



Department for
Communities and
Local Government



Homes &
Communities
Agency

MAYOR OF LONDON

Housing Transfer Manual

Period to 31 March 2016

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Ministerial foreword

In November last year we published a transfer manual for stock transfers completing by 31 March 2015. The manual set out a new approach to transfer; one that reflected the self-financing settlement and placed a stronger focus on securing good value for money and generating local growth, particularly where government support for the transfer in the form of debt write-off is requested.

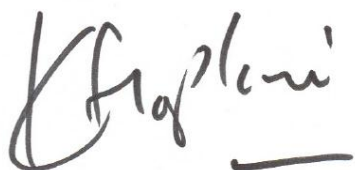
That new approach has worked well. Following a robust assessment process, we have committed nearly £300 million to support the transfer of over 30,000 council properties in Durham, Gloucester and Salford, in the period to 31 March 2015, subject to a vote in favour by tenants. Transfer in these areas would deliver significant additional investment in the housing stock and over 1,000 additional affordable homes in the first few years after transfer, stimulating local growth and employment.

This manual, covering applications to transfer which will complete in the year from 1 April 2015 to 31 March 2016, represents only a minor revision. Whilst the process remains the same, we expect the nature of transfer applications to change.

We would particularly encourage innovative proposals that use transfer as a means of enabling the regeneration of housing estates where poor physical conditions and poor social and economic outcomes mean this is a priority.

In November last year, we gave tenant groups a new statutory right to initiate and undertake, with the co-operation of their local authority landlord, the transfer of their homes to a housing association landlord. We would welcome tenant groups exercising that right.

We have made available up to £100 million to provide debt write-off and support for associated early redemption premiums for applications coming forward under this manual which represent good value for money and deliver the priorities.

A handwritten signature in black ink, appearing to read 'Kris Hopkins', with a horizontal line underneath.

Kris Hopkins MP
Parliamentary Under-Secretary of State

1. Introduction

- 1.1. Housing transfer is the voluntary transfer of ownership of all or some of a local authority's tenanted and leasehold homes to a private registered provider (see Section 2 for definitions) in return for a payment for the value of that stock.
- 1.2. The government wants to encourage transfer where this represents good value for money and where it will lever in additional private investment that delivers growth through:
 - more affordable housing;
 - local economic activity; and
 - providing a robust, long-term future for estates and neighbourhoods, including by compliance with the Decent Homes Standard, whilst protecting tenants and leaseholders.
- 1.3. The government is particularly interested in stock transfer proposals that will facilitate or enable the regeneration of housing estates and deliver much better social and economic outcomes alongside improved physical conditions. Whilst we recognise that transformational estate regeneration may require some demolition of existing homes, this would need to be clearly justified. We would expect landlords to consider options to upgrade and refurbish existing homes, in consultation with tenants and in line with George Clarke's 12 point plan¹, and to view demolition as a last resort.
- 1.4. The government also wishes to support tenants who want more influence and control over their homes. Since November 2013, local authority tenants have had a statutory right to take forward the transfer of their homes to a housing association landlord, and their local authority landlord is required to co-operate with this process. We welcome transfer applications from tenant groups exercising their rights under the Right to Transfer Regulations as well as applications from local authorities.
- 1.5. The government expects transfer to support transparency. Landlords to whom stock is transferred should be open and accountable to their tenants and the wider public.
- 1.6. This manual replaces the November 2013 edition and applies (in whole or part) to all housing transfer applications that complete in the period from 1 April 2015 to 31 March 2016. This edition is issued jointly by the Homes and Communities Agency (HCA), the Greater London Authority (GLA) and Department for

¹ <http://www.emptyhomes.com/what-we-do-2/campaign-demands/2470-2/>

Communities and Local Government (DCLG). Annex G sets out an indicative timetable for the process from submission of a transfer application through to Secretary of State consent to transfer.

- 1.7. This manual is aimed primarily at local authorities and tenant groups considering or pursuing transfer but will also be of interest to tenants more generally and prospective recipient landlords. It sets out the process a council or tenant group is required to follow in order to gain consent from the Secretary of State to transfer and the issues that will be considered in assessing individual transfer applications. It describes the submissions required ahead of the final application for consent, and the criteria by which these submissions will be assessed.
- 1.8. This process is designed, in particular, to ensure that a transfer receiving consent will deliver maximum benefit, in terms of government priorities, for minimum cost. Councils will, in general, hold debt secured against their housing stock and serviced by its rents. When stock is transferred the related debt will need to be repaid, and if the Transfer Value of the stock is insufficient for full repayment, central government will be required to assist. This is a process known as overhanging debt write-off. Minimising cost through the transfer process means ensuring transfer values are acceptably optimised i.e. they achieve an acceptable value for money balance between maximising transfer value, minimising overhanging debt write-off and securing additional private investment which delivers growth, including more new housing.
- 1.9. Consultation with tenants during transfer is governed by statute (Schedule 3A to the Housing Act 1985). The relevant statutory guidance, issued in July 2009, should be read alongside this manual and can be accessed at:

<https://www.gov.uk/government/publications/consulting-council-tenants-about-selling-their-homes-to-a-private-landlord-statutory-guidance>

2. The housing transfer process

- 2.1. For transfer to take place, the consent of the Secretary of State under sections 32-34 and/or 43 of the Housing Act 1985 is required. Before giving that consent and agreeing to provide any support for debt write-off, the Secretary of State will wish to be sure that the proposal offers value for money; accords with government policy; has the support of the tenants involved; and provides them with the protection of a regulated landlord.
- 2.2. The Secretary of State will consider these matters in full when deciding whether to grant consent to the transfer. In addition, prior to proceeding to formal consultation, the local authority or tenant group must have its application for transfer approved by the HCA or GLA. Where government support for overhanging debt write-off is sought, the application will be assessed by HCA or GLA in conjunction with DCLG and HM Treasury and the decision on whether to provide support will be made by DCLG ministers. The decision on whether to approve an application will be based on an assessment of the business case for transfer, as described below.
- 2.3. The Transfer Manual (“the manual”) is divided into five further sections, corresponding to the main activities and decisions in the transfer process:
 - section 3: Deciding to pursue transfer - preliminary activity, leading to a decision to pursue transfer;
 - section 4: Submission of an application – preparing an application for stock transfer by demonstrating the maximisation of benefits and minimisation of costs, including, where relevant, specifying any required debt write-off;
 - section 5. Submission of a formal consultation proposal – preparing to formally consult tenants;
 - section 6: Regulatory requirements – parallel Regulatory activities, including submission of a registration application for a new landlord (where relevant); and
 - section 7: Submission for Secretary of State's consent and completing the transfer – completing the process.
- 2.4. A local authority or tenant group pursuing transfer and the receiving landlord will also need, in parallel, to pursue the financing of the transfer.
- 2.5. Any organisation receiving local authority stock must be a private registered provider registered with the Social Housing Regulator (“the Regulator”). It can be a not-for-profit or a for-profit organisation. Such a recipient is referred to in this manual as a private registered provider to distinguish it from the transferring local authority, which is also a registered provider. Not-for-profit private registered providers are informally known as housing associations.

Large scale voluntary transfers

- 2.6. A Large Scale Voluntary Transfer is the transfer of 500 or more tenanted and leasehold properties. A Large Scale Voluntary Transfer can include all the stock owned by a local authority or a part of it. The latter is known as a partial stock transfer. Any Large Scale Voluntary Transfer which requires central government to write-off housing debt or associated earlier redemption premiums will need to follow all stages set out in the manual. (Note paragraph 7.14 which specifies which early redemption premiums will be supported by central government).
- 2.7. A local authority wishing to carry out a Large Scale Voluntary Transfer which requires central government to write-off housing debt may apply at any time through submission of an application (see Section 4). As noted in Section 3, the HCA/GLA will expect to have significant contact with a local authority prior to the submission of an application, and hence would expect to be already aware of any such proposals.
- 2.8. A local authority wishing to carry out a Large Scale Voluntary Transfer which does not require debt write-off or government support for early redemption premiums will be required to follow a similar process including approval from the HCA/GLA to proceed to formal consultation, but no DCLG approval will be required beyond provision of consent to transfer from the Secretary of State at the end of the process. There will be scope to reduce the application requirements on a case by case basis at the discretion of the HCA/ GLA. As noted in Section 3, the HCA/GLA will expect to have had significant contact with a local authority in this position prior to the submission of an application.

Small scale voluntary transfers

- 2.9. A Small Scale Voluntary Transfer is the transfer of 499 or fewer tenanted and leasehold properties over 5 years or less. Government support for overhanging debt is not available for Small Scale Voluntary Transfers, except for transfers of between 250 and 499 tenanted and leasehold properties being taken forward under The Housing (Right to Transfer from a Local Authority Landlord) (England) Regulations 2013.
- 2.10. A local authority wishing to carry out a Small Scale Voluntary Transfer will be required to follow a similar process to that described for Large Scale Voluntary Transfers in paragraph 2.8 above, including submission of an application. However there will be scope to reduce the application requirements including the following:
 - in Annex A, Application Pro-Forma, the level of detail provided against narrative questions should be commensurate with the scheme's size and complexity;

- whilst a completed Transfer Value Reconciliation is required, supporting information should be commensurate with scheme size; and
- a Cost Benefit Analysis will not be required.

2.11. As noted in Section 3, the HCA/GLA will expect to have had significant contact with a local authority in this position prior to the submission of an application.

Community led stock transfers

2.12. Where a tenant group brings forward transfer proposals under The Housing (Right to Transfer from a Local Authority Landlord) (England) Regulations 2013 (“the Right to Transfer Regulations”), then the process set out in this transfer manual applies in the same way depending on whether the community led stock transfer is a Small Scale Voluntary Transfer or a Large Scale Voluntary Transfer, and, whether they are seeking government support for debt write-off. Where a Small Scale Voluntary Transfer is eligible for and seeking debt write-off, the application must follow all the stages set out in this manual in the same way as for a Large Scale Voluntary Transfer.

2.13. Tenant groups interested in pursuing transfer should, in the first instance, familiarise themselves with the Right to Transfer Regulations and the associated statutory guidance.

2.14. Broadly, the provisions of the transfer manual apply from the stage at which the tenant group has presented its feasibility study to the local authority and this has been accepted. Tenant groups are recommended to engage at an early stage with the HCA (or in London, the GLA) though assessment will not commence until a feasibility study has been accepted. Tenant groups should, in particular, seek the view of the HCA/GLA on the reasonableness of any attribution of debt to the stock being transferred which it has agreed with the local authority.

2.15. Local authorities should note that, where a group of tenants is pursuing transfer under the Right to Transfer Regulations, the authority is expected to co-operate with the tenant group at all stages, including providing information to enable the group to prepare a transfer application.

2.16. In the event of dispute, the tenant group and local authority should follow the procedure set out in the Right to Transfer Regulations. The HCA/GLA does not have a role in dispute resolution and will not consider a transfer application whilst

- a request for a Determination from the Secretary of State is outstanding; or
- there is not a common view on both the transfer valuation and the level of debt attributable to the transferring stock.

2.17. If HCA/GLA believe there are unresolved issues, but no determination is being

sought, they will, with DCLG, set out parameters for their engagement with all parties. These are non-negotiable though parties may then choose to make a request for a determination.

The role of the government and its agencies

Role of the Department for Communities and Local Government (DCLG)

2.18. DCLG is responsible for:

- setting, articulating and interpreting the overall policy framework and value for money criteria which will apply in assessing transfer applications;
- assessing, in conjunction with HCA or GLA and HM Treasury, transfer applications where support for debt write-off or early redemption premiums is sought, and making recommendations for approval for financial support to ministers;
- considering whether consent to transfer should be granted by the Secretary of State; and
- any central government arrangements for the payment of debt, early redemption premiums or discounts.

Role of the Homes and Communities Agency (HCA) and the Greater London Authority (GLA)

2.19. The GLA acts in relation to stock owned by London Boroughs, the HCA in the rest of England. They are responsible for:

- initial discussions with a council or tenant group that is considering transfer preparatory to submission of a transfer application;
- carrying out formal assessments of each transfer application (alongside DCLG and HM Treasury where financial support for debt write-off or early redemption premiums is sought), including an assessment of value for money based on reliable evidence of how the proposal delivers government, and in London, mayoral, priorities;
- approving tenant information provided in the formal consultation;
- assessing the provision of tenant information in the formal consultation;
- recommendations to DCLG on consent to transfer applications to the Secretary of State; and
- managing the transfer caseload, including agreeing each local authority or tenant group's transfer timetable.

2.20. Within the HCA:

- area officials may advise transferring authorities at their request;

- the HCA in its capacity as Regulator will:
 - decide, through its Registration Committee, whether any proposed new social landlord, created to receive transferring stock, meets the criteria for registration; and
 - discuss with an existing private registered provider the implications for its current business plan of taking on additional stock through transfer.

Regulatory engagement, including where relevant the registration process, will largely occur following the approval of the transfer application. Given the need for registration prior to final Secretary of State consent, comments from the Regulator will be considered as part of earlier assessments of the initial application. Otherwise, the HCA will manage any conflicts of interest between its functions through appropriate protocols.

Completion deadline

- 2.21. Applications to transfer stock under the terms of this manual that seek support for overhanging debt write-off must be made on the basis that transfer will complete by 31 March 2016. Where the government offers to provide support for overhanging debt write-off in 2015-16 following an application, the support will be conditional on expenditure being incurred by 31 March 2016. The risk of funding being unavailable in the event of delayed completion of a transfer falls to the local authority or tenant group and not to the government.

3. Deciding to pursue transfer

- 3.1. A local authority landlord will review the make-up and delivery of its services on a regular basis, and consideration of transfer may result from this. Reasons for considering transfer include:
- to allow the transfer landlord to borrow on private markets outside constraints on public debt, in order to invest in new or existing stock and create local economic activity;
 - in response to tenant wishes or to create new or innovative models of public service delivery;
 - to enable delivery of an estate based regeneration scheme; and
 - for partial transfers, to remove stock from the Housing Revenue Account which is challenging for a self-sustaining business plan, due to its construction, occupancy or estate issues.
- 3.2. Tenant groups may wish to consider initiating a transfer under the Right to Transfer Regulations where they consider that this would enable them to exercise more control and influence over the management of their homes or enable additional investment in the stock and local community. Where debt write-off is requested in such a case, this will need to be justified against the value for money criteria set out further on in this manual.
- 3.3. Self-financing has enabled council landlords to implement sustainable 30 year business plans and asset management strategies. Any transfer proposal should emerge from and be aligned with these documents.

Preliminary activity

- 3.4. Submission of a transfer application will draw together significant preliminary work. A local authority or tenant group will need to ensure it has evidence to illustrate how it meets the conditions and criteria used in assessment, including, for local authority led proposals, the demonstration of councillors' support. More generally any transfer proposal will need to demonstrate value for money in respect of transfer value, debt write-off and securing additional private investment which delivers growth and alignment with government priorities. These should inform consideration of transfer from the outset.
- 3.5. A local authority or tenant group should inform the HCA/GLA of its interest in transfer at the time this is first given serious consideration. The local authority or tenant group should maintain a dialogue with the HCA/GLA prior to the submission of a transfer application, to help it provide the required information.

Involving tenants

- 3.6. Tenant consent, through a ballot, is required before a transfer can occur. The Secretary of State's consent will only be obtained if tenants have been full participants in decision making from the outset. Within the application, the local authority or tenant group will need to confirm that tenants were involved in the appraisal of options prior to the decision to move towards transfer.

Community-initiated transfer proposals

- 3.7. Where a tenant group wishes to explore the benefits of transfer, The Housing (Right to Transfer Local Authority Landlord) (England) Regulations 2013 require local authorities to co-operate with that process.
- 3.8. There are a number of ways in which tenants can play a significant role in the management of a private registered provider, including co-operatives, tenant and staff mutuals, tenant majority boards and Community Gateways. Tenant groups may seek to transfer their homes to a new stand alone private registered provider but the government would encourage tenant groups to instead seek an existing private registered provider as a partner.
- 3.9. The evaluation of transfer applications will consider the extent to which the transfer landlord can deliver efficiencies and contribute to local economic growth through the delivery of new affordable housing and additional investment in the existing housing stock. Existing private registered providers may be better placed to do this and provide better value for money than a new small, stand alone landlord.
- 3.10. A local authority may seek a Determination from the Secretary of State under the Right to Transfer Regulations to halt the transfer where the authority considers the transfer would have a significant detrimental effect on the provision of housing services in the area of the authority or the regeneration of the area.

Proposed partial transfers

- 3.11. When proposing a partial transfer, the local authority will need to demonstrate (as part of the application) that the proposal has been considered in terms of community geographical boundaries or communities of interest. Under the Right to Transfer Regulations, the homes that the tenant group wishes to transfer must form a geographically coherent area.
- 3.12. The local authority is responsible for ensuring the sustainability of the stock retained following a partial transfer.

3.13. For partial transfers, the debt associated with the transferring stock should be attributed as set out in paragraph 4.7 to 4.8.

3.14. The importance of early consultation with tenants applies to partial transfers.

Choosing the prospective new landlord

3.15. A local authority or tenant group will need to identify the proposed type of receiving landlord before submitting an application or, where this is outstanding, a clear process for making the specific choice of landlord, including details of any competitive process (see Section 6: Regulatory Requirements).

Options for the type of landlord

3.16. As a part of its preliminary work, a local authority or tenant group will need to consider with its tenants what type of new landlord should take over the housing. The options are:

1. an existing private registered provider;
2. a newly established subsidiary of an existing private registered provider (either part of an existing group structure or through the creation of a new group structure);
3. a newly established free-standing private registered provider;
4. a number of newly established private registered providers that will make up a new group; and
5. a newly established free standing private registered provider based on an existing organisation managing the stock, e.g. an Arms Length Management Organisation.

Involving tenants

3.17. The local authority or tenant group should work with, and consider ways of helping tenants in, weighing up the relative advantages of:

- different types of transfer landlord (including set-up costs, ability to obtain private finance, and the potential to minimise government debt write-off and hence maximise the application's chance of success); and
- specific potential recipients for their homes.

The latter might be as part of an informal selection procedure or through holding a competition between invited private registered providers. Tenants might, for example, be involved in drawing up the specification for potential bidders, agreeing a short-list and contributing to the final selection (see Section 6).

3.18. As a part of its application, a local authority will need to confirm that tenants have been/ will be made fully aware of all the new landlord options and what each option offers to tenants in relation to their particular circumstances, and provide evidence that they are fully involved in the final landlord choice.

Using a competitive process for landlord selection

3.19. The government encourages the use of a competitive landlord selection process as a means of ensuring the best price is obtained for the stock being transferred and optimising value for money. Should the local authority or tenant group choose not to use a competitive process, we will seek assurances that their approach to landlord selection allows best value to be realised for the transferring stock and demonstrates good value for money for the transfer proposal.

3.20. The local authority or tenant group should ensure that all bids are capable of complying with the Regulator's policies and registration criteria. The local authority or tenant group must provide copies of any bids received from existing private registered providers to the Regulator. The private registered provider should inform the Regulator when they are bidding for stock. The Regulator will not interfere with the commercial negotiations between the local authority or tenant group and interested private registered providers but the Regulator will consider the reasonableness of key assumptions underlying the different business plan projections of private registered providers' bids and provide this analysis to the HCA/GLA for the purposes of the value for money assessment.

Establishing a group structure

3.21. A local authority with large stock holdings may consider establishing a new private registered provider with a group structure, or transferring as a subsidiary of an existing private registered provider. The Regulator should be consulted about a proposed group structure at an early stage (see Section 6).

3.22. When these options are being considered, there should be no constitutional or contractual constraints on future restructuring of the group, e.g. there should be mechanisms which allow subsidiaries to demerge from the group (subject to consent of the parent private registered provider, not unreasonably withheld).

Transferring a Direct Labour Organisation

3.23. A local authority will need to decide whether any Direct Labour Organisation should transfer. If a Direct Labour Organisation is transferred this should not add to the transaction cost of the transfer (including the set-up costs). In their assessment of value for money, the HCA/GLA will expect to review the impact on set-up costs. As described below, however, a Direct Labour Organisation may

help support the financial case for transfer by reducing irrecoverable VAT and hence increasing the Transfer Value.

Corporate impact and employment arrangements

- 3.24. The local authority is responsible for assessing the effect of transfer on its wider position and activities, and specifically (i) the delivery of other services, (ii) the overall financial position, covering the general fund, (iii) for whole stock transfers, the effect on its corporate structure, and (iv) for partial transfers, the continuing viability of its Housing Revenue Account Business Plan for the retained stock. The local authority will continue to have a strategic housing role after transfer and should ensure it retains a sufficient budget and staff complement.
- 3.25. The local authority is responsible for assessing the implications of transfer on employment arrangements and for consultation with staff, including ensuring compliance with Transfer of Undertakings (Protection of Employment) Regulations (TUPE) where relevant.

Maintaining an alternative plan

- 3.26. There are risks to the successful completion of a transfer; for example ministerial consent may be withheld at some stage in the process, private finance may be unobtainable, the tenant ballot may be against proceeding, or it may not be possible to complete the transfer by March 2016. It is therefore important that, throughout the development of the transfer proposal, an alternative plan for the landlord function, with a viable long-term business plan, is maintained.

4. Submission of an application

- 4.1. This section sets out the process for submission and assessment of a transfer application and explains the material that authorities need to submit. The Secretary of State is unlikely to grant consent to a transfer unless an application is approved ahead of the formal consultation with tenants.
- 4.2. Tenant led transfers should follow the same process. It is likely that the tenant group, supported by the local authority or the proposed new landlord, will submit the application. This should be sent to the local authority at the same time. HCA/GLA will not consider the application if a request for a Determination from the Secretary of State is outstanding. HCA/GLA may contact the local authority directly for clarification or confirmation of facts.

The application and full business case

- 4.3. Applicants must submit a completed version of the pro forma shown at Annex A.
- 4.4. Part 3 of the pro forma covers the full business case for the transfer and approval of the application centres on evaluation of this. The full business case is organised under five main headings and an applicant's full business case must be presented in line with these headings, which follow HM Treasury Green Book business case guidance:

<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

Business cases will be assessed to ensure that:

- 4.4.1. they present a strong case for transfer: **the Strategic Case** covering drivers for change, with strong emphasis on macro benefits. Criteria include how the transfer will help deliver wider government, and in London mayoral, housing and social policy objectives (in particular estate regeneration; greater tenant and resident empowerment; and the contribution to growth through additional homes, investment in the existing stock and local economic activity);
- 4.4.2. they deliver value for money: **the Economic Case** which monetises the benefits shown in the strategic case to demonstrate a positive benefit to cost position. Where precise figures are unavailable, estimates are acceptable if based on demonstrable, reliable evidence;
- 4.4.3. the transfer is viable: **the Commercial Case** covering indicative fundability of the transfer, asset management, delivery risks and landlord selection;

- 4.4.4. they are affordable by the government: **the Financial Case** covering the specific public sector costs and benefits of the proposed transfer. Criteria include demonstrating that the Transfer Value has been acceptably optimised in respect of the balance between maximising transfer value, minimising debt write-off and securing additional private investment which delivers growth and any debt write-off requirement is sufficiently justified; and
- 4.4.5. they can be delivered within an agreed timetable: **the Management Case** covering the timely delivery of the transfer project. Criteria include demonstrating that the project plan for transfer is achievable given the resources available.

The Transfer Value

- 4.5. The Transfer Value is the amount the receiving landlord will pay for the stock (a purchase generally financed by borrowing). It is therefore also the receipt the local authority will receive and which it can use to pay down associated debt. A local authority or tenant group intending to transfer homes will need to generate a Transfer Value using a discounted cash flow model for social housing (its Transfer Valuation Model). This method is understood by the government, the Regulator, funders and receiving landlords.
- 4.6. If the debt associated with the stock exceeds the Transfer Value, the local authority may want to apply for debt write-off as part of its application. We will wish to be satisfied that the Transfer Value has been acceptably optimised in respect of the balance between maximising transfer value, minimising debt write-off and securing additional private investment which delivers growth and the requirement for overhanging debt write-off is accordingly justified.
- 4.7. For partial transfers, debt should be attributed between the stock being transferred and the stock that is retained on a reasonable basis that can be clearly justified. Local authorities will need both to take into account the implications of an increased requirement for overhanging debt write-off on the likely success of the transfer application and ensure that debt retained is affordable and can continue to be serviced by rental income.
- 4.8. For tenant led transfers, local authorities and tenant groups may similarly agree a level of attributable debt to the stock being transferred, subject to the government being satisfied and that this can be clearly justified. We would expect, in the event of a tenant group and a local authority being unable to agree the level of attributable debt, the self-financing valuation of those homes, based on property archetype, to provide the benchmark.
- 4.9. We do not prescribe a format for the Transfer Valuation Model but do require that a soft copy is submitted as an annex to the application.

- 4.10. The Transfer Valuation Model will apply a discount rate to estimates of future income and expenditure over (standardly) the 30 years following transfer. We do not prescribe a standard discount rate. Applicants will need to determine a rate for use in their valuation which both enables them to create a sustainable, fundable Business Plan and takes account of the importance, in the assessment process, of ensuring that the Transfer Value is acceptably optimised in respect of the balance between maximising transfer value, minimising debt write-off and securing additional private investment which delivers growth.
- 4.11. As noted below, the self-financing valuation is used as a benchmark for the Transfer Value and this used a 6.5% real discount rate. This should not be regarded as a target, but an upper limit. Rates below this will, therefore, enhance the financial case for the transfer.
- 4.12. In assessing applications, DCLG and HCA/GLA will wish to understand the interest rate assumptions used on borrowing to finance the transfer and future expenditure and how this relates to the discount rate used in the Transfer Valuation Model. Local authorities and tenant groups are encouraged to include details of these assumptions within their transfer applications so they can be discussed at an early stage. Financial assumptions should be prudent but not unduly conservative as this may impact upon the Transfer Value, debt write-off and value for money. Justification, including market benchmarking where appropriate, should be provided for financial assumptions proposed.
- 4.13. Similarly, valuation over longer or shorter periods than 30 years may be used if this can demonstrate value for money (in particular a lower debt write-off requirement) and is fundable.
- 4.14. The Transfer Value (i.e. what the receiving landlord will pay for the stock) may include considerations not associated with the existing stock but which are modelled through the Transfer Valuation Model. An example might be income from new build on land associated with the transfer where this is at an advanced stage and included in a business plan acceptable to funders and the Regulator.
- 4.15. There is no requirement to reflect the value of land and other non-housing assets that form part of the transfer in the Transfer Value. However, where land and other non-housing assets are transferred at nil cost or below their market value, details of their market value, their anticipated impact on the business plan and the additional private investment and growth benefits to be provided should be included for information.
- 4.16. If an authority wishes, it may transfer non-housing assets, including land, at nil cost and therefore with no impact on the Transfer Valuation. (See also paragraph 4.42).
- 4.17. Gap funding grant to support a negative Transfer Value is no longer available. If

the Transfer Value is negative, support will be needed from the acquiring private registered provider or the local authority or both.

Economic case

Economic impacts cost-benefit analysis

- 4.18. As a tool to support assessment of the Economic Case, we utilise a 30 year economic impacts cost-benefit analysis. This is based around a standard model (in line with HM Treasury's Green Book methodology) used to ensure that the government supports those projects and programmes with a strong long-term benefit to the economy as a whole. For this reason, we expect a successful application to show benefits that exceed costs, and should aim for the best possible benefit to cost ratio.
- 4.19. The economic impacts cost-benefit analysis will be calculated by government economists on the basis of data provided by applicants, to ensure consistency with other projects. Local authorities or tenant groups are encouraged to engage with economists at an early stage, through the HCA or GLA: (i) to agree data that the authority or tenant groups will need to provide to populate these lines (noting that only additional benefits are shown); and (ii) to get preliminary outputs from the model to shape development of their proposal.
- 4.20. The benefits shown should, as far as possible, monetise the elements of the argument for transfer put forward in the Strategic Case. A set of potential benefits, and the information required against each, is set out in Annex C and Annex A, Part 4. Applicants should only utilise headings from this set which are relevant to their own Strategic Case. Applicants may wish to propose other benefits. These should be discussed with the HCA or GLA. Any other monetised benefit will need to be accompanied by a robust and detailed methodology and will be considered by DCLG economists on a case by case basis.
- 4.21. All benefits of transfer are calculated on a net present value basis using a 3.5% real discount rate. The benefits from new housing supply will be assessed in terms of its 'additionality' over the appraisal period. This is its net, rather than its gross, impact after making allowances for what would have happened in the absence of the intervention over the full 30 years of the appraisal period. HM Treasury's Green Book includes more information on factors impacting on additionality such as leakage, deadweight, displacement and substitution. DCLG economists will reflect additionality in their calculations. We would not expect additional benefits to arise where new affordable homes are built under any future affordable homes programme funded by government grant. The cost-benefit analysis will also be subject to sensitivity testing, to consider the effects of different (and, in particular, more pessimistic) forecasts.

4.22. No additional ongoing costs are assumed to accrue from transfer. Initial costs are calculated as any debt write-off payment by central government.

4.23. A strong Economic Case will, therefore, be one where debt write-off is minimised and thirty year benefits maximised.

Financial case

4.24. To be accepted, a transfer proposal needs to be affordable to central government and offer good value for public expenditure. Three tools are used to support this assessment:

- the Transfer Value Reconciliation;
- a five year fiscal flows model; and
- a public sector cost-benefit analysis.

4.25. The first tool is used to confirm the acceptability of the value placed on the business and the price to be paid for the homes as public assets. The latter two tools are versions of standard models used in government to ensure that a project or programme's public expenditure is affordable and represents good value in the medium and long term. Across all three tools, a positive assessment requires that the cost to central government is minimised through the Transfer Value having been acceptably optimised in respect of the balance between maximising transfer value, minimising debt write-off and securing additional private investment which delivers growth along with any contribution from the disposing authority or receiving landlord.

4.26. For the latter two tools, applicants need to provide data to help populate the model (see Annex A, Part 4) but are not asked to run calculations themselves. This will be conducted by government economists to ensure consistency with other projects and programmes. Authorities are encouraged to engage with DCLG economists at an early stage, through the HCA or GLA, to get preliminary outputs from the models to shape development of their proposal.

The Transfer Value Reconciliation

4.27. The 2012 self-financing valuation is central government's starting point for the financial value of local authority housing stock. The Transfer Value is the amount a receiving landlord will pay for stock through a transfer. We therefore want to understand differences between the self-financing valuation of stock and its Transfer Value; this gives assurance that the right price is paid for public assets.

4.28. Since the self-financing valuation determined both a council's starting level of housing debt within the reformed system and its maximum indebtedness in the

future, any differences between the Transfer Value and the self-financing value will also drive the size of any debt write-off requirement and hence the immediate cost to government of transfer (though noting the potential for actual debt and modelled maximum indebtedness to differ).

- 4.29. The Transfer Value Reconciliation sheet, required as part of the Financial Case, makes transparent any differences between these valuations. An example is included at Annex B. The Reconciliation starts with the relevant self-financing value and moves to the proposed Transfer Value. Intervening rows show any items or proposals which:
- introduce extra cost or decrease income for the recipient landlord and hence depress the Transfer Value relative to self-financing; these should be further explained and justified with regard to value for money; and
 - reduce cost or increase income (and hence increase the Transfer Value); we would expect transfer to deliver management and operational efficiencies and the Reconciliation should clearly set out what these are.
- 4.30. We recognise that there will be a number of differences due to the passage of time between the self-financing settlement and the proposed completion date of the transfer. These should be explained and included in the Transfer Value Reconciliation using additional lines as appropriate.
- 4.31. For complex proposals (such as advanced new build plans) the net impact should be shown in the Reconciliation, rather than separating costs and income.
- 4.32. The Transfer Value Reconciliation is the primary tool used for assessing the acceptability of the proposed Transfer Value against the self-financing valuation of the stock. Applicants are required to submit their Transfer Valuation Model as an annex, and where the Reconciliation raises questions about data, assumptions or policy these will be followed up through analysis of the Model. (Note the Social Housing Regulator will, separately, want to analyse the Transfer Valuation Model and the receiving landlord's Business Plan as part of the registration process.) In completing the Reconciliation sheet applicants should therefore:
- keep in mind its primary purpose, to show how and why the proposed Transfer Value, and hence receipt, differ from central government's view of the value of the business; the presentation should be clear and focussed on this point; and
 - note that, in circumstances where the overall assessment of the application suggests a higher Transfer Value is possible, we reserve the right to make a lower central government contribution, in the form of overhanging debt write-off, to the valuation, requiring an increase in the Transfer Value or an additional contribution from the transferring authority or receiving landlord.

4.33. The Reconciliation sheet includes a line below the Transfer Value that captures any such contribution (which does not affect the Transfer Value but does reduce the central government contribution) to be included.

The five year fiscal flows

4.34. The five year fiscal flows model supports assessment of the mid-term impact of a proposed transfer on public sector debt, with the expectation that the effect of transfer will be to reduce net public sector debt.

4.35. The model is divided into two parts, covering local government impacts and central government impacts.

4.36. The local government section is itself divided into two parts, covering income and spending foregone as a result of the transfer of stock from the public sector, and additional income and spending as a result of the transfer process.

4.37. To populate the local government transactions foregone section, data is required on the five year cashflow in the Housing Revenue Account (with rents as income foregone; management and maintenance, debt interest payments, etc. as costs foregone). Annex A, Part 4a, sets out the data requirements. Because landlords will not be operating business plans generating large cash surpluses or deficits, the balance of these items is likely to be largely neutral.

4.38. The additional transactions for local government section is likely to be precisely neutral as a transfer receipt comes in but then flows out in debt repayment.

4.39. The central government section is restricted to additional income and spending as a result of the transfer process. There is a loss of Right to Buy receipts (shown as expenditure), additional income from VAT, and some small annual savings in benefits (shown as income) if the transfer proposal demonstrates additional social housing created or kept in use (see the Public Sector Cost-Benefit Analysis below).

4.40. The main impacts across government, however (and the dominant factors in the model, assuming broad neutrality in the local government sections) are the year 1 transactions: with a large positive contribution from the redemption of housing debt, partially off-set by any debt write-off requirement. In the absence of unusual factors, therefore, applicants can make the strongest case through the Fiscal Flows model by minimising the debt write-off requirement.

The public sector cost-benefit analysis

4.41. The public sector cost-benefit analysis model ensures that, over the long term, supporting a transfer makes financial sense for central government; the overall

public expenditure impacts are positive, compared to the council retaining the stock. For this reason, we expect a successful application to show public sector benefits that exceed costs. Again, applicants are not asked to complete the model but do need to provide information from which a model can be populated (see Annex A, Part 4b).

- 4.42. The model is divided into two parts, upfront public sector costs and benefits and ongoing costs and benefits. The upfront public sector cost is the loss of the value of the local authority housing asset, estimated through the self-financing valuation of the stock. Note that, for these purposes, developable land or non-housing assets included in the transfer are not deemed to represent a cost of transfer to the public sector. The government will nevertheless wish to know the value of any non-housing assets that an authority proposes to transfer at lower than market or nil cost.
- 4.43. Upfront benefits are the transfer receipt. Again, therefore, optimising this receipt is key to a strong Financial Case. Assuming debt on stock is close to the debt cap (itself equal to the self-financing valuation), the net upfront cost-benefit figure will approximate to any debt write-off requirement. Any contribution from the disposing local authority or receiving landlord will help close this gap.
- 4.44. We do not anticipate additional ongoing public sector costs as a result of transfer. A positive 30 year analysis therefore requires long-term public sector benefits to outweigh any negative upfront position. Benefits taken into account in the analysis relate to Housing Benefit savings from additional affordable housing built or kept in use as a result of the transfer. Strong applications are therefore likely to be ones which show that transfer leads to significant additional affordable housing in use, against a base case of stock remaining in council ownership.
- 4.45. Specific data needed to calculate public sector benefits is covered in Annex A, Part 4. Information on how transfer delivers additional social housing in use is covered in the Strategic Case for the transfer (Annex A, Part 3). Benefits will need to be well evidenced and clearly deliverable in order to be included.
- 4.46. The model is completed by adding as a benefit to the public sector the additional net VAT receipts to government from the new landlord that fall outside any VAT shelter. The effect of this is to offset any VAT driven reduction in the transfer receipt which may have contributed to the Transfer Value being lower than the self-financing valuation.
- 4.47. All benefits are calculated on a net present value basis using a 3.5% real discount rate. The benefits from new housing supply must be assessed in terms of its 'additionality' over the appraisal period. This is its net, rather than its gross, impact after making allowances for what would have happened in the absence of the intervention over the full 30 years of the appraisal period. HM Treasury's Green Book includes more information on factors impacting on additionality such

as leakage, deadweight, displacement and substitution. DCLG economists will reflect additionality in their calculations. We would not expect additional benefits to arise where new affordable homes are built under any future affordable homes programme funded by government grant. The cost-benefit analysis will also be subject to sensitivity testing, to consider the effects of different (and, in particular, more pessimistic) forecasts.

Value Added Tax

- 4.48. Local authorities are able to reclaim the VAT charged to them on maintenance and repair works on housing stock and other expenditure whereas private registered providers cannot. We recognise that this will increase costs and hence decrease the transfer value in the transfer scenario, captured in the Transfer Value Reconciliation.
- 4.49. Local authorities may accordingly propose the use of VAT shelter arrangements where this helps to optimise the Transfer Value and offers good value for money for the government.
- 4.50. Irrecoverable VAT is included as a benefit in the Five Year Fiscal Flows and Public Sector Cost-Benefit Analysis (as additional VAT revenue flows to the government compared to the base case without transfer).

Set-up costs

- 4.51. We expect the local authority and the transfer landlord to each bear the full cost of its share of the set-up costs. Set-up costs may be included in the Transfer Valuation Model, although these will reduce the Transfer Value and we would expect these costs to be minimised and offset by planned efficiencies, for example lower management and maintenance costs, which will increase the Transfer Value.
- 4.52. In accordance with regulations made under Section 9 of the Local Government Act 2003, a local authority may defray set-up costs from the capital receipt for the stock but the government will not increase its contribution in respect of overhanging debt write-off to cover any such costs defrayed by the local authority.
- 4.53. Transfer to a newly created landlord may have higher set-up costs, and these will be a higher proportion of overall costs if the landlord is small. These extra costs will be considered as part of the assessment of the transfer application.

Preserved Right to Buy

- 4.54. We wish to ensure that, following transfer, tenants continue to have access to

good quality, accessible information about exercising their Preserved Right to Buy and would encourage transfer landlords to work with DCLG, utilising the tools the department offers, to ensure that is the case. We also wish to ensure that proceeds from Preserved Right to Buy sales are used in a way that maximises the delivery of new affordable housing in line with our reinvigorated Right to Buy programme.

- 4.55. Our intention is to require that, for transfers completing after 31 December 2014, net proceeds from Preserved Right to Buy sales are used to fund new affordable housing at no greater subsidy cost than under the main affordable homes programme and that net proceeds which remain unspent after three years are surrendered to the HCA (or in London, GLA) so that they can be re-allocated for investment in new affordable housing.
- 4.56. In order to achieve this outcome, the Social Housing Regulator intends to amend its Disposals Proceeds Fund guidance. The exact basis on which transfer landlords would be able to make deductions in arriving at the net proceeds from sale for reinvestment in new supply will be determined by the Regulator in its revision of the Disposals Proceeds Fund guidance. We would expect, though, transfer landlords to be able to deduct an amount that compensated them for net rental income foregone on the property sold and transaction and administration costs of the sale. We would not expect, accordingly, anticipated income from Preserved Right to Buy sales to alter the Transfer Value.

Leaseholder service charges

- 4.57. Local authorities should consider the impact a stock transfer may have on leaseholder service charges when ownership of the freehold transfers from the council to a private registered provider. The government wishes to ensure that, where additional capital works are made possible by transfer, leaseholders are protected from excessive charges in relation to these works. The Secretary of State will therefore require local authorities to include in the transfer contract a stipulation that service charges for leaseholders of the transfer landlord, relating to capital works, should be capped at no more than £10,000 (or £15,000 in London) in the five year period following transfer. This requirement is also described in Chapter 6 below under the heading “Drawing up the Transfer Contract”.

Submitting an application

- 4.58. A local authority or tenant group should send an electronic version of their transfer application, comprising Parts 1 to 4 of the Application Pro Forma at Annex A, and including the evidence required. The authority or tenant group should annex:

- its Transfer Valuation Model;
- its Transfer Value Reconciliation (Annex B); and
- where government support is sought, details of the local authority's portfolio of debts and those which it proposes should be paid off by the receipt from the transfer landlord and government support, along with an estimate of premiums or discounts on the early redemption of debt and how these are calculated.

4.59. Advice and guidance on making a submission is available from the HCA/ GLA via the contact details at Annex H.

4.60. In practice, we would expect local authorities or tenant groups to submit their application in a draft form prior to the formal submission. This will enable HCA/GLA to discuss modifications to the application or where further evidence or clarification would be useful. DCLG economists will be able to run the results of the five year fiscal flows, economic impacts cost-benefit analysis and public sector cost-benefit analysis tests based on data provided and return these for checking by the local authority, in advance of the formal submission.

4.61. If the intention is to transfer to an existing private registered provider, the local authority or tenant group should make clear how it intends to select it (if this has not already happened) and include this process in its transfer project plan and timetable. If the intention is to transfer to a newly created private registered provider it should explain the proposed governance arrangements and provide a project plan and timetable for establishing the new organisation. The Commercial Case will need to demonstrate the proposed landlord is the most effective and economic option.

Evaluation of an application

4.62. The HCA/GLA will review the application once it has been formally submitted and take a view on whether it should be approved. Further clarification or evidence may be requested as necessary. Where no debt-write off is required the HCA/GLA will inform the local authority or the tenant group of its decision directly.

4.63. Where debt write-off and/or support for early redemption premiums is required, the assessment process will be undertaken alongside DCLG and HM Treasury. The assessment process will include DCLG's internal procedures for assessing the value for money and the affordability of spending proposals (see Annex G).

4.64. Following the assessment process, a recommendation will be made to ministers who will:

- approve the application; or

- approve the application subject to certain conditions. Approval of support for debt write-off will be given only once ministers are satisfied these have been met; or
- reject the application, ending the transfer process.

4.65. DCLG or HCA/ GLA will inform the local authority or the tenant group of the decision and confirm, where approval has been given, the amount of government support for debt to be written off and (on an indicative basis) to meet early redemption premiums on Public Works Loan Board debt. The HCA/GLA will issue an invitation to authorities whose application has been approved to submit a proposal for Formal Consultation with tenants, and agree a timetable for this submission. Approval at this stage does not guarantee Secretary of State agreement to the final consent application but should provide significant confidence to authorities that consent will be given provided that the terms of the transfer remain substantially the same.

Changes to the transfer value

4.66. Any subsequent change in the Transfer Value which increases the amount of overhanging debt write-off required from the government will require the application to be re-submitted, to demonstrate that transfer continues to be affordable and provides value for money, for approval by ministers. The local authority or tenant group should contact the HCA/GLA immediately if any issues arise with the Transfer Value following approval. The risk of missing the 31 March 2016 deadline for completion as a result of re-submission rests with the local authority or tenant group.

4.67. We recognise that premiums or discounts on the early redemption of Public Works Loan Board debt cannot be predicted with certainty in advance, but local authorities which are seeking government support should contact the HCA/GLA where they consider that they are likely to differ materially from estimates provided with the transfer application.

Completion deadline

4.68. As noted in Section 2, any local authority or tenant group making a transfer application under the terms of this manual and which requires government support to redeem overhanging debt must complete transfer by 31 March 2016. Where the government offers to provide support that will be conditional on expenditure being incurred by 31 March 2016.

5. Submission of a formal consultation proposal

5.1. The statutory guidance on tenant consultation

<https://www.gov.uk/government/publications/consulting-council-tenants-about-selling-their-homes-to-a-private-landlord-statutory-guidance>

covers requirements for the formal two-stage consultation process: the language and tone that should be used in Stage 1 (the Offer Document); the conduct and timing of Stage 2 (the Ballot); the local authority's post ballot tasks, and the rights of interested parties to make representations about the transfer proposal to the Secretary of State.

- 5.2. A local authority must present an accurate picture to its tenants about the transfer proposal and the implications of staying with the council but it should not seek to persuade tenants to vote one way or the other.
- 5.3. The prospective new landlord and tenants groups can, however, present the benefits of transfer prior to the issuing of Stage 1 formal consultation as long as this material is fair and accurate. Following the start of Stage 1, material can be sent from the local authority and prospective new landlord to correct inaccuracies.
- 5.4. Where tenant management organisations exist or are proposed, these should be involved from the outset. In particular, the tenant management organisation will want to consider the implications for the housing management responsibilities it carries out under its management agreement with the local authority.
- 5.5. We would expect the acquiring landlord to honour the principle of an existing management arrangement and to enter into a new agreement with the tenant management organisation. This should be negotiated as a partnership between the tenant management organisation and new landlord and the commitment to this should be set out in the transfer contract.
- 5.6. Where tenants have already exercised their Right to Manage and are either in the feasibility and development or implementation stage at the time of transfer, the transfer contract should set out the new landlord's commitment to continue to support the development of the tenant management organisation.
- 5.7. Annex F sets out some good practice guidance on tenant consultation.
- 5.8. The HCA/GLA is required to ensure a local authority follows statutory guidance and good practice during the formal consultation (i.e. Stages 1, the Offer

Document, and 2, the Ballot). In submitting a proposal for Formal Consultation authorities should provide copies of:

- the Offer Document; and
- formal letters to residents

- 5.9. These will be assessed to ensure that they meet the requirements of the tenant consultation guidance and are consistent with current policy and other requirements. The local authority is also asked to confirm that there has been no significant change regarding the information set out in the application, that the timetable set out there will be met, and provide an update of this where relevant.
- 5.10. A local authority should send an electronic version of the material to the HCA/GLA, at the address given.
- 5.11. If the assessment of the Offer Document is satisfactory, the HCA/GLA will give consent for the local authority to proceed to Stage 1 consultation. Where local authorities or tenant groups wish to secure consent to proceed to consultation shortly after approval for their transfer application, we would encourage them to submit a draft of the Offer Document and formal letter to residents to the HCA/GLA at an early stage. We would usually expect, subject to extensions agreed with the HCA or GLA, and subject to regulatory requirements being satisfied, that when a local authority or tenant group has received clearance to proceed to formal consultation it will complete its transfer within one year from the date of that clearance.
- 5.12. Where transfers are being taken forward under the Right to Transfer Regulations, the obligations on the local authority are similar but subject to modifications to ensure that the tenant group is able to have appropriate influence over the statutory process.
- 5.13. The Offer Document and formal letters to residents should, for example, be agreed by the tenant group and local authority before being sent to the HCA/GLA for approval. The local authority may set out why it is opposed to the proposed transfer but must also include a statement from the tenant group explaining its reasons for pursuing transfer.
- 5.14. Both local authorities and tenant groups should familiarise themselves with the statutory guidance on the consultation process that accompanies the Right to Transfer Regulations:

<https://www.gov.uk/government/publications/the-housing-right-to-transfer-from-a-local-authority-landlord-england-regulations-2013>

6. Regulatory requirements

- 6.1. Local authorities may transfer tenanted housing to a private registered provider, which can be either a not-for-profit or for-profit organisation. The HCA, in its role as Regulator, decides whether a proposed landlord meets the criteria for registration. It is also responsible for the regulation of existing private registered providers and will therefore need to be satisfied that an existing provider has the capacity to take on additional stock through transfer.
- 6.2. The Regulator's registration team is responsible for assessing compliance with registration and regulatory requirements for new providers established to be landlords of stock transferred from local authorities. Local authorities or tenant groups should make contact with this team at an early stage, preferably prior to submission of a transfer application, to ensure that the Regulator is fully engaged.
- 6.3. The following summarises the key areas of regulatory engagement.

Setting up a new landlord

- 6.4. Where it is proposed that transfer would be to a newly established private registered provider, a large part of the transfer process involves setting up the new landlord. This section outlines some of the issues connected with establishing a new landlord as a private registered provider of social housing. For further guidance, a local authority or tenant group proposing to set up a new private registered provider should refer to the Regulator's *The Regulatory Framework for Social Housing in England from April 2012* and *Guidance on Applying for Registration as a Provider of Social Housing*.
- 6.5. The Secretary of State's final consent to transfer will not be given until the new landlord is registered with the Regulator.
- 6.6. There are typically three organisational structures for transfer private registered providers:
 - **a single centralised organisation.** The most common structure with a board comprising tenants, local authority nominees and independents;
 - **a single decentralised organisation.** A management board and a number of operating divisions with delegated powers from the management board. The operating divisions are managed by management committees (or similar); and
 - **a group structure.** The new landlord is part of a group structure which can be of other newly formed transfer landlords or of existing private registered providers or a mixture of both, or as a subsidiary of a non-registered entity. Each member of the group has its own legal constitution. The group structure and the relationship of group members must be able to meet the

requirements of the Regulator's regulatory framework with particular reference to the governance element within the Governance and Financial Viability Standard.

- 6.7. A private registered provider must be independent from the local authority and other organisations (except if it is a subsidiary of another organisation).
- 6.8. The Regulator must be informed of any contracts into which the local authority proposes to enter with the new landlord.

Selecting an existing landlord

- 6.9. If, after the appropriate tenant consultation, it is decided that transfer will be to an existing landlord, the Regulator will require confirmation of the short-listed private registered providers. This will enable the Regulator to engage with the short-listed private registered providers prior to landlord selection. Once landlord selection has taken place, the Regulator will commence a detailed assessment of the transfer and the impact the transfer will have on the receiving private registered provider. Whilst there is no registration requirement if transfer is to an existing private registered provider, the Regulator has to confirm to DCLG that the selected private registered provider has the financial, governance and management capacity to take the transfer and to deliver the promises made to transferring tenants.

Securing funding

- 6.10. The recipient landlord will need to secure the private finance required to fund the transfer and the promises made to tenants in the Offer Document.
 - **appointment of funding advisers.** Early engagement would give an indication to the transferring local authority or tenant group and the selected new landlord of any potential problems in funding the transfer and help ensure that the application is based on realistic assumptions;
 - **drawing up a funding prospectus.** The funding prospectus is designed to provide full details of the housing transfer to potential funders. It is important that professional independent advice is secured at an early stage in preparing the prospectus, assessing funding offers and selecting a potential lender; and
 - **competition for funding** should help ensure best value. By going to the market for its funding requirements, the new landlord will be able to compare the terms and conditions offered by potential funders with those made in the business plan.

Drawing up the transfer contract

6.11. The transfer contract governs the sale of the housing and the relationship between the local authority and the private registered provider:

- the transfer contract, and a plain English summary of its contents, must be submitted in support of a disposal consent application to the Regulator;
- the transfer contract should include all agreements entered into by the local authority and private registered provider in respect of the transfer;
- the local authority may be asked to provide warranties covering certain matters affecting the transferred stock. Where either party is to provide services to the other, the terms should be set out in service level agreements;
- a local authority will need to consider carefully how other responsibilities, such as common landscaping, will be dealt with;
- the private registered provider should covenant with the local authority to keep any promises made to tenants by the local authority during consultation, to offer transferring tenants a new tenancy agreement and to meet the Regulator's Regulatory standards;
- the transfer contract should detail the treatment of net Preserved Right to Buy receipts;
- the transfer contract should include a requirement to cap leaseholder service charges for capital works at no more than £10,000 (or £15,000 in London) in the five year period following transfer; and
- the transfer contract should not compromise the independence of the private registered provider.

Finalising the tenancy agreement

6.12. Private registered providers shall offer tenancies or terms of occupation which are compatible with the purpose of the accommodation, the needs of individual households, the sustainability of the community, and the efficient use of their housing stock.

6.13. They shall meet all applicable statutory and legal requirements in relation to the form and use of tenancy agreements or terms of occupation.

Issuing Section 172 Consent

- 6.14. The receiving landlord will require the Regulator's consent under section 172 of the Housing and Regeneration Act 2008 to enable it to borrow from its funders to pay the local authority the value of the transferring stock.

Regulation of the receiving landlord

- 6.15. The Regulator's approach to the regulation of new private registered providers is set out in the following guidance:

<http://www.homesandcommunities.co.uk/ourwork/regulating-standards-0>

Under its Regulatory Framework, the Regulator will undertake visits to a new private registered provider generally between 12 and 18 months after transfer.

7. Submission for Secretary of State's consent and completing the transfer

Applying for consent to the transfer

7.1. A transfer can only go ahead if the Secretary of State grants consent to it under sections 32-34 and/or 43 of the Housing Act 1985.

Criteria for consent

7.2. In considering an application for consent, the Secretary of State will apply the following criteria:

- that the local authority's consultation exercise has been adequate;
- that the majority of secure and introductory tenants voting in the ballot are in favour of transfer;
- that the acquiring landlord is registered with the Regulator;
- that the acquiring landlord is independent of the council;
- that, where government support for debt write-off is sought, the transfer is on the same basis as previously approved at application stage or following amendments subsequently agreed;
- that the terms of the transfer are acceptable; and
- that the local authority will be able to fulfil its statutory obligations under the Housing Act 1996 and has adequate nomination rights.

7.3. In addition, the Secretary of State may consider any other matters which seem relevant.

Submitting an application and supporting documentation

7.4. Once there has been a positive ballot and the council decides that it wishes to proceed with the transfer, all parties should agree with the HCA/GLA the date that, subject to the Secretary of State's agreement and subject to Regulatory requirements being satisfied, the transfer will be completed. This should usually be no more than 9 months after the ballot in the case of a new provider and no more than 6 months in the case of an existing private registered provider.

7.5. The local authority should submit a letter formally applying for consent under section 32-34 and/or 43 of the Housing Act 1985, addressed to the Secretary of

State, at least four weeks before the proposed transfer date. Certain additional items of supporting information are required; details are listed in **Annex E** under headings “four weeks prior to consent day checklist” and “summary of key facts.”

- 7.6. Authorities should note that consent cannot be granted unless all the items listed in **Annex E** have been received. We appreciate that some of the required documentation, for example the transfer contract, will not be finalised until the end of the transfer process, near to the date when consent is expected to be granted. Nevertheless, we need adequate time to consider the proposed terms of the transfer before consent can be given and it is therefore advised that a draft of the transfer contract is provided once the majority of the detail has been agreed.

Disposal of non-housing assets

- 7.7. Authorities may include the transfer of non-housing assets in a proposed transfer of dwellings to a new landlord. Such proposals may add value to stock transfers and frequently offer enhanced potential for future growth or regeneration.
- 7.8. The local authority and the receiving landlord are expected to negotiate the terms of any transfer of non-housing assets in advance of the completion of the transfer, allowing enough time for any relevant consents to be obtained so that the application for the Secretary of State’s Consent for the transfer of housing assets is not delayed.

Plain English summary of the transfer contract

- 7.9. In order that we can properly consider the proposed terms of the transfer, we require authorities to provide a plain English summary of the transfer contract. Authorities should obtain their own legal advice as to its contents.
- 7.10. The plain English summary should cross-refer to the relevant sections in the transfer contract. The final version of the summary should be certified by a senior legal officer to the effect that it represents an accurate reflection of the transfer contract’s contents.

Final version of the transfer contract

- 7.11. DCLG needs to receive an electronic copy of the final transfer contract and the plain English summary three working days before consent is required. It is DCLG’s practice not to give consent to a transfer until the final version of the transfer contract has been received and agreed.

Consent under other legislation

- 7.12. At the same time as it submits its application for consent to the transfer under sections 32 and/or 43 of the Housing Act 1985, the local authority should consider, in conjunction with the new landlord and its funders, what consent under other legislation might be required. Sufficient time should be allowed to enable other consents to be secured. It should obtain its own legal advice as appropriate.

Confirmation of consent

- 7.13. Subject to the Secretary of State agreeing that the transfer should take place, DCLG will issue a formal letter electronically to the local authority confirming that consent has been granted. At the same time DCLG will confirm whether any other consents requested have been granted.

Premiums and discounts on early redemption of debt

- 7.14. DCLG support for debt write-off is available in respect of Public Works Loan Board debt and associated early redemption premiums. Exceptionally, on a case by case basis, DCLG may agree to provide support in respect of non-Public Works Loan Board debt, where no Public Works Loan Board debt is available. No support will however be provided for early redemption premiums associated with non-Public Works Loan Board debt. That is a cost of transfer which will need to be met directly by the local authority or from the receipt from the transfer landlord. In the latter case this would reduce the transfer value and increase the overhanging debt write-off required, making the business case for transfer harder to make. Note that non-Public Works Loan Board debt includes debt to other public sector organisations.
- 7.15. Where support for debt write-off on Public Works Loan Board debt is agreed, the government will pay the early redemption premiums (net of any early redemption discounts) provided estimates have been agreed as part of the application and any subsequent material changes notified to the HCA/GLA.
- 7.16. Following the introduction of self-financing, authorities have the option of adopting one of three models for managing debt across the Housing Revenue Account and the General Fund: i.e. the one pool, two pools or three pools approach. Where a local authority is operating a single pool, debt redemption premiums should be calculated on the basis that costs of managing debt are charged equitably and reasonably to the Housing Revenue Account and the General Fund. Where specific debt pool(s) have been created for the Housing Revenue Account, the premiums relating to the Housing Revenue Account debt will usually be considered as the premiums for the purposes of debt write-off. Further details are

provided in Annex D.

Arrangements where there is overhanging debt

- 7.17. Where DCLG has agreed to write down any overhanging debt and early redemption premiums associated with the transfer, the local authority should contact the Public Works Loans Board by telephone two working days before the intended repayment date to give formal notification of the principal to be redeemed. They can be contacted on 0845 357 6610 between 9.30 and 16.15. The local authority should consider discussing the matter informally with the Public Works Loan Board at an earlier date.
- 7.18. On completion of the call, the Public Works Loan Board will calculate any accrued interest and premium/ discount due and will telephone the local authority as soon as possible with details of the total amount that will be required in order to redeem the agreed amount of principal.
- 7.19. The local authority should notify DCLG of the amounts for repayment as soon as they receive them from Public Works Loan Board. DCLG will arrange for the repayment of the share of the principal it has agreed to meet and premiums associated with the transfer to be made directly to the Public Works Loan Board. The local authority will be responsible for repayment of any accrued interest. Where discounts arise on the repayment of the debt, DCLG will reduce its contribution to the repayment of the principal by the amount of those discounts. Where discounts exceed DCLG's agreed contribution to debt write-off, DCLG will make no payment to the Public Works Loan Board and the local authority will pay the difference to DCLG.

Levies

- 7.20. Levies are payable on large scale voluntary transfers at a rate of 20% on the sum by which the capital receipt from transfer in respect of the housing stock, net of set-up costs and the value of any covenants, undertakings or obligations given by the local authority in respect of the improvement of the stock, exceeds the attributable self-financing debt. In short, the existing position on levies is retained. We will, as required, make a new Determination to reflect a revised definition of attributable debt following self-financing in arriving at the calculation of 'D' for the purposes of section 136 of the Leasehold Reform, Housing and Urban Development Act 1993.

Closing the Housing Revenue Account and associated issues

- 7.21. A local authority that transfers all its stock (or, subject to Secretary of State direction, a majority of its stock so that 50 or fewer dwellings remain) would normally be expected to close its Housing Revenue Account. The Housing Revenue Account can be closed at any time following transfer. An application to the Secretary of State would have to be made under Section 74 (3) of the Local Government and Housing Act 1989 to account for any residual dwellings not part of the transfer within the General Fund.
- 7.22. On closure of the Housing Revenue Account, any balance on the Housing Revenue Account accrues to the local authority's General Fund. Since 1 April 2001, authorities have been required to keep a Major Repairs Reserve, which is separate from the Housing Revenue Account. The Major Repairs Reserve holds resources available to authorities to meet capital expenditure on maintaining the future condition of their stock.
- 7.23. On the basis that local authorities should meet major repairs when they fall due, any balance on the Reserve should represent provision in respect of future expenditure needs. The amounts involved could be significant. Where housing is about to be transferred to a private registered provider and the transfer is of all remaining dwellings out of the local authority's Housing Revenue Account, the Major Repairs Reserve should, at the time of transfer, be nil. As well as funding capital maintenance, the Major Repairs Reserve may also be used to fund the repayment of housing debt.

HCA/GLA role in completing the transfer

- 7.24. The HCA/GLA will issue a letter shortly before the local authority is required to submit a final application for consent. This will remind the local authority of the information and document requirements, re-confirm the key dates and set out the staged steps leading up to completion of the transfer. HCA/GLA will produce a report and recommendation that will be submitted to DCLG in support of the local authority's request for consent. This will be confirmation that the HCA/GLA are content that the transfer is taking place on the basis agreed by the government.

Regulator role in completing the transfer

- 7.25. Where a receiving landlord wishes to borrow from a private lender to fund the purchase of transferred stock it usually secures the loan on the transferring stock. The receiving landlord must obtain a specific consent to grant a security interest in favour of the private lender. The Regulator has powers under section 172 of the Housing and Regeneration Act 2008 for giving of consents to private

registered providers.

7.26. Other consents may also be required.

7.27. The receiving landlord should follow the guidance for obtaining consents which is available on the HCA's website:

<http://www.homesandcommunities.co.uk/ourwork/consent-disposals>

and should obtain its own legal advice.

7.28. All appropriate consents must be obtained prior to the Secretary of State granting consent.

DCLG role in completing the transfer

7.29. DCLG officials will manage the final part of the transfer application and will complete the process. They will:

- administer the local authority's application for consent to dispose and other related consents after having been supplied with one electronic copy of the Transfer Contract and plain English summary;
- supply electronically signed versions of the consent letters followed by hard postal copies; and
- administer the payment of overhanging debt and early redemption premiums as applicable (see Annex D).

Issuing the Secretary of State's consent to dispose to the local authority

7.30. As soon as possible after receipt of the formal consent application, DCLG officials will prepare a draft of the main consent letter. It will include the names of the local authority and the new landlord, the date by which the transfer should take place and any additional conditions. The draft consent letter will be sent to the legal advisers acting for the local authority and the new landlord for checking.

7.31. Once the content of the main consent letter and any other related letters has been agreed, it will be authorised as at the date consent is to be granted.

Issuing other consents under other legislation

7.32. A local authority may wish to supply a loan to the receiving private registered provider, for example to assist with the private registered provider's set-up costs and pre-transfer costs. To enable this, the local authority should use the general

consent to provide financial assistance under Section 25 of the Local Government Act 1988, issued by DCLG in December 2010.

Sending letters to Members of Parliament whose constituencies are affected by the transfer

7.33. At the time that consent to dispose is given, the minister is likely to write to the local Member(s) of Parliament, within whose constituency the transfer properties lie, confirming their agreement to the transfer.

Annex A (Local Authority): Application pro forma - local authority led

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

(1) Introductory information

Local authority submitting proposal:	
Full name and address, including e-mail of lead local authority officer/project leader	
Full name and address, including e-mail of the council's Chief Executive	
Full name and address, including e-mail of the Leader of the council	
Full names and where possible, email addresses, of local MPs whose constituencies fall within the transfer area	
Is this a whole stock or partial stock transfer proposal?	
If partial stock , give the name of area or that by which transfer proposal is known and % of total housing stock that would transfer	
How many units would transfer?	
Of these, how many leasehold properties would transfer?	
Of these, how many units that are currently tenanted would transfer?	
How many non-decent rented units would transfer?	
How many of these were non-decent on 01 April 2012 (i.e. Decent Homes Backlog as defined within the Decent Homes Backlog programme)?	

Proposed sale price	
Value below market value at which any land is transferring	
Estimated attributable housing debt at date of transfer: Public Works Loan Board debt Non Public Works Loan Board debt Total	
Estimated overhanging debt payment required, excluding debt redemption premium: Public Works Loan Board debt Non Public Works Loan Board debt Total	
Estimated Public Works Loan Board debt redemption premium payment required	
Estimated Housing Revenue Account (HRA) balance following completion of transfer	
Current Major Repairs Reserve balance	
Current Housing Revenue Account Reserve balance	

(2) Confirmation of compliance

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

- (i) that the transfer is supported by councillors. (Please also provide a copy of resolutions regarding transfer passed by the council, stating the extent of support for these);
- (ii) that the proposed transfer is on freehold terms; and
- (iii) that tenants have been instrumental in developing the transfer proposal and there is a place for continued active tenant involvement throughout the proposed scheme design and delivery stages, including considering and choosing landlord options and, where there is a competition for the prospective new landlord, that tenant representatives will be included on the assessment panel.

Annex A (Right To Transfer): Application pro forma – community led

The application should be signed by the Tenant Group’s lead officer and Chairperson.

(1) Introductory information

Local authority in which the properties proposed for transfer are located:	
Full name and address, including e-mail, of Tenant Group’s lead officer	
Full name and address, including e-mail, of the Tenant Group’s Chairperson	
Full names and where possible, email addresses, of local MPs whose constituencies fall within the transfer area	
Give the name of area or that by which transfer proposal is known and % of the authority’s total housing stock that would transfer	
How many units would transfer?	
Of these, how many leasehold properties would transfer?	
Of these, how many units that are currently tenanted would transfer?	
How many non-decent rented units would transfer?	
How many of these were non-decent on 01 April 2012 (i.e. Decent Homes Backlog as defined within the Decent Homes Backlog programme)?	
Proposed sale price	
Value below market value at which any land is transferring	

Estimated attributable housing debt at date of transfer: Public Works Loan Board debt Non Public Works Loan Board debt Total	
Estimated overhanging debt payment required, excluding debt redemption premium: Public Works Loan Board debt Non Public Works Loan Board debt Total	
Estimated Public Works Loan Board debt redemption premium payment required	

(2) Confirmation of compliance

In submitting this application, the Tenant Group certifies that the following conditions are met:

- (i) that the transfer is supported by a majority of the Tenant Group. (Please also provide a copy of resolutions regarding transfer passed by the Tenant Group demonstrating the extent of support);
- (ii) that the proposed transfer is on freehold terms; and
- (iii) that the process set out in the ***Housing (Right To Transfer from A Local Authority Landlord) (England) Regulations 2013*** have been followed.

(3) Assessment criteria and evidence (Local Authority led and Community Led)

The local authority or tenant group should submit a business case addressing all of the criteria stated below through the evidence required in the right hand column. The full business case must:

- Start with an executive summary
- Be set out under the five main headings shown, which follow HM Treasury Green Book business case guidance

<https://www.gov.uk/government/publications/the-green-book-appraisal-and-evaluation-in-central-government>

CRITERIA	EVIDENCE
STRATEGIC CASE (what are the drivers for change with strong emphasis on macro benefits)	
GROWTH CASE	
1. Additional market homes.	<ul style="list-style-type: none"> • Annex A Part 4 asks for a profile of the additional new market homes built as a result of transfer (i.e. which would not be built without transfer) split between homes for private rent and homes for sale • Why are these homes not deliverable without transfer (e.g. through disposal of land, a joint venture etc.)? Explain your response • What is the current ownership of land which will be developed? • What is the delivery assurance for homes planned? <ul style="list-style-type: none"> ○ For those planned in the near term (e.g. years 1 – 5), please give evidence of certainty of delivery (e.g. that planning permission is in place, that the land is identified in the local plan). ○ For those planned in later years, indicate your view of the likelihood of delivery and associated risk, with any backing evidence.

<p>2. Additional affordable homes (note that the government assumes any homes built with government grant through any future affordable homes programme would displace new build elsewhere) in areas where there is continuing need and demand, in the context of current government policy in the first 5 years following the transfer and across a full 30 year business plan.</p>	<p>Annex A Part 4 asks for a profile of the additional new affordable homes built as a result of transfer (i.e. which would not be built without transfer)</p> <ul style="list-style-type: none"> • What is the evidence of need and demand for the number and type of homes in the context of current government policy? • Are these homes deliverable without transfer (e.g. through disposal of land, a joint venture, etc.)? Explain your response. • What is the current ownership of land which will be developed? • What is the delivery assurance for homes planned? <ul style="list-style-type: none"> ○ For those planned in the near term (e.g. years 1 – 5), please give evidence of certainty of delivery (e.g. that planning permission is in place, that the land is identified in the local plan). ○ For those planned in later years, indicate your view of the likelihood of delivery and associated risk, with any backing evidence.
<p>3. Decent Homes and other capital works</p>	<ul style="list-style-type: none"> • Annex A Part 4 asks for a profile of additional non-decent homes in the absence of transfer. Please include here a comprehensive narrative explanation of why homes can be brought to/ kept at the Decent Homes Standard as a result of transfer, and this cannot be achieved in the self-financing scenario; referencing respective business plans as necessary. What is the estimated cost of the additional Decent Homes works? How will the works ensure that leaseholders are not charged more than £10,000 (£15,000 in London) in the five years after transfer? • Are there any other (non-Decent Homes Standard) capital works required for sustainability of your stock? If yes: <ul style="list-style-type: none"> ○ What is the estimated cost of these works? ○ Is delivering these works possible without transfer

	<p>(e.g. within your Housing Revenue Account business plan or through an alternative approach to the problem)? Please explain.</p> <ul style="list-style-type: none"> ○ How will the transfer business plan address these works? ● Annex A Part 4 asks for a profile of long term voids prevented because of additional investment. Please state your view of the external costs of these issues if not addressed. Please show the difference in the number and profile of long term void homes between the transfer and non-transfer scenarios.
<p>4. Local economic activity created through transfer, including employment opportunities, apprenticeships and support for Small and Medium Enterprises.</p>	<ul style="list-style-type: none"> ● Annex A Part 4 asks for additional long term economic benefits as a result of transfer. Please explain any activity which creates added jobs or apprenticeship opportunities, why transfer is a necessary condition for the activity, and why this is additional (based on the HM Treasury Green Book definition of additionality). ● What will be the benefit to local Small and Medium Enterprises of the activity under transfer described above? ● Provide a commentary on other local economic activity resulting from transfer (explaining why transfer is a necessary condition for the activity).
<p>THE BETTER PUBLIC SERVICES CASE</p>	
<p>5. Innovative forms of governance and public service delivery.</p>	<ul style="list-style-type: none"> ● Will your transfer deliver innovation in governance and delivery? <ul style="list-style-type: none"> ○ Do any monetary benefits arise from this innovation (and to whom)?
<p>6. Delivery of wider government housing and social policy objectives; including providing new supply, estate regeneration, welfare and social housing reform,</p>	<ul style="list-style-type: none"> ● Will your transfer help deliver wider government housing and social policy objectives, including welfare reform, estate regeneration, mobility and choice for new and

<p>increasing tenant and community empowerment.</p>	<p>existing tenants? How will your transfer help give tenants and residents a stronger say in the management and future of their homes? Please explain why these accrue through transfer.</p>
<p>THE BUSINESS SUSTAINABILITY CASE</p>	
<p>7. Demand for the stock, in the context of current government policy (e.g. welfare reform), is understood and reflected in business planning for the transfer landlord.</p>	<ul style="list-style-type: none"> • Details of the extent of long-term demand for the housing to be transferred. For Large Scale Voluntary Transfers only please refer to the authority’s Strategic Housing Market Assessment. • any specific demand issues and proposed measures to address them (including issues of under occupancy related to current government policy e.g. welfare reform, and strategies to address this, including stock rationalisation); • proposals to refurbish and improve stock for which demand is low. In line with the Written ministerial Statement of 10 May and George Clarke’s 12 point plan we would expect landlords to consider options to upgrade and refurbish existing homes, in consultation with tenants prior to considering demolition. Demolition, for example to enable the regeneration of estates, should be a last resort and clearly justified.
<p style="text-align: center;">ECONOMIC CASE (the macro financial position which monetises the benefits shown in the strategic case to demonstrate the benefit to cost case)</p>	
<p>8. The proposal shows a positive 30 Year economic impacts cost-benefit analysis</p>	<ul style="list-style-type: none"> • For Large Scale Voluntary Transfers only, the local authority or tenant group should provide data to populate agreed fields in a 30 year economic impacts cost-benefit analysis (see Section 4 and Annex C of this manual). • You may also wish to provide appropriate commentary

<p>9. Alternative options have been fully considered and shown to offer poorer value for money, including retaining stock.</p>	<ul style="list-style-type: none"> • Evidence that alternative options to the transfer proposal have been considered and offer poorer value for money.
<p>COMMERCIAL CASE (private finance for the transfer, asset management and landlord selection)</p>	
<p>10. Set-up costs, including loan arrangement fees, will be minimised, shared appropriately between the transferring local authority and recipient landlord, and will be off-set through efficiencies.</p>	<p>Details of:</p> <ul style="list-style-type: none"> • the set-up costs • the loan-arrangement fees; • how costs have been minimised;
<p>11. The fundability and viability of the transfer landlord over the long term, and forecast private finance terms.</p>	<ul style="list-style-type: none"> • A 30 year cashflow forecast and debt profile for the transferring stock, showing peak debt and when debt is paid off (where new build is proposed, the impacts on cashflow and debt profiles should be shown separately). • Indicative funding terms • Confirmation from potential funders that the transfer is fundable in principle given current conditions.
<p>12. The condition of the stock to be transferred is understood, and business and asset management planning for the transfer landlord is based on a strong evidence base in relation to stock condition and that in particular any specific challenges to maintain stock (e.g. from non-traditional design, location or social context) are identified and a strategy to address them through the transfer is in place.</p>	<p>The local authority or tenant has up-to-date and validated information on the condition of the stock to be transferred, reflected in its costed asset management strategy. Details should include:</p> <ul style="list-style-type: none"> • the type and condition of housing including levels of decency; • details of exceptional problems related to stock and how these have arisen
<p>13. Where a VAT shelter is proposed this will significantly increase the Transfer Value and represent good value for money for government.</p>	<p>Details of any VAT shelter:</p> <ul style="list-style-type: none"> • its value; and • its application.

<p>14. The proposed arrangement for Preserved Right to Buy receipts is appropriate.</p>	<p>Confirmation that net receipts from Preserved Right to Buy sales will be used for new affordable housing at no greater subsidy cost than under the main affordable homes programme or surrendered to the HCA (or, in London, GLA) for re-allocation for new affordable housing.</p>
<p>15. The prospective new landlord is registered, or is likely to achieve registration with the Regulator and that any group structure complies with policy on operational independence and de-merger.</p>	<ul style="list-style-type: none"> • Confirmation of registration or details of plan to achieve registration. • Confirmation that de-merger provisions will be put in place where relevant.
<p>16. The prospective new landlord represents the most effective and economic option.</p>	<ul style="list-style-type: none"> • Details of the landlord selection process and comparative delivery and value for money analysis of alternative options (including, where relevant, transfer to a new landlord compared to transfer to an existing landlord).
<p>FINANCIAL CASE (the specific public sector costs and benefits of the proposed transfer)</p>	
<p>17. The transfer is affordable and offers good value for money, in particular through optimisation of the Transfer Value for the stock. The case is assessed using a Transfer Value Reconciliation (comparing the Transfer Value with the self-financing valuation of the stock), a five year fiscal flows model and a 30 year public sector cost benefit analysis</p>	<p>The local authority or tenant group should provide estimates of key financial information using the proforma in Annex A Part 1.</p> <p>The local authority or tenant group should submit its Transfer Valuation Model, and confirm that it reflects:</p> <ul style="list-style-type: none"> • a rent plan for the transfer landlord which conforms to government policy and is based on reasonable assumptions of income maximisation (where relevant within the constraints of a rent guarantee for existing tenants); • a costed investment plan/ asset management strategy for the transfer landlord which reflects the stock condition and demand information and the need to minimize costs;

	<p>The local authority or tenant group should provide a Transfer Value Reconciliation (see section 4 and Annex B) with a full analysis of the drivers of any differences between the Transfer Value and self-financing value showing the amount attributable to each driver. Where the transferring local authority or recipient landlord proposes to make a contribution to the transfer valuation, it should be shown in the Transfer Value Reconciliation. Where costs are shown in addition to self-financing assumptions, these should be justified in relation to the benefits set out in the Strategic Case and monetised in the Economic Case.</p> <p>Where it is proposed that discounted land will be included details are to be provided separately from the Transfer Value Reconciliation.</p> <p>For Large Scale Voluntary Transfers only, the local authority or tenant group should provide data needed to populate a five year fiscal flows model and a 30 year public sector cost-benefit analysis (see Section 4 of this manual and Part 4 of this annex).</p>
<p>18. Revenue savings accruing to the transfer landlord through efficiencies (e.g. in management and maintenance)</p>	<ul style="list-style-type: none"> • Reference to a positive impact on the Transfer Value shown in the Transfer Value Reconciliation, and how this is achieved.
<p>19. Impact of the proposed transfer on the local authority's Housing Revenue Account</p>	<ul style="list-style-type: none"> • How will the Major Repairs Reserve and the Housing Revenue Account Reserve be dealt with prior to transfer? • Does the local authority plan to close its Housing Revenue Account?

MANAGEMENT CASE

(the timely delivery of the transfer project)

20. The proposed **timescale for completion** of the transfer is achievable, given the resources applied; that the local authority or tenant group has a project plan that allows sufficient time for the various key stages including in particular obtaining funding and selecting or establishing a landlord; that this plan conforms to the 31 March 2016 transfer deadline; and that a credible alternative plan to transfer is being maintained.

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

- Transfer project plan and timetable, including the date on which transfer will take place.
- Details of exit strategy and maintenance of an alternative to transfer.

(4a) Five year fiscal flows - data requirements *(also available as a spread-sheet)*

1) Local authority

Local authority income and expenditure without transfer (which is foregone through transfer)

	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year Total
Income						
Rental Income (£m)						
Right to Buy receipts (£m)						

Expenditure						
Management & maintenance (£m)						
Capital Expenditure on existing stock (£m)						
Debt principal repayment - Public Works Loan Board Self Financing debt (£m)						
Debt interest Public Works Loan Board Self Financing debt (£m)						
Debt principal repayment - non Public Works Loan Board Self Financing debt (£m)						
Debt interest - non Public Works Loan Board Self Financing debt (£m)						

Transfer case - local authority income and expenditure as a result of transfer

Income						
Transfer receipt from new landlord (£m)						

Expenditure						
Public Works Loan Board debt repayment (£m)						
Non Public Works Loan Board debt repayment (£m)						

2) Central government


Transfer case - impact on central government income & expenditure as a result of transfer

	Year 1	Year 2	Year 3	Year 4	Year 5	5 Year Total
Income						
Long term voids prevented because of additional investment (number)	Required by DCLG to calculate Housing Benefit Savings					
Additional new social homes (number)	Required by DCLG to calculate Housing Benefit Savings					
VAT receipts from VATable new landlord activity (£m)						
Expenditure						
Loss of Right to Buy receipts (£m)						
Public Works Loan Board debt repayment (£m)						
Public Works Loan Board early redemption premiums (£m)						
Non- Public Works Loan Board debt repayment (£m)						

Note:

- Refer to Sections 4.29 - 4.41 and Annex C
- Figures for Public Works Loan Board /non- Public Works Loan Board debt repayment and Public Works Loan Board early redemption premiums are gathered from Annex A Part 1

 Calculated cell

 Data provided elsewhere

 Data required

(4b) 30 year (NPV) profile of public sector cost benefit analysis - data requirements *(also available as a spread-sheet)*

Upfront costs and benefits

Costs

Self-financing valuation (£m)	
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Benefits


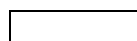

Transfer receipt from new landlord (£m)	
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Long run benefits

Long term voids prevented because of additional investment (number)	Required by DCLG to calculate HB Savings
Additional new social homes (number)	Required by DCLG to calculate HB Savings
VAT receipts on VATable Private Registered Provider activity (£m) NPV	Required by DCLG to calculate economic impact benefits as a result of transfer

Note:

- 30 year NPV is expected to be positive
- Refer to Section 4.29 - 4.41 and Annex C

	Data provided elsewhere
	Data required
	Data provided by HCA/GLA/DCLG

(4c) Additional data *(also available as a spread-sheet)*

Number								
Economic impact benefits as a result of transfer	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Additional new social rent homes								
Additional new Affordable Rent homes								
Additional new Low Cost Home Ownership (LCHO) homes								
Additional new market homes								
Additional new build homes not included above								
Additional jobs created								
Additional training places (level 3 apprenticeships)								
Long term voids prevented								
Additional homes brought to Decent Homes Standard: Homes that were non-decent at time of transfer								
Additional homes brought to Decent Homes Standard: Newly arising non decent homes								
[Other]								

£m								
Economic impact benefits as a result of transfer	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8
Additional investment in existing stock (£m per year)								
Irrecoverable VAT (£m per year)								
[Other]								

*Note: By "additional" is meant any economic impact benefit that would **not** occur without transfer and which takes account of factors impacting on additionality such as leakage, deadweight, displacement and substitution. See HM Treasury's Green Book for more information.*

Number								
Economic impact benefits as a result of transfer	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
Additional new social rent homes								
Additional new Affordable Rent homes								
Additional new Low Cost Home Ownership (LCHO) homes								
Additional new market homes								
Additional new build homes not included above								
Additional jobs created								
Additional training places (level 3 apprenticeships)								
Long term voids prevented								
Additional homes brought to Decent Homes Standard: Homes that were non-decent at time of transfer								
Additional homes brought to Decent Homes Standard: Newly arising non decent homes								
[Other]								

£m								
Economic impact benefits as a result of transfer	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15	Year 16
Additional investment in existing stock (£m per year)								
Irrecoverable VAT (£m per year)								
[Other]								

*Note: By “additional” is meant any economic impact benefit that would **not** occur without transfer and which takes account of factors impacting on additionality such as leakage, deadweight, displacement and substitution. See HM Treasury’s Green Book for more information.*

Number							
Economic impact benefits as a result of transfer	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23
Additional new social rent homes							
Additional new Affordable Rent homes							
Additional new Low Cost Home Ownership (LCHO) homes							
Additional new market homes							
Additional new build homes not included above							
Additional jobs created							
Additional training places (level 3 apprenticeships)							
Long term voids prevented							
Additional homes brought to Decent Homes Standard: Homes that were non-decent at time of transfer							
Additional homes brought to Decent Homes Standard: Newly arising non decent homes							
[Other]							

£m							
Economic impact benefits as a result of transfer	Year 17	Year 18	Year 19	Year 20	Year 21	Year 22	Year 23
Additional investment in existing stock (£m per year)							
Irrecoverable VAT (£m per year)							
[Other]							

*Note: By "additional" is meant any economic impact benefit that would **not** occur without transfer and which takes account of factors impacting on additionality such as leakage, deadweight, displacement and substitution. See HM Treasury's Green Book for more information.*

Number							
Economic impact benefits as a result of transfer	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
Additional new social rent homes							
Additional new Affordable Rent homes							
Additional new Low Cost Home Ownership (LCHO) homes							
Additional new market homes							
Additional new build homes not included above							
Additional jobs created							
Additional training places (level 3 apprenticeships)							
Long term voids prevented							
Additional homes brought to Decent Homes Standard: Homes that were non-decent at time of transfer							
Additional homes brought to Decent Homes Standard: Newly arising non decent homes							
[Other]							

£m							
Economic impact benefits as a result of transfer	Year 25	Year 26	Year 27	Year 28	Year 29	Year 30	Total
Additional investment in existing stock (£m per year)							
Irrecoverable VAT (£m per year)							
[Other]							

*Note: By "additional" is meant any economic impact benefit that would **not** occur without transfer and which takes account of factors impacting on additionality such as leakage, deadweight, displacement and substitution. See HM Treasury's Green Book for more information.*

Annex B: Transfer Value Reconciliation example

also available as a spread-sheet

[Name of local authority]	Total number of tenanted dwellings	
----------------------------------	---	--

Add/(Subtract)	Description	NPV £m	NPV £ p.u.	Comment
	Self-financing valuation	0.0	0.0	Self-financing settlement as determined by DCLG March 2012¹
Add	Items increasing valuation compared to self-financing e.g. management efficiencies	0.0	0.0	
Less	Items reducing valuation compared to self-financing e.g. irrecoverable VAT	0.0	0.0	
	Transfer Value	0.0	0.0	
Add	Contribution from local authority	0.0	0.0	
Add	Contribution from receiving landlord	0.0	0.0	

¹ For partial transfers this is the Housing Revenue Account debt attributable to the stock being transferred

Annex C: Calculation of economic impacts cost-benefit analysis

A set of potential economic impacts benefit headings, and the information required for each, is set out below. This information is collected through the data sheet at Annex A Part 4c.

These benefits accrue from an increased supply of affordable housing and building activity, both through new build and reduced void levels, and additional investment in the existing stock. Applicants should only utilise headings which are relevant to their own Strategic Case. Applicants may also want to propose other benefits, along with a methodology for monetising these and associated calculations. These should be discussed with the HCA or GLA at an early stage.

All economic impact benefits will need to be:

- demonstrably additional against a base case of stock remaining in council ownership (see page 52 of the HM Treasury *Green Book*); and
- well evidenced.

Labour mobility: Areas with higher housing costs are more likely to have constrained labour supply (fewer people can afford to live in these areas). This can have a detrimental impact on businesses' competitiveness because firms find it harder to recruit a sufficient number of people at affordable wages. More housing, particularly in high demand areas, will ease labour supply constraints bringing benefits to local businesses. Labour mobility benefits are therefore generated from your annualised data on additional new build and voids prevented.

Additional jobs: Where local authorities are able to provide robust evidence that additional jobs are created as a result of transfer rather than displaced from elsewhere, DCLG will monetise the economic benefits of increased employment in the building industry using data on gross value added from each additional construction sector job.

Apprenticeships: DCLG include the benefits of increased skill levels from the training and on-site work experience apprentices receive in the cost-benefit analysis, measured by the expected higher wages they will earn during their lifetimes. Both additional new build and additional works to stock may create construction apprentice places. Apprenticeship benefits are generated from your annualised data on additional training places leading to level 3 apprenticeships created.

Land value uplift: The price of land which comes with a permit for residential buildings is far higher than land used for other purposes (e.g. farming). New build housing therefore encompasses this "land value uplift" which represents the added value individuals place on using land for housing as opposed to an alternative use. DCLG includes this land value uplift in the cost-benefit analysis for each new build home. This benefit is generated from your annualised data on additional new build.

Distributional benefits: On average social tenants have a lower income than the general population. An individual on a lower income will value an extra £1 more than an individual on a higher income. As tenants in the social rented sector are in

effect receiving a subsidy in the form of lower rents, we include in our cost-benefit analysis the distributional impact. This is calculated using a Welfare Weighting based on the income distribution. This benefit is generated from your annualised data on additional new build of social housing and voids prevented.

Reduced overcrowding: Many academics and experts believe that overcrowded housing has a detrimental impact on health and education outcomes and many studies have been written on this. According to the English Housing Survey, about 6% of households in the rented sector are overcrowded. We include the health and education benefits of reduced overcrowding from the additional availability of affordable housing. This is generated from your annualised data on additional new build of social housing and voids prevented.

Decent Homes: In addition to benefits relating to new build, we also include benefits from renovation of non-decent housing to the Decent Homes Standard:

- (i) we include health benefits from the Decent Homes programme which relate to health issues, such as mould and air quality, and safety, such as fire risk etc. This is generated from your data on additional homes at the Decent Homes standard; and
- (ii) using guidance from the Department for Energy and Climate Change, we also calculate the reduction in energy usage and CO2 emissions from the Decent Homes programme and so the environmental benefits. This is generated from your data on additional homes at the Decent Homes standard.

Worked example

The following example of the benefit of increased housing supply on labour mobility shows the methodological approach we have adopted. The numbers used are illustrative.

The impact of labour mobility is about £320 a year per new home built or brought into use in 2015/16. We uprate this figure by inflation over future years.

year 1	year 2	year 3	year 4	year 5
£320.0	£330.9	£342.13	£354.79	£368.67

The transfer application will tell us the number of new homes to be built or brought back into use. Here we assume that 100 new homes are built in year 3. The benefits of the new build would be calculated as the impact of labour mobility (figures above) per home multiplied by the number of new units (i.e. 100), as follows:

year 1	year 2	year 3	year 4	year 5
£0	£0	£34,213	£35,479	£36,867

We then discount the values by the GDP deflator and social time preference to allow us to compare values on a consistent basis over time, in “year 1” money terms. In our example this gives the following figures:

year 1	year 2	year 3	year 4	year 5
0	0	£30,698	£30,154	£29,681

We interpret the figure of £30,698 as the benefit of increasing labour mobility arising from 100 new homes in the third year only, in terms of the monetary value in year one. For the full 30-year benefit we sum each “in year” figure over the 30 years, i.e.:

£0 + £0 + £30,698 + £30,154 + £29,681 +.. etc etc.

We apply this approach to all the costs and benefits accruing from the policy to get the full impact of the transfer.

Annex D: Dealing with overhanging debt payment and early redemption premiums and discounts

1. This annex applies only where a local authority or tenant group seeks financial support from the government for transfer.
2. Where a local authority or tenant group considers that the capital receipt from the sale of the housing and associated assets will be less than the attributable housing debt on the dwellings sold and associated early redemption premiums, then it may wish to seek government support to write off this overhanging debt and/or associated early redemption premiums. In order to secure this support, it will need approval from DCLG ministers following assessment by DCLG and HM Treasury in conjunction with the HCA (or in London, GLA) of its transfer application.
3. DCLG support for debt write-off is available in respect of Public Works Loan Board debt and associated early redemption premiums. Exceptionally, on a case by case basis, DCLG may agree to provide support in respect of non-Public Works Loan Board debt, where no Public Works Loan Board debt is available. No support will however be provided for early redemption premiums associated with non-Public Works Loan Board debt. That is a cost of transfer which will need to be met directly by the local authority or from the receipt from the transfer landlord. In the latter case, this would reduce the transfer value and increase the overhanging debt write-off required, making the business case for transfer harder to make. Note that non-Public Works Loan Board debt includes debt to other public sector organisations.
4. Where transfer applications are approved, DCLG will agree to write off up to a specific amount of debt and the expectation is that this figure will not rise. Subsequent changes which increase the level of support for debt write-off required will need specific agreement which may not be given.
5. The government recognise that early redemption premiums or discounts payable on Public Works Loan Board debt at the date of transfer are uncertain but will wish to establish as far as possible what these are likely to be and that they are reasonable when considering a transfer application.

Agreeing which debts will be repaid

6. As part of its transfer application, a local authority or tenant group should submit details of the local authority's portfolio of debts and which it proposes should be paid off by the receipt from the transfer landlord and government support.
7. Where a local authority is operating a one pool approach to their debt, the government expects that the same proportion of all the local authority's Public Works Loan Board debt would be repaid by the receipt from the transfer landlord and financial support from DCLG. Where local authorities have identified a separate Housing Revenue Account debt pool, the government expects that these debts would be repaid in full, subject to gaining assurance that this will not

result in materially higher early redemption premiums than would otherwise be the case.

8. The government is however willing to consider alternative approaches put forward by local authorities that they consider will, for example, lead to a better rationalisation of debt. Authorities are advised to discuss with the HCA/GLA at an early stage any proposed arrangements for which debts will be repaid. These will need to be agreed in advance of any approval of a transfer application.

Arrangements for repaying debt and early redemption premiums

9. The amount of DCLG financial support for the write-off of Public Works Loan Board debt should be agreed in advance of the local authority's formal application to the Secretary of State for transfer under sections 32-34 and/or section 43 of the Housing Act 1985. Failure to do so may result in the Secretary of State withholding consent.
10. The local authority should discuss with DCLG the date chosen for the debt repayment normally within a week after the transfer. Two working days before this date, the local authority should notify the Public Works Loan Board of the debt to be repaid. The Public Works Loan Board will calculate early redemption premiums or discounts and notify the local authority of these. The local authority should in turn notify DCLG.
11. Repayment of debt and associated early redemption premiums will be made by the local authority and DCLG two working days after notification of repayment to the Public Works Loan Board.
12. DCLG will repay debt as previously agreed with the local authority and early redemption premiums on all the debt being repaid. The local authority will repay the balance of the debt that it has previously notified to the Public Works Loan Board as being repayable. Once a local authority has notified DCLG of the total amount of debt and early redemption premiums to be repaid, DCLG will e-mail the Public Works Loan Board, copying in the local authority, with details of the breakdown of payments to be made by DCLG and payments to be made by the local authority.

Annex E: Checklist: four weeks prior to consent

also available as a spread-sheet

FOUR WEEKS PRIOR TO CONSENT
[Name of local authority]

Consent date:
Transfer completion date:

[Monday]
[Friday]

20 working days prior to target consent date			[Date]
Items to be submitted by the local authority	To DCLG	To HCA/GLA	Date
Formal application for consent under sections 32-34 and/or 43 of the Housing Act 1985	To	Cc	
Formal certification that consultation has been carried out in accordance with Schedule 3A to the Housing Act 1985	To	Cc	
The name, address and telephone number (and email address) of lawyers acting for the local authority, the prospective new landlord and the funders and name of the person with whom to liaise	To	Cc	
Details of any representations made by other parties who have an interest in the transfer, e.g. leaseholders	To	Cc	
Written confirmation of the ballot result		To	
Final versions of consultation material, if not already provided		To	
A copy of proposed tenancy agreement or confirmation that it is as set out in the consultation document		To	
Final confirmation of the transfer value, housing debt and debt write-off requirements (as previously agreed with DCLG).		To	
Details of the funding arrangements, including the amount of any loan, the lender and the length of repayment period and copy of funding agreement or confirmation that the transfer would be funded under existing loan arrangements		To	

10 working days prior to target consent date			[Date]
Items to be submitted by the local authority	To DCLG	To HCA/GLA	Date
Council minutes or minutes of meeting of tenant group resolving to proceed with the transfer		To	
Where a new social landlord is being established, a copy of registration of new landlord with Registrar of Friendly Societies, Companies House or the Charity Commission and the HCA.		To	
Council to contact the Public Works Loans Board to discuss arrangements for the payment of overhanging debt if applicable			

3 working days prior to target consent date			[Date]
Items to be submitted by the local authority	To DCLG	To HCA/GLA	Date
1 electronic copy of the final Transfer Contract.	To		
1 electronic copy of the of the plain English summary and Transfer Contract checklist	To		

SUMMARY OF KEY FACTS**[Name of local authority]**

Confirmation of numbers of dwellings transferring (tenanted, leasehold and total)	
Confirmation of number of non-decent dwellings transferring	
Name of MP(s) for the area	
If a new social landlord, date registered with HCA and the Registration number	
Cost of programmed works planned after transfer (£XXm over XX years) and summary description of works to be carried out	
Summary of tenant consultation activities carried out by the local authority	
Confirmation of the date the Stage 1 notice was issued	
Confirmation whether responses to the Stage 1 notice were received	
A summary of responses received to the Stage 1 notice and the local authority's reason to proceed with transfer	
Confirmation of the date the Stage 2 notice was issued	
Name and e-mail of person in local authority dealing with the Overhanging Debt calculation	

Annex F: Tenant consultation

The statutory guidance on tenant consultation

<https://www.gov.uk/government/publications/consulting-council-tenants-about-selling-their-homes-to-a-private-landlord-statutory-guidance>

covers requirements for the formal two-stage consultation process. In addition, authorities, where they are proposing that stock should be transferred, should follow current good practice for involving and consulting tenants. This includes:

- drawing up a communication strategy which sets out how it proposes to involve and communicate with tenants and other interested parties;
- ensuring that tenants have access to independent advice and support provided by an Independent Tenants' Adviser. The role of the Independent Tenants Adviser should include capacity building and training at all stages of the transfer process, including after completion of the transfer; and
- considering carefully how it will enable and encourage all tenants to participate both before and after transfer, including those from minority and equalities groups and those not normally represented.

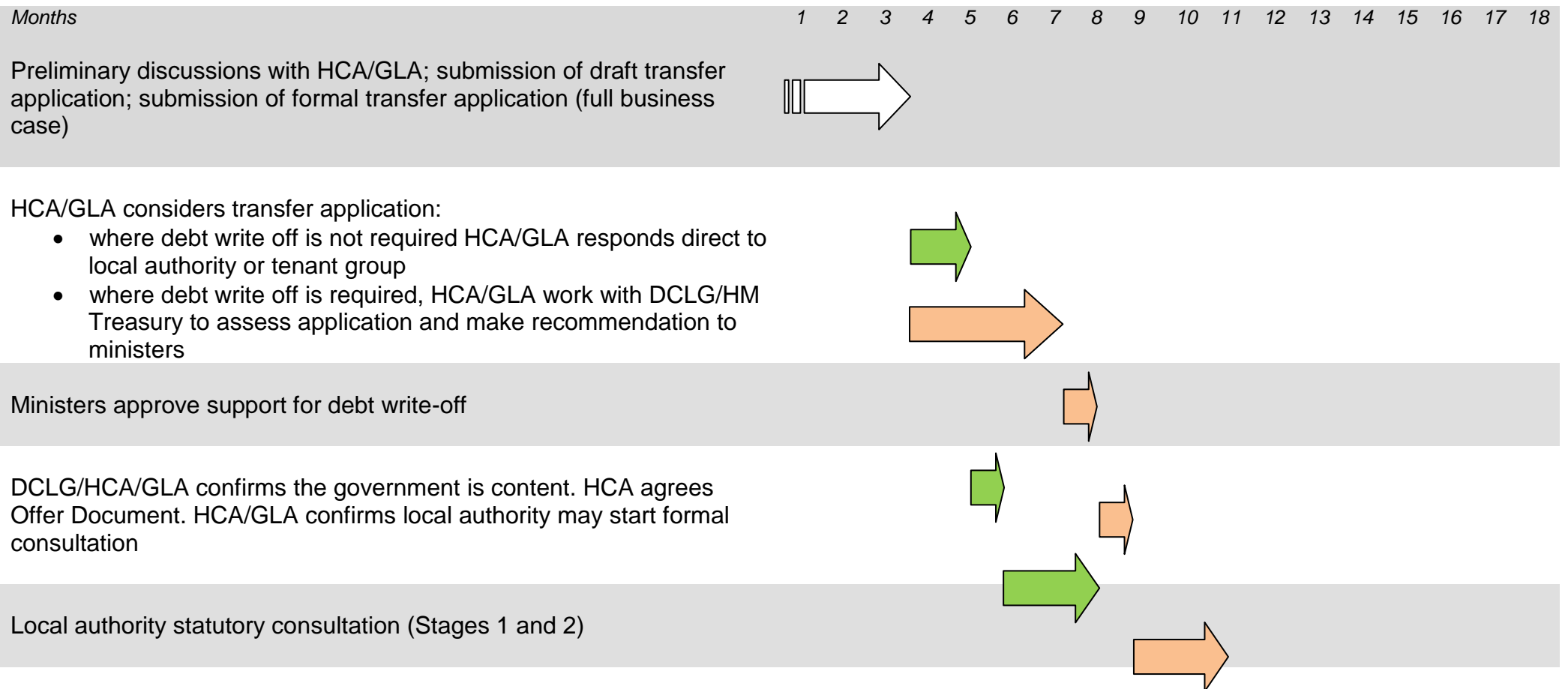
A range of methods should be employed to ensure different sections of the community are aware of the proposals and the issues. Pamphlets, leaflets, posters, press advertisements, newsletters, meetings, door-knocking, exhibition caravans, telephone hot-lines and short DVDs have all been used by authorities in the past.

If a local authority is proposing to transfer homes to an existing private registered provider, this landlord should:

- be involved in drafting consultation material; and
- have direct contact with tenants ahead of the ballot. This will allow the tenants to get an understanding of the nature of the organisation, its structure, ethos, objectives and what it has to offer. It is important that the information is consistent with that provided by the local authority and that it is up to date.

Annex G: Timetable for transfer

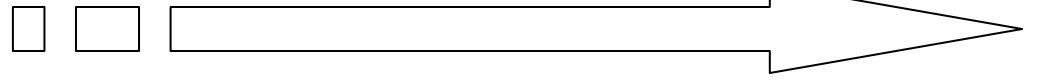
The length of time it takes to go through the transfer process will vary depending on a number of factors, including the amount of funding required and the complexity of the case. The timetable below is therefore indicative, but may be of help to local authorities and tenant groups in their planning. Where government support for debt write-off or associated early redemption premiums is not sought, no DCLG/HM Treasury approval of the application is required.



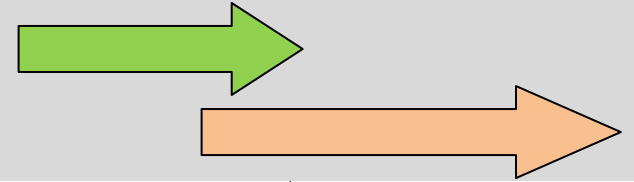
Months

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18

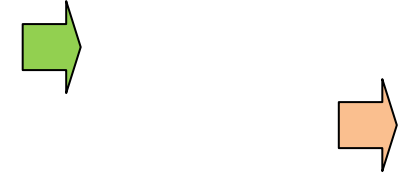
Engagement with Social Housing Regulator



Establish new transfer landlord; secure funding; prepare for transfer



Four week checklist



Transfer completes



Annex H: Contact details

HCA

Mick Cowan, mick.cowan@hca.gsi.gov.uk, 020 78745869

Yasmin Fearon, yasmin.fearon@hca.gsi.gov.uk, 01925 644638

GLA

Nick Taylor, nick.taylor@london.gov.uk, 020 7983 5891

Amena Matin, amena.matin@london.gov.uk, 020 7983 5868

DCLG

Sally Hunt, sally.hunt@communities.gsi.gov.uk, 0303 4443739

Cynthia Brathwaite, cynthia.brathwaite@communities.gsi.gov.uk, 0303 4442402

Linda Higgs (for tenant led transfers), linda.higgs@communities.gsi.gov.uk, 0303 4441326