,878,979	3,696,428	3,514,893	3,334,287	3,154,524	2,975,518	2,797,183	2,619,433	2,442,181	2,265,341	2,088,827	1,912,551	1,736,426
Rent Allowances central govt	12,985,914	13,759,024	14,533,428	15,309,569	16,087,891	16,868,841	17,652,871	18,440,434	19,231,988	20,027,994	20,822,408	21,342,968	21,876,543	22,423,456	22,984,043
Rent Allowances local authority	683,469	724,159	764,917	805,767	846,731	887,834	929,098	970,549	1,012,210	1,054,105	1,095,916	1,123,314	1,151,397	1,180,182	1,209,686
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT	-3,652,500	-3,715,813	-3,780,708	-3,847,226	-3,915,406	-3,034,908	-3,082,781	-3,131,851	-3,182,147	-3,233,701	-2,709,703	-2,777,446	-2,846,882	-2,918,054	-2,991,005
Corporation Tax	-56,100	-57,503	-58,940	-60,414	-61,924	-63,472	-65,059	-66,685	-68,352	-70,061	-71,813	-73,608	-75,448	-77,334	-79,268
Total PSNCC	14,260,957	14,772,501	15,337,677	15,904,125	16,472,185	17,992,582	18,588,654	19,187,965	19,790,881	20,397,770	21,578,989	21,880,570	22,194,436	22,520,800	22,859,882
PFI SUPER VCT															
PSBR Costs															
HRA Subsidy – housing element	5,696,422	5,021,929	4,318,633	3,584,881	2,818,944	2,019,012	1,183,192	309,501	0	0	0	0	0	0	0
Rent Rebates	13,580,840	14,238,947	14,931,168	15,659,276	16,425,134	17,230,702	18,078,038	18,969,308	19,906,788	20,892,868	21,918,324	22,466,283	23,027,940	23,603,638	24,193,729
LA Contribution	0	0	0	0	0	0	0	0	-604,135	-1,559,886	-2,420,026	-3,323,432	-4,272,508	-5,269,769	-6,317,854
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	-1,240,000	-1,215,200	-1,190,896	-1,167,078	-1,143,737	-1,120,862	-1,098,445	-1,076,476	-1,054,946	-1,033,847	-1,013,170	-992,907	-973,049	-953,588	-934,516
VAT reclaimed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corporation Tax	-56,100	-57,503	-58,940	-60,414	-61,924	-63,472	-65,059	-66,685	-68,352	-70,061	-71,813	-73,608	-75,448	-77,334	-79,268
Total PSBR Cost	17,981,162	17,988,173	17,999,965	18,016,665	18,038,418	18,065,380	18,097,727	18,135,648	18,179,354	18,229,073	18,413,316	18,076,336	17,706,935	17,302,946	16,862,091
Public Sector Net Current Cost															
HRA Subsidy – housing element	5,696,422	5,021,929	4,318,633	3,584,881	2,818,944	2,019,012	1,183,192	309,501	0	0	0	0	0	0	0
Rent Rebates	13,580,840	14,238,947	14,931,168	15,659,276	16,425,134	17,230,702	18,078,038	18,969,308	19,906,788	20,892,868	21,918,324	22,466,283	23,027,940	23,603,638	24,193,729
LA Contribution	0	0	0	0	0	0	0	0	-604,135	-1,559,886	-2,420,026	-3,323,432	-4,272,508	-5,269,769	-6,317,854
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT reclaimed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corporation Tax	-56,100	-57,503	-58,940	-60,414	-61,924	-63,472	-65,059	-66,685	-68,352	-70,061	-71,813	-73,608	-75,448	-77,334	-79,268
Total PSNCC	19,221,162	19,203,373	19,190,861	19,183,743	19,182,154	19,186,242	19,196,171	19,212,124	19,234,300	19,262,921	19,426,486	19,069,243	18,679,984	18,256,534	17,796,607

	Year														
	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30
PFI LONG LEASE															
PSBR Costs															
HRA Subsidy – incl PFI payment	1,560,365	1,384,281	1,208,084	1,031,687	855,000	677,934	500,397	322,300	143,551	0	0	0	0	0	0
Rent Allowances central govt	23,558,644	24,147,610	24,751,300	25,370,082	26,004,335	26,654,443	27,320,804	28,003,824	28,703,920	29,421,518	30,157,056	30,910,982	31,683,757	32,475,850	33,287,747
Rent Allowances local authority	1,239,929	1,270,927	1,302,700	1,335,267	1,368,649	1,402,865	1,437,937	1,473,885	1,510,733	1,548,501	1,587,213	1,626,894	1,667,566	1,709,255	1,751,987
Transfer to General Fund	0	0	0	0	0	0	0	0	0	-35,944	-216,276	-397,540	-579,831	-763,245	-947,878
Principal Repayments	-915,826	-897,509	-879,559	-861,968	-844,728	-827,834	-811,277	-795,052	-779,151	-763,568	-748,296	-733,330	-718,664	-704,290	-690,205
VAT	-3,065,780	-3,142,425	-3,220,986	-3,301,510	-3,384,048	-3,468,649	-3,555,365	-3,644,249	-3,735,356	-3,828,740	-3,924,458	-4,022,570	-4,123,134	-4,226,212	-4,331,867
Corporation Tax	-81,250	-83,281	-85,363	-87,497	-89,684	-91,926	-94,225	-96,580	-98,995	-101,470	-104,006	-106,606	-109,272	-799,687	-2,754,524
Total PSBR Cost	22,296,082	22,679,603	23,076,177	23,486,062	23,909,523	24,346,833	24,798,271	25,264,128	25,744,702	26,240,298	26,751,232	27,277,829	27,820,423	27,691,672	26,315,259
Public Sector Net Current Cost															
HRA Subsidy – incl PFI payment	1,560,365	1,384,281	1,208,084	1,031,687	855,000	677,934	500,397	322,300	143,551	0	0	0	0	0	0
Rent Allowances central govt	23,558,644	24,147,610	24,751,300	25,370,082	26,004,335	26,654,443	27,320,804	28,003,824	28,703,920	29,421,518	30,157,056	30,910,982	31,683,757	32,475,850	33,287,747
Rent Allowances local authority	1,239,929	1,270,927	1,302,700	1,335,267	1,368,649	1,402,865	1,437,937	1,473,885	1,510,733	1,548,501	1,587,213	1,626,894	1,667,566	1,709,255	1,751,987
Transfer to General Fund	0	0	0	0	0	0	0	0	0	-35,944	-216,276	-397,540	-579,831	-763,245	-947,878
VAT	-3,065,780	-3,142,425	-3,220,986	-3,301,510	-3,384,048	-3,468,649	-3,555,365	-3,644,249	-3,735,356	-3,828,740	-3,924,458	-4,022,570	-4,123,134	-4,226,212	-4,331,867
Corporation Tax	-81,250	-83,281	-85,363	-87,497	-89,684	-91,926	-94,225	-96,580	-98,995	-101,470	-104,006	-106,606	-109,272	-799,687	-2,754,524
Total PSNCC	23,211,908	23,577,112	23,955,736	24,348,030	24,754,252	25,174,667	25,609,548	26,059,180	26,523,853	27,003,866	27,499,529	28,011,160	28,539,086	28,395,962	27,005,464
PFI SUPER VCT															
PSBR Costs															
HRA Subsidy – housing element	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	24,798,572	25,418,537	26,054,000	26,705,350	27,372,984	28,057,308	28,758,741	29,477,710	30,214,652	30,970,019	31,744,269	32,537,876	33,351,323	34,185,106	35,039,733
LA Contribution	-6,771,366	-7,155,744	-7,545,441	-7,940,676	-8,341,672	-8,748,656	-9,161,857	-9,581,510	-10,007,855	-10,441,135	-10,881,597	-11,329,494	-11,785,083	-12,248,628	-12,720,396
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Principal Repayments	-915,826	-897,509	-879,559	-861,968	-844,728	-827,834	-811,277	-795,052	-779,151	-763,568	-748,296	-733,330	-718,664	-704,290	-690,205
VAT reclaimed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corporation Tax	-81,250	-83,281	-85,363	-87,497	-89,684	-91,926	-94,225	-96,580	-98,995	-101,470	-104,006	-106,606	-109,272	-112,003	-114,803
Total PSBR Cost	17,030,131	17,282,003	17,543,637	17,815,209	18,096,899	18,388,892	18,691,383	19,004,568	19,328,652	19,663,847	20,010,370	20,368,445	20,738,304	21,120,184	21,514,329
Public Sector Net Current Cost															
HRA Subsidy – housing element	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Rent Rebates	24,798,572	25,418,537	26,054,000	26,705,350	27,372,984	28,057,308	28,758,741	29,477,710	30,214,652	30,970,019	31,744,269	32,537,876	33,351,323	34,185,106	35,039,733
LA Contribution	-6,771,366	-7,155,744	-7,545,441	-7,940,676	-8,341,672	-8,748,656	-9,161,857	-9,581,510	-10,007,855	-10,441,135	-10,881,597	-11,329,494	-11,785,083	-12,248,628	-12,720,396
Transfer to General Fund	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
VAT reclaimed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Corporation Tax	-81,250	-83,281	-85,363	-87,497	-89,684	-91,926	-94,225	-96,580	-98,995	-101,470	-104,006	-106,606	-109,272	-112,003	-114,803
Total PSNCC	17,945,957	18,179,512	18,423,196	18,677,177	18,941,627	19,216,726	19,502,660	19,799,619	20,107,803	20,427,415	20,758,666	21,101,776	21,456,968	21,824,474	22,204,534