



### PURPOSE

To present and explain the input assumptions and main findings to the separate Financial Appraisal undertaken by Docherty Consulting Ltd (DCL) in conjunction with David Adamson & Partners (David Adamson) in support of the Council's first Standard Delivery Plan.

### METHOD

All assumptions below were agreed in partnership with the Council and are drawn from the 2004/05 Council's Housing Revenue Account and David Adamson's 30 Year Forward Maintenance Forecast Report respectively. All income and costs are as at first Quarter 2004. An independent Financial Model was created to facilitate the Financial Appraisal using these assumptions.

### MAIN FINDINGS

The full David Adamson Total Estimated Costs have been input to the Model along with all of the relevant current HTA Expenditure at 2004/05 prices. **The preliminary results readily demonstrate that at a strategic level the Council should be able to progress with confidence to meet SHQS requirements and implement the strategy set out in its first Local Housing Strategy in respect of existing Council owned dwellings.** An extract from this Model showing in particular a strong net annual cash flow, is presented at Annex 1. The full Model can be made available upon request.

The Model adopts a conservative set of assumptions that in practice the Council should be able to improve upon, releasing additional resources for the benefit of the HRA. These benefits include:

- Projected income of £1.8m becoming available to the Council as a result of a likely partnership initiative with Scottish and Southern Energy. *Recent correspondence between the Council and the local energy provider strongly suggests that these additional resources are likely to be achieved*
- Projected reductions of "high cost" dwellings, which are scheduled for demolition or disposal under the Council's LHS. *The Council is predicting that around 250 dwellings will be removed from the HRA as a result of their disposals strategy. These are dwellings, which are in poor condition and/or suffer from high voids losses. The current appraisal does not allow for this and would almost certainly benefit by its inclusion.*
- Reductions in management and central overheads as a result of projected RTB sales. *No pro-rate compensation has been made for projected stock losses*



Cash flow profiling. *At this stage the Model is simply being used to demonstrate the "fundability" of reaching and maintaining the SHQS. Significant annual cash surpluses are predicted and a more effective use of balances would release further funds for use as appropriate by the Council*

- Efficiency savings through best value studies
- Procurement and economies of scale efficiencies generated through a move to whole life HRA asset management. *This will be explored in detail during 2005/06 along with a detailed risk assessment.*

## **ASSUMPTIONS**

### **1.0 Rental Assumptions**

#### ***Opening rents and stock numbers (2004/5)***

The Model uses Council average rental assumption of £42.68 across all stock.

Revised Areas are shown, which contain a new "virtual area" called Multi Storeys in anticipation of the Council's likely move to an area based investment approach. Further discussions will be held with the Council to agree whether the under noted Area split is retained or alternatively the access stock condition database is adjusted to become aligned with the recent housing services restructuring.

Use opening stock numbers at 1<sup>st</sup> April 2004 from Docherty Consulting's database as follows.

<b>Area(multi storeys extracted)</b>	<b>Dwelling Numbers</b>
Falkirk	1522
Denny	3464
Stenhousemuir	2303
Grangemouth	2804
Bo'ness	1690
Braes	2909
Camelon	1719
Dawson	1392
Multi Storey Dwellings	1005
<b>Total</b>	<b>18808</b>

This calculation adjusted for RTB sales projected generates a projected income of £41,247,915 against an average stock number of 18,586.



***Rent Increase Assumptions***

The Model assumes annual rent increases of 3.5% (Inflation plus 1%) during years 1 to 10, with a base year at 2004/5, and 2.5% (Inflation only) thereafter.

***Voids and Bad Debts Assumptions***

A reduction of **£2,072,100** is made as provision for dwelling voids and bad debts, which is the allowance made in the Council's 2004/5 HRA.

**2(a) Garages and Lock Ups**

The annual projected income for shops, garages and lock ups is £552,150 based on existing occupation of 2481 rent paying units less £54,250 allowance for voids and bad debts making £497,900. A further reduction of 10% for future demolitions is made reducing projected annual income at 2004/5 to **£448,110**. This is obtained from the HRA and is retained over the life of the Model

**2(b) Shops And Office Rents**

The annual projected income for shops and offices in the HRA is shown as £1,043,450. This figure is retained over the life of the Model and increased in line with inflation @2.5%

**3.0 Funding and Inflation Assumptions (2004/5)**

Fiscal and Banking Assumptions as follows:

Inflation	2.50%
Loan Interest Rate	6.00%
Interest Earned on Cash Flows	4.00%
Interest on Own Funds Provided	4.00%



**4.0 Other Income**

These figures are directly taken from the 2004/05 HRA.

***Specific Government Grants***

£170,230

***Fuel and Service Charges***

£32,160

***Charges to Other Accounts* (calculated from FC 30 year HRA Financial Model)**

2004/5	2005/6	2006/7	2007/8	2008/9 onwards
£2,330,350	£2,200,990	£2,200,990	£2,200,990	£2,200,990

***Charges to Other Accounts* (continued)**

2009/10	2010/11 onwards
£1,990,990	£1,200,990

***Interest Received***

£0 (separately accounted for in cash flow balances @4% per annum)

***Insurance Recoveries***

£178,400

***Rechargeable Works***

£133,850

***Miscellaneous Income***

£49,110



**5.0 Right to Buy Sales**

Current assumptions as follows:

Average Total per annum over 10years **445**  
 Net Selling Price per Unit (net sales value 2003) **£17,767**

Area	% Sales/Annum	Average Annual Number of Sales
Bo'ness	8%	36
Braes	15%	67
Camelon	12%	53
Dawson	4%	18
Denny	16%	71
Falkirk	13%	58
Grangemouth	19%	84
Stenhousemuir	13%	58
Multi Storeys	0%	0
	100%	445

**6.0 Management Costs (2004/5)**

As per 2004/5 HRA

Employee Expenses	<b>£4,867,000</b>
Support Services	<b>£3,481,310</b>

**7.0 Property Expenses (2004/5)**

Total £14,810,290, See separate breakdown provided at Annex 2.



### 8.0 Planned Renewal and Replacement Expenditure

Based on David Adamson projections an **average annual expenditure of around £25m** is required to bring the Council's stock up to SHQS standard by 2015 (at 2004/5 prices).

It is important to note that this information is based on provisional survey data, which is not yet able to be used at dwelling specific level and that this information is being used to independently validate the Council's position as stated in the Delivery Plan. Please note that this figure is considered to over provide as some additional works are forecast, providing further comfort to the Council.

Please also see Separate Breakdown at Appendix 1 – Total Estimated Cost Summary, which is further explained in detail in the David Adamson Report and provides the explanation for the assumptions used here.

### 9.0 Supplies and Services

HRA figure gross = £4,248,350

- Reduce by £2,126,350 as voids and bad debts are previously allowed for in Rents(see section 1) and Garages(see Section 2) respectively
- Reduce by £708,020 (Architects fees) as budgetary provision for future capital works is allowed for within capital works.
- Introduce contingency of £100,000 against future rolling stock condition surveys

Model Assumption **£1,513,980**

### 10.0 Third Party Payments

Total third party payments **£711,960** as per HRA.

### 11.0 Repayment of Existing Debt

Schedule of repayment of existing debt and leasing obligations is fully allowed for as projected by the Council. For example Annex 2 demonstrates that £8,716,000 debt and principal repayment and £4,395,000 leasing charges, respectively are included for 2004/5. Interrogation of the cash flow at Annex 1 demonstrates full provision for repayment until extinguishment.