

## **Briefing Paper**

### **Large Scale Voluntary Transfer**

**Adrian Waite – July 2004**

#### **Introduction**

Transfer or disposal of housing stock can take many forms ranging from the sale of individual dwellings under the 'Right to Buy' up to the disposal of the whole stock. Large Scale Voluntary Transfer is defined in law as a transfer involving more than 499 houses or flats.

Large Scale Voluntary Transfer involves the Local Authority transferring the ownership of its stock with the agreement of the tenants. The first Large Scale Voluntary Transfer was made in 1988 by Chiltern District Council. The key features of a Large Scale Voluntary Transfer are:

- Transferring tenants are offered benefits such as rent guarantees, stock investment programmes and rights as 'assured tenants'.
- Transfer price is determined by 'Tenanted Market Value' (see below).
- The new landlord must be a Registered Social Landlord if funding is to be secured.
- Transfers are funded entirely by the private sector.

At the moment, local authorities own more houses and flats than Registered Social Landlords. However, it is estimated that, because of Large Scale Voluntary Transfer, Registered Social Landlords will own more houses and flats than local authorities by 2007. This trend was confirmed in the government statement on housing policy made in December 2000 that emphasised the government's continuing support for a substantial Large Scale Voluntary Transfer programme.

Since 1988, over 780,000 homes have transferred from local authorities to housing associations. However, the number of transfers in recent years has been fewer than the government target of 200,000. Banks, building societies and the capital markets have financed these transfers with over £12billion. The government expects future private funding to total £1billion a year.

#### **Policy Context**

The government supports such transfers taking place because it enables investment to be made in improving the housing stock without calling on public sector housing budgets or putting pressure on the public sector borrowing requirement.

On 5<sup>th</sup> February 2003 the Office of the Deputy Prime Minister issued the 'Communities Plan'. With regard to stock transfer, it stated that:

*"We will remove any unnecessary barriers to stock transfer, including meeting the cost of early redemption of Public Works Loan Board debt, extending arrangements for repaying overhanging debt to partial stock transfers, and exploring options for gap funding of negative value housing stock.*

*"We will consult by April 2003 on additional models for funding future housing stock transfers that both secure the extra investment needed and improve the service to tenants."*

Specific proposals in the 'Communities Plan' included:

- Investigating the removal of unnecessary financial barriers to stock transfers
- Meeting the cost of early debt redemption
- Extending arrangements for repaying overhanging debt to assist inner city partial transfers
- Exploring gap funding for negative value stock
- Consultation on additional funding models to ensure service improvement and extra investment

The government sees housing transfer as a dynamic framework and wishes to ensure that:

- Barriers to delivery do not delay and frustrate the delivery of decent homes for tenants
- The best deals are being offered to councils, tenants and private sector partners
- The best use of private sector financing is achieved and that innovation is taking place where appropriate

Government objectives are to:

- Develop incentives to help ensure the benefits of transfer offered to tenants are realised
- Improve the decision making process when considering the financing of transfers by removing barriers in the process
- Encourage financial innovation with the potential for alternative funding structures that create better incentives and opportunities to perform
- Assist new transfers by ensuring the necessary advice, information, guidance and best practice is available

The government sees the barriers to large scale voluntary transfer as being securing a place on the transfer programme because of uncertainty of the outcome of the application; and the current funding arrangements. The main problems with the current funding arrangements are seen as:

- Requirement for thirty years of funding to be in place
- Funding fees are usually included in the transfer set up costs
- Insufficient financial skill set
- Lack of sophistication in procurement of funding advice
- The process for negotiating the transfer price

The key measures that the government suggests are:

- Funding advisers and new finance directors to be involved earlier

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- The quality of funding advice to play a bigger part in the Housing Corporation's decision to register a transfer
- The Office of the Deputy Prime Minister will give an assurance that where the transfer criteria are met and there is an option appraisal signed off by the Government Office for the Region, applications for a place on the programme will be successful
- Housing Associations would meet the cost of lenders' bills rather than local authorities thus giving an incentive to negotiate lower interest rates
- Tenanted Market Value would be used to examine and validate the costs and serve as a reserve valuation from which an authority would negotiate the price upwards
- The requirement to have thirty years' funding in place would be replaced with a requirement to have a thirty year funding strategy in place, with an initial funding tranche in place at the outset to meet the transfer price and the transfer promises made to tenants

The government also wishes to see the housing transfer model developed as follows:

- The new landlord involvement could start earlier in developing the transfer proposal with tenants, including in scheme development and business planning.
- The Office of the Deputy Prime Minister will promote partnership working and incentivise local authorities to explore the scope for working with existing housing associations
- It will become a requirement for the new landlord to take the lead in developing the business plan
- The Office of the Deputy Prime Minister will explore areas where greater standardisation and process guidance could produce benefits. Standard agreements which could save time and reduce legal fees are anticipated.
- Local authorities would be required to set up a good quality central stock database and due diligence library to avoid duplication of effort.
- National database pooling advice and experience will be promoted

The main recent developments are therefore:

- The removal of the 12,000 homes limit on individual transfers
- Receipts less debt and levy all kept local – including PRTB sharing
- Assistance with early debt redemption and overhanging debt on partial transfers
- Full funding replaced by Peak Funding and a "Strategy"
- Tenanted Market Value can be calculated at less than 6% where appropriate
- Transfer housing associations may take transfer of neighbouring Authority stock subject to a competitive process
- A compliant options appraisal is needed to secure a place on the programme

## **The Annual Programme**

The government controls and regulates the process through an annual programme and the housing transfer guidelines. The reason for the annual programme is to enable the government to ensure that transfers are well conceived and meet government priorities, and to control the long-term resource implications for the government as a whole. These include 'overhanging debt' and Housing Benefits.

To make a Large Scale Voluntary Transfer, the following process must be followed:

- Applications are invited every autumn/winter.

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- The Council selects a transfer landlord, makes an offer to the tenants and determines the transfer price.
- The Council gets a place on the government's transfer programme.
- Tenants are balloted on a specific offer.
- Terms and conditions are agreed with the new Landlord.
- The new landlord secures funding and registers as a Registered Social Landlord with the Housing Corporation.
- The Secretary of State consents to transfer.
- Conveyancing and contractual completion.

The principal benefits of a Large Scale Voluntary Transfer are considered to be:

- Social Housing: Affordable rents, Good quality service provision, secure budgets for ongoing repair and maintenance and Provision for the homeless and other housing needs.
- Investment: Completion of major repairs, Provision for modernisation and Investment in new housing
- Tenants: Protection of existing rights and overall security, Rent guarantee and Committee representation.
- The Council: Enabling ability, Staff transfers, Satisfying public accountabilities and possible net income to the General Fund.

The principal disadvantages of a Large Scale Voluntary Transfer are considered to be:

- The council retains its strategic and enabling functions, but loses the landlord role.
- The controlling body of the new landlord is not democratically elected.
- New tenants after the transfer do not have the 'Right to Buy'.
- Impact on the council's corporate structure of the loss of functions, including the inability to apportion central administration costs between the general fund and the housing revenue account.
- Risk of abortive costs if tenants vote against the Large Scale Voluntary Transfer.

There can also be a cost to the General Fund because of the effect of a Large Scale Voluntary Transfer on Rent Rebates. When tenants are transferred to the private sector they become recipients of Rent Allowances that are chargeable to the General Fund, rather than Rent Rebates that are currently chargeable to the Housing Revenue Account.

95% of Rent Allowances are funded through Benefit Subsidy, with the remaining 5% met from the General Fund. The Standard Spending Assessment, that governs the level of central government financial support for the General Fund, takes account of the 5%, but only after a three-year time lag. Consequently, government allows Local Authorities to capitalise the cost, but it remains a burden on the Council Taxpayer. From 2004/2005 all housing benefits will be paid from the general fund so a large scale voluntary transfer will no longer affect the cost of housing benefits.

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## **Financial Implications**

The basis for valuation for a Large Scale Voluntary Transfer is Tenanted Market Value. This values the stock as social housing, assuming affordable rents and good standards of maintenance. It does not, therefore, reflect either the value of the 'bricks and mortar' or the market value, and is usually significantly less than either of these values. Tenanted Market Value is calculated by forecasting income and expenditure on management and maintenance over a thirty year period, and using the forecast surplus for the period as a basis for calculating the capital value. Tenanted Market Value is usually calculated using a discount rate between 6 and 7%.

The government has provided two models that must be completed by an authority that wishes to apply for a place on the large-scale voluntary transfer programme. The first is the 'Cost Generation Model' that analyses all the expenditure that is required on the stock over a thirty-year period. The second is the 'Pricing, Rents and Public Sector Net Borrowing' model that calculates the Tenanted Market Value, the thirty-year business plan of the transfer landlord and the effect on the public sector borrowing requirement of the proposed transfer.

If the "Right to Buy" is preserved, potential receipts from this are excluded from the calculation of Tenanted Market Value. Receipt sharing arrangements are usually agreed instead, with the Registered Social Landlord receiving enough to compensate him for the property discount, and the balance accruing to the Council.

This method of calculation means that the new landlord can afford to cover his capital financing costs as well as his management and maintenance costs out of the forecast income. The forecast income will take account of any guarantees that have been given about rent levels.

One obstacle faced by some local authorities wishing to transfer their stock is 'overhanging debt'. This situation arises where the capital receipt that a council gains from the transfer of its stock is not large enough to repay all of its housing debt.

In February 2000 it was announced that where the capital receipt which a local authority receives for the transfer of its entire housing stock is less than the debt attributed to the stock, the Government are prepared to make a one-off payment to assist the authority to repay the outstanding Public Works Loan Board debt principal. In such cases the local authority will be required to repay its attributable housing debt shortly after the transfer is completed.

Another debt-related problem is that authorities wishing to use the capital receipt from a Large Scale Voluntary Transfer to repay debt often face the need to pay a premium. This is because loans were often taken out at fixed rates of interest when interest rates were higher than they are now. The net cost falls on the General Fund, but the government has recently announced that it will consider funding the cost of premiums that are payable with regard to future large-scale voluntary transfers.

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The cost of carrying out a stock transfer can be considerable. Typical costs can be as follows:

Stock Option Appraisal	£15,000 to £50,000*
Basic Stock Condition Survey	From £5 a dwelling
Full Stock Condition Survey	From £150 a dwelling
Adviser to local authority	£100,000
Independent Tenant Adviser	From £10,000
Overtime and staff costs	Up to £100,000
Transfer legal costs	£90,000 to £150,000
Communications consultant	£20,000 to £50,000
Brochures, newsletters, exhibitions	£20,000
Video production	£10,000 to £20,000
Ballot	70p to £3 a tenant

### **The Tenants and the Local Authority**

A large scale voluntary transfer cannot proceed without a tenants' ballot. Tenant consultation is usually addressed by the Local Authority and the new landlord agreeing a formal transfer consultation document that includes legally enforceable commitments on tenancy rights, rent guarantees, investment in the stock, representation on the Board of Management and proposed housing policies.

Council tenants have statutory rights, but the tenants of Registered Social Landlords are 'assured' tenants. However, tenants' rights are usually preserved at transfer, and new tenants usually enjoy the same rights with the exceptions of the 'Right to Buy' and any rent guarantees.

Levels of investment, based on a stock condition survey are usually guaranteed by the new landlord, including a programme of repairs and renovation to address any backlog.

After a large-scale voluntary transfer the local authority is no longer a landlord, but it retains significant housing responsibilities. It is still the strategic housing authority and the need for clear leadership on housing issues is still important. They must also monitor and co-ordinate services delivered by many different organisations so that they are seamless to tenants and other service users. It is considered that the more successful post-transfer authorities have used stock transfer as part of a long-term strategy to build and maintain sustainable communities, balancing housing markets and improving housing services.

There is a danger that by 2005, there will be a number of councils where attempts to secure a transfer have failed at ballot stage, performance is too poor to establish an arms length management organisation, and property values are too low for a private finance initiative scheme.

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## **Conclusions**

Large-scale voluntary transfer appears to be the main way in which the government envisages private funding being used to bring social housing up to the decent homes standard. A considerable number of large-scale voluntary transfers have taken place, and despite some recent high profile rejections of stock transfer by tenants, there continues to be a significant transfer programme. In the Communities Plan of February 2003 the government has continued to encourage this process by removing some of the obstacles that some local authorities would face if they transferred their stock. This process is set to continue with the publication of the most recent consultation paper.

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