Warwick District Council

Strategic commercial options review for the Housing Revenue Account

Draft for Discussion

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Contents

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1. Introduction

Introduction

Warwick District Council ("The Council") commissioned PwC to identify and appraise options available to undertake two distinct objectives for the Council;

- Assess the current landlord service and identify delivery options that may improve the value for money of the service ('"Objective one"); and

- Optimise the use of HRA resources in addressing a programme of new build housing that will accelerate and maximise the number of affordable homes ("Objective two").

As part of the commission, the Council is keen to consider the relationship between the two objectives and assess whether any one commercial option is capable of achieving both objectives. Improving value for money on the existing landlord service may release more resources in the HRA which in turn could be used to develop more affordable homes.

The report is structured in the following way:

- ***Development of evaluation criteria in which to consider the available options;***

- ***Review of the Council's existing HRA baseline and suggested efficiencies to release further resources;***

- ***Consideration of objective one; and***

- ***Consideration of objective two.***

The work has been completed in accordance with the terms and conditions of the services agreement dated 16th January.2013.

We have not audited or otherwise verified the data and information provided to us that forms the basis of the base assumptions contained in the HRA business plan and we have relied on the data provided by the Council as being accurate.

We understand that the options appraisal undertaken will be used to drive forward an existing efficiency and service improvement plan over the next two years and to take forward any preferred options in accelerating new affordable homes.

At the commencement of our commission with the Council, we were made aware of a repairs procurement process which had commenced prior to our engagement. Whilst we have not undertaken a full review of the scope and process of the procurement and therefore not commented specifically in this report, we have been mindful of the potential limitations it may place on the wider options available to the Council in delivering the landlord service.

The purpose of this report is to draw out the Council's desired outcomes for the service, to review and comment upon the baseline HRA business plan, advise upon revisions to key assumptions, highlight options that meet objective one, meet objective two or an option which meets both criteria.

HRA reform - background

From 1 April 2012, the national redistributive HRA subsidy system ceased and councils with housing stock now retain their surplus rental income locally, in exchange for a one-off settlement of debt from Government. HRA self-financing represents a significant transfer of resources from central to local government and are a major change for councils in the operation of their housing business. The ring-fence between the HRA and General Fund remains, but each council has more resources than they would have had under the subsidy system. Rather than being dependent on an annual settlement from Government, councils are in a position to develop long term integrated asset and debt management strategies for the HRA. Whilst this brings additional risks, it presents many new freedoms and opportunities, including the ability to deliver new affordable homes.

Under the previous HRA subsidy system, there were relatively limited options for the Council to draw value from the asset base or to look at alternative investment delivery options. Local Authorities were effectively provided an annual budget with which to manage the expenditure of the existing housing stock and to service HRA debt. Each year through the annual subsidy determination, the Council would be notified of the anticipated spend on management, maintenance and major repairs against the expected rent set per property. After taking into account the subsidy provided to service the inherent debt allocated to the HRA, any surplus accrued between rent and expenditure was payable to Government and conversely any deficit calculated was met by Government subsidy. As the subsidy determination was made on an annual basis, councils did not have any control over long term budgeting for the HRA. In addition there was no incentive to build new housing as the subsidy system meant that the only resources available were operating costs, with no resources to service any debt.

Figure one – changes to HRA framework

HRA changes

HRA subsidy system

Mechanics

- Council collected rental income but paid over to Government
- Government paid annual management, maintenance and major repairs allowances
- Government meets the cost of the Council's agreed HRA debt

Impact

- No real scope for strategic planning as reliant on annual subsidy
- Annual settlement provides natural controls on spending and borrowing
- Asset management strategy reliant on resources provided by central Government

HRA self financing

Mechanics

1. Council collects rental income and keeps it
2. No additional subsidy paid by Government – Council meets its costs from local rents
3. Council responsible for meeting interest costs on its HRA debt from rent

Impact

4. Increase in HRA resources compared to subsidy system
5. HRA becomes a "housing business" like a registered provider
6. Significant surplus resources build up long term
7. Council absorbs risk – responsible for long term asset and debt management

Largely as a result of the annual nature of the HRA subsidy system and reliance on Government subsidy for funding capital works to housing, many councils have found it difficult to operate any meaningful form of medium to long term strategic financial planning for their HRA. With the HRA reforms, councils will have substantial new freedoms and opportunities to run their "housing business", akin to that of a Registered Provider.

The result of the HRA reforms therefore is to promote an opportunity for councils to identify new approaches to delivering new levels of housing investment.

Traditional approach

- Housing association partner needed for private finance and grant
- Limited opportunities for councils to control, fund or own new housing
- Limited incentives to increase value of HRA asset base
- Risk of value leakage through HRA subsidy system

New opportunities

- Councils own and control their HRA asset base – low gearing
- Significant financial surpluses embedded in HRA through reforms
- Opportunity to increase values and leverage asset base to meet investment priorities (high and low value assets)

However as part of the HRA reforms, the Government has imposed a ceiling on the levels of borrowing that each individual council can maintain. This is measured by the Housing Capital Finance Requirement ('HCFR'), meaning that regardless of the levels of surplus income that a business plan could accrue over time, councils are not permitted to borrow against this income if it were to exceed the HCFR.

For the Council therefore, this presents a potential obstacle. As per the Council's HRA business plan the Council's forecasted year end HCFR and the HCFR ceiling is circa £14m, meaning that the level of additional borrowing that the Council is permitted to directly borrow will enable a degree of development, but is insufficient to meet the Council's full aspirations.

In addition to the new financial framework for local authority housing, the broader affordable housing landscape in England is also undergoing a period of fundamental change:

- The change in Government, the subsequent Comprehensive Spending Review and the new policies introduced by the Coalition Government signalled a significant reduction in public subsidy for housing and funding for local authorities in general;
- With the reduction in funding, new options for sustaining and delivering affordable housing are being pursued, including the introduction of new tenures, rent levels and a reinvigoration of the Right To Buy option; and
- Current market conditions continue to be uncertain, exacerbating funding and delivery problems.

The Council has already developed a baseline 50 year HRA self financing business plan, which incorporates a modest number of new build properties over the long term (c. 1,500 averaging 30 per year), whilst maintaining a small surplus. However, given the pressures on local authorities to achieve efficiencies and uncertainty over future income streams, the Council wishes to consider how it can reduce its cost base and improve the value for money of its landlord service and release more resources for housing based investment.

Furthermore, the demand for affordable housing in the district is significant. The 2012 Strategic Housing Market Assessment (SHMA) found that approximately 24% of all households cannot afford private housing within Warwick District without subsidy, with access to savings a key constraint for young households/first time buyers. The SHMA also found that a total of 698 new affordable dwellings would need to be provided each year to meet the identified unmet housing need. Therefore, the reasoning behind the desire to free up further resources and support the delivery of a more significant, and accelerated, affordable homes programme is apparent.

The Council wishes to examine both objectives in parallel, and to consider the relationships and dependencies between the objectives. A single option that could deliver improved value for money as well as facilitating the delivery of additional housing is preferable and makes sound commercial sense.

2. Options Appraisal Process

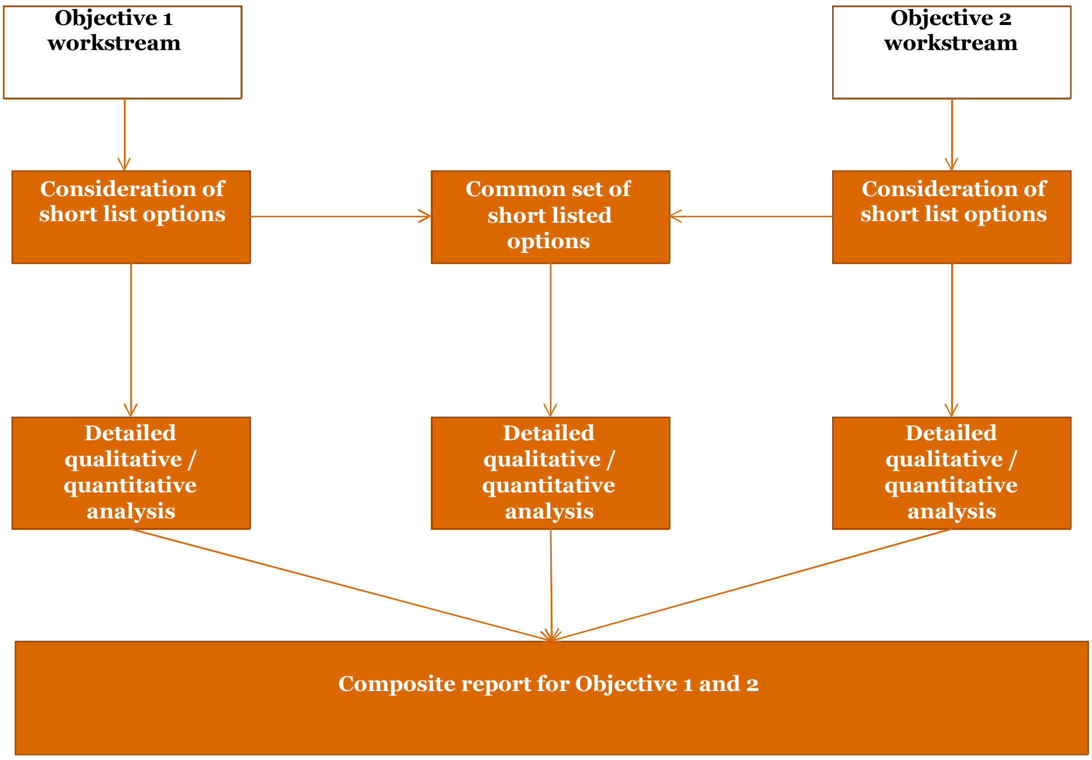
Introduction

At the outset of our review, we worked alongside the Council's key officers, to establish the key criteria that would be used to objectively assess the various options under consideration. These criteria encompass both financial and qualitative considerations and by referring to them throughout the options appraisal, this helped to ensure the process was robust, transparent and aligned to the Council's overall objectives. The criteria for objective one and two were considered as part of the same discussion, in order to ensure they were complementary and non-contradictory.

Approach

A holistic approach was applied to the development of the evaluation criteria and the selection of the options available to the Council. This allowed us to consider, the ability of each to deliver one or more of the objectives in isolation; the interrelationship and dependencies between the options being considered; and a detailed qualitative and quantitative analysis of the preferred options (which may involve a separate or combined delivery approach). We held a workshop with the key officers involved in this project in order to explore the potential opportunities and risks of each option.

In considering and developing the criteria, we also utilised the knowledge and expertise of Trowers & Hamlins ("Trowers"), our partners on this engagement. Trowers provided legal insight and support to pwc and the Council in terms of examining commercial and qualitative issues related to the criteria and the options available.



Criteria for objective one

The criteria for objective one are set out in the table below, along with some further context around the key themes that were discussed.

Table one – Criteria for objective one: improving value for money

Themes	Context
Empower staff	• Achieve culture change – historically low staff turnover/need for fresh insights • Recognise end to end processes and impact on customer • Increase capacity and capability - professional development opportunities • Role/responsibilities of client function
Systems and process transformation	• Improve efficiency and integrate IT systems e.g. different modules from same provider that are not currently integrated • Improved view of customer – creating a single view of customer • Improve value for money and be more cost effective (linked to asset strategy) e.g. being more cost effective with repairs/estate management, improving ratio between responsive and planned maintenance • Sharing knowledge between IT and Housing Service departments – understanding business requirements /developing clear business cases/business partner role in Housing Service department/intelligent customer
Commercialise HRA business	• Generate more revenue e.g. un-pool service charges • Reduce arrears/improve rent collection • Explore different rent strategies e.g. affordable rent • More effective strategic asset management • Minimise impact on General Fund
Improve customer satisfaction	• Improvement management of external customer expectations - reduce level of complaints (particularly around repairs) and reduce customers having to chase through over-promising or not being kept up to date • Improvement management of internal customer expectations e.g. corporate property • Clear linkages between internal and external customers paying for a service and delivering a good service in return • Train and develop tenants involved in customer engagement

	• Deliver service plan performance indicator improvement (reflective of customer satisfaction and impact on customer)

Criteria for objective two

The criteria for objective two are set out in the table below, along with some further context around the key themes that were discussed.

Table two – Criteria for objective two: accelerating delivery of more new homes

Themes	**Context**
Value for money of development programme	• Cost of funding • Maximise quality housing rather than focusing solely on low cost • Minimise commercial risk
Deliverability	• Avoid impact on HRA borrowing cap • Avoid Vires issue • Ability to accelerate delivery of new homes • Attractiveness to private sector (including investors and lenders) • Political acceptance, acknowledging the preference for Council ownership, where this is deliverable
Quality	• Ensure that the end product addresses a broad range of tenures to meet demand (social rent, affordable rent, affordable housing, private rent) • Focus on creating quality housing as opposed to solely volume

Options considered

During the workshop, the following options were discussed and considered.

Objective one: Improve value for money of service

- Retain landlord service in-house
- Outsource – management & maintenance
- Service concession
- Arms length management
- Transfer

Objective two: Options for new build housing

- Purchase assets
- Contract to build
- Lease
- Concession
- Management agreement
- Arms length management

The evaluation of these options is considered in the later sections of this report.

3. Baseline Housing Revenue Account

Introduction

The Council has already developed a 50 year HRA business plan in preparation for self financing, which was approved by Full Council in March 2012, and was set in the context of three overarching objectives:

- Improving Services for Customers;
- Leading Change Positively; and
- Financial Viability.

The HRA business plan identifies the financial resources that are likely to be available to the Council, having taken into account the forecast revenue and capital expenditure on existing properties, as well factoring in a modest programme of 1,500 new build homes over the course of the business plan.

As part of this options appraisal, and before considering the suitability of the various delivery vehicles for the future housing service and for the delivery of new affordable housing, we reviewed and commented upon the key assumptions in this business plan, using our knowledge and experience of similar business plans for the local authority and housing sector.

Original baseline summary

The Council's baseline business plan, including new build,forecasts that relatively small HRA surplus reserves will build up over 50 years. The cumulative surplus over the course of this plan is set out in the table below.

Table three – Cumulative HRA surplus in baseline business plan

Cumulative surplus by year:	Surplus before new build (£'000)	Surplus after new build (£'000)
Year 10	62,674	1,605
Year 30	95,679	2,756
Year 50	164,514	*21,472*

The second column in the above table shows the surpluses after taking account of total investment needs (including inflation) of £470 million over 30 years and £1,050 million over 50 years for the existing stock. The last column shows the impact of factoring in £224 million over 30 years and £686 million over 50 years for the development of new build housing.

Figure two – Baseline cumulative surplus reserves

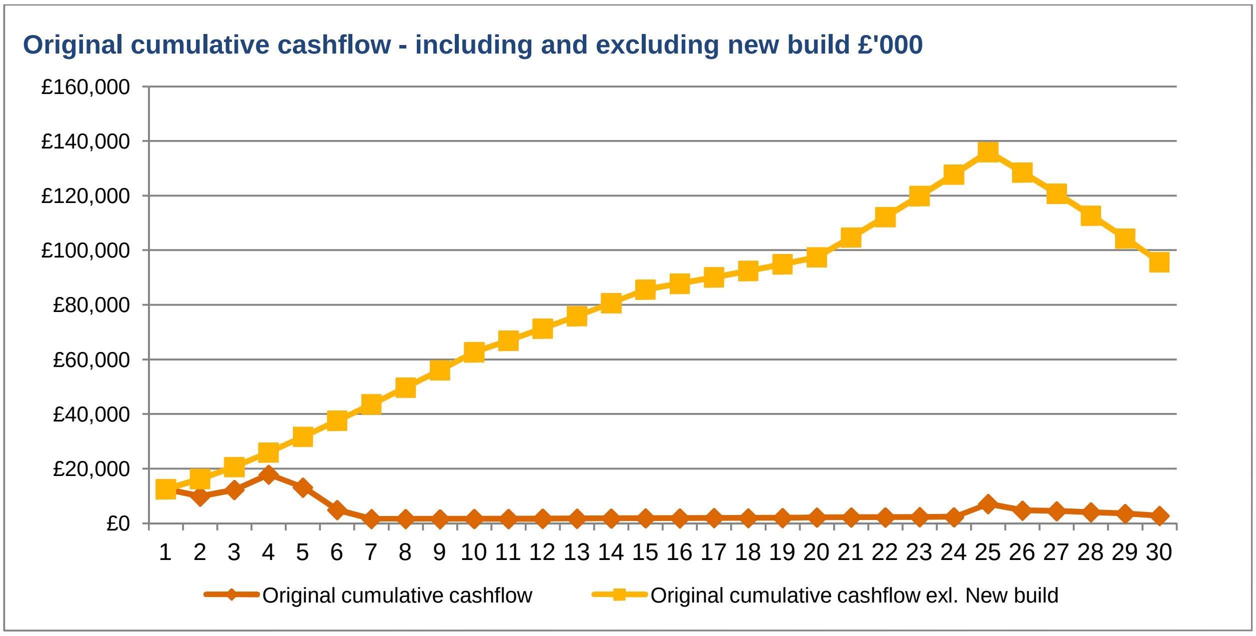


Figure three – Original baseline comparison of available resources & capital investment including new build

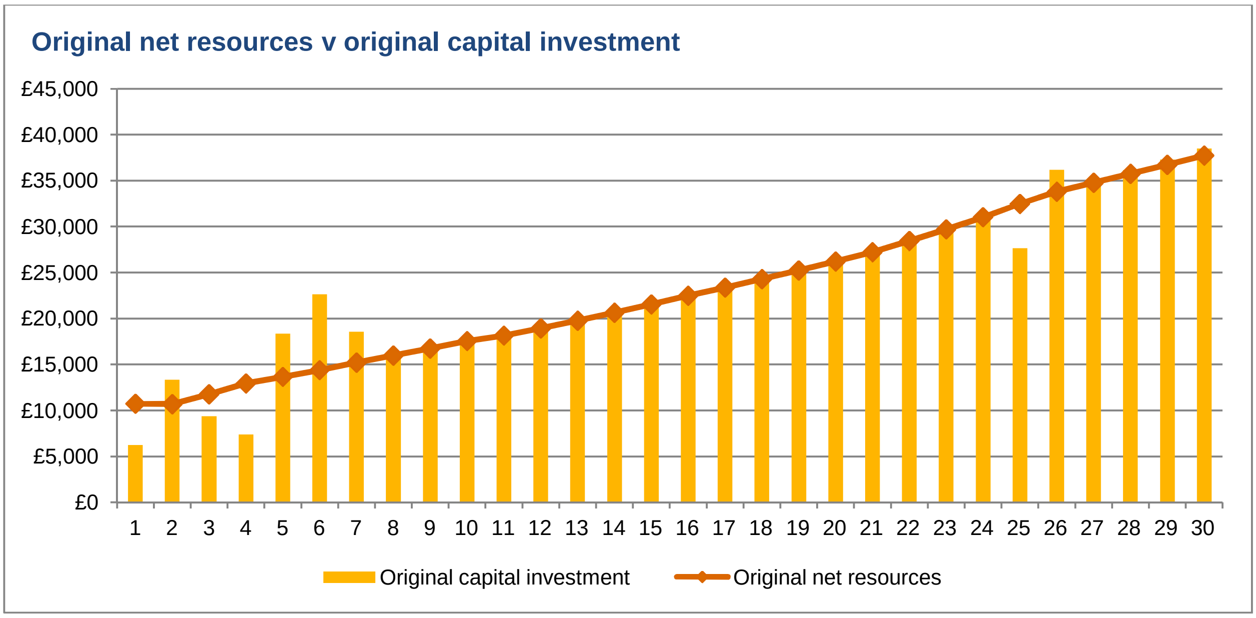


Figure 3 shows that net resources broadly increase in line with capital expenditure.

In discussion with the Council, we agreed there were a number of assumptions in the plan that could be refined. Furthermore, we suggested that the business plan cycle should be reduced from 50 to 30 years. This is in line with normal business planning timeframes (including the national self financing model) and in line with the usual investment cycle for housing stock. The particular assumptions we commented on included the following:

- **Bad debts** – in anticipation of Welfare Reform the Council has increased its forecast bad debt rate from year two onwards from 0.84% to 2.87%. Whilst we agree it is prudent to increase the rate of bad debts in the short to medium term, in the longer term there should be scope to reduce this level once the impact of the reforms has settled down and is being proactively managed by the Council's landlord service.

- **Garage costs** – garage costs (both revenue and capital) seem particularly high when compared with garage income. Over the course of 30 years the garages contribute a net loss of £12 million to the business plan, which would suggest they are unsustainable.
- **Management costs** – management costs start at £911 per dwelling and are then forecast to increase above inflation (at 3%) for the life of the business plan. The year one management cost is already high (see later benchmarking analysis) and there is scope for efficiencies, by removing real increases and making further savings.
- **Repairs costs –** repair costs start at £813 per dwelling and are then forecast to increase above inflation (at 3%) for the life of the business plan. Again, the year one repair costs is already on the high side and there is scope for efficiencies. Furthermore, the repair costs are treated as only 50% variable, meaning that there is a further relative increase in costs as the stock base reduces.
- **Capital works** – overall capital costs are £57,685 per dwelling over 30 years. This level of investment is high and is comparable with a large metropolitan authority with a significant number of high rise properties and a high proportion of non-decent stock. Furthermore, almost 100% of the costs are treated as fixed (despite stock loss of around 1/6th over the course of the plan). As for management and repair costs, the capital costs also increase above inflation for the life of the business plan. This is the most significant area of the business plan where there is scope for efficiencies.

The Council's HRA business plan also assumes repayment of £136 million of HRA debt between year 41 and 50. On the income side, service charges are also assumed to be fixed and are forecast to increase above inflation each year. Conversely, this assumption could be considered to be overly optimistic.

We understand that the Council's baseline original plan was intended to reflect prudent forecasts, in order to demonstrate that the HRA could maintain small surpluses (and still deliver new build) and repay the debt towards the end of the plan, even under pessimistic circumstances.

However, in discussion with officers, we recommended that the Council reassess its baseline before going on to consider the alternative service delivery options, in order to gain a clearer understanding of the resources available for objective two.

Comparison with other authorities

As part of our analysis of the Council's baseline HRA and assessment of current value for money of the landlord service, we compared Warwick District Council's total management and repair costs with a peer group of 16 district non-metropolitan authorities in the East and West Midlands region, with housing stock between 3,000 and 7,500.

The data set used for this comparison was the statement of accounts for each authority for the years 2011/12 and 2010/11. This represents the most reliable source of comparative data, as the HRA is a statutory account (and therefore is prepared on a consistent basis) and the data within it is audited.

The table below shows how Warwick compares with other authorities. The most useful comparison is the combined management and repair cost per dwelling, as this avoids inconsistencies in the treatment of costs such as repairs administration.

Table four – Statement of accounts comparison

Cumulative surplus by year:	Warwick DC cost (2011/12)	Number with lower cost	Number with higher cost
Management costs per dwelling	£891	9	5
Repairs cost per dwelling	£791	8	6
Management & repairs cost per dwelling	£1,683	11	4
Major works cost per property	£1,516	15	0

The comparison above shows that Warwick's management & repair costs are higher than 11 of the 16 authorities. Furthermore, Warwick has the highest major works cost of all the authorities in the peer group. However, looking at one year's major works cost in isolation may not represent a consistent comparison, as the various authorities will be at different stages in their investment cycle.

Self financing comparison

Another useful benchmark for the Council is the management and maintenance allowance used in the calculation of the HRA self financing settlement. These allowances took into account the archetypes within a Council's housing stock (for example, the proportion of medium and high rise dwellings which are traditionally more expensive to manage), as well as geographical factors and socio-economic factors such as crime. Therefore the allowances reflect the individual circumstances of a Council, whereas more crude comparisons with authorities (for example, on the basis of stock size) will not take into account these specific characteristics. The table below shows how the Council's actual (and forecast) costs compare with the self financing allowances.

Table five – Self financing comparison

Management & maintenance costs per dwelling	Warwick DC	Self financing allowance
Year 1	£1,659	£1,691
Year 5	£2,011	£1,940
Year 10	£2,357	£2,304
Year 30	£4,485	£4,585

Warwick's management & maintenance costs in the table above exclude garage repairs (equivalent to approximately £30 per dwelling extra by year 10). The comparison shows that Warwick's forecast costs are generally higher than the allowances built into the self financing calculation, between year two (when repair costs increase) and year 20. The self financing allowances are higher beyond year 20, due to above inflation increases of 3.5% being built into the national model.

Revised baseline summary

Following our review of the original HRA baseline business plan, it was agreed with the Council that some of the assumptions contained within it should be revised, in order to reflect a target business plan and one that reflects the savings anticipated through the forthcoming restructure of the housing service.

The changes agreed with the Council are set out in the table below.

Table six – Changes agreed to original HRA baseline

Change
Timeframe reduced from 50 to 30 years
Remove real increase on new build rents
Void rate reduced from 1.08% to 0.64%
Bad debt rate reduced from 2.87% to 2% from year five
Service charges increased by RPI only (as opposed to 3%)
Changes to expenditure
Inflation only increases in all costs
Removed £268k costs from mgt in year four to reflect housing service restructure
Reduced repair costs by 10% from year four
Made repair costs 100% variable
Capital garage costs reduced by 50%
Reduced all other capital costs (other than garages) by 10% from year 4
Made capital costs 100% variable

The Council's revised baseline business plan forecasts much more significant HRA surplus reserves building up over 30 years. The cumulative surplus over the course of this plan is set out in the table below.

Table seven – Cumulative HRA surplus in revised baseline business plan

Cumulative surplus by year:	Surplus before new build (£'000)	Surplus after new build (£'000)
Year 10	£91,096	£25,871
Year 30	£390,090	£242,690

The above surpluses reflect the position after taking account of revised total investment needs (including inflation) of £358 million over 30 years. In addition to this, the business plan factors in £212 million for new build housing, based on the original profile of 838 new dwellings over 30 years.

The most significant reason for the increase in the cumulative surplus between the original and revised HRA business plan is the changes made to the capital investment assumptions: removal of real increases; reduction of 10% in costs from year 4; and the reduction in costs in line with stock loss.

Given the significant surpluses that could be generated if the planned savings are delivered, the Council couldexpand its new build programme beyond 838 homes. For example, if the HRA were able to achieve the revised base case position, the Council would be able to sustain 1,860 new build properties over the next 30 years, (based on assumptions contained within the original base case position).

Figure four – Revised baseline cumulative surplus reserves

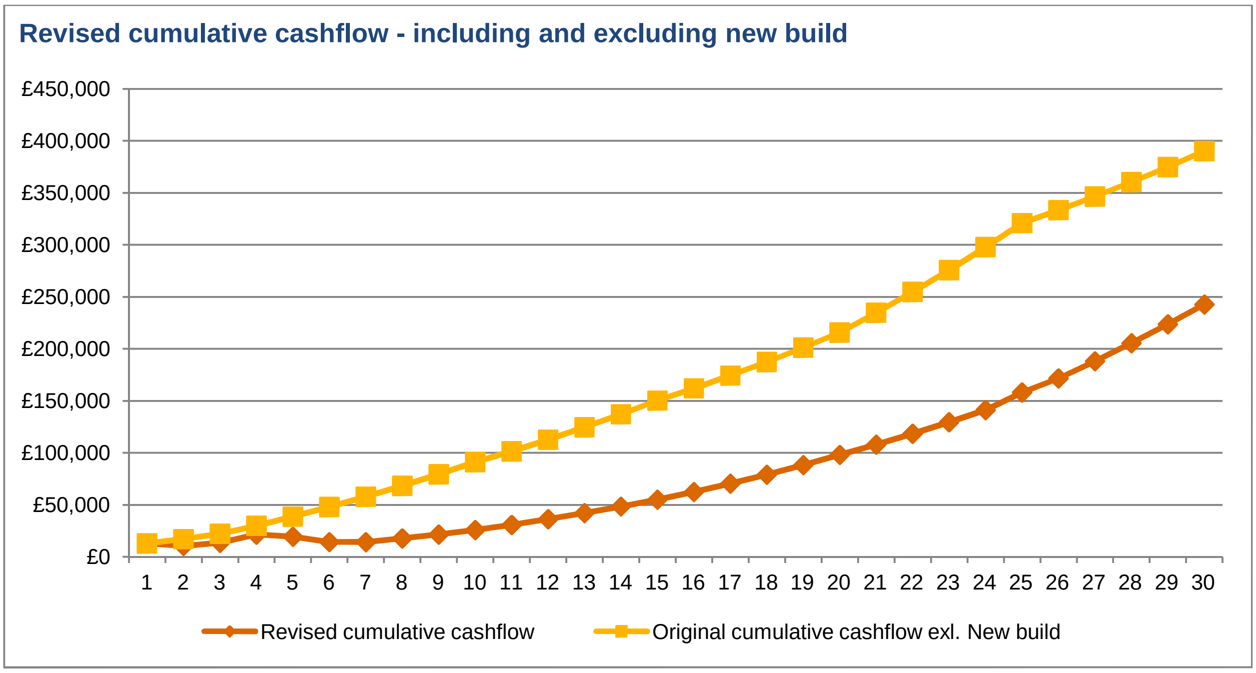
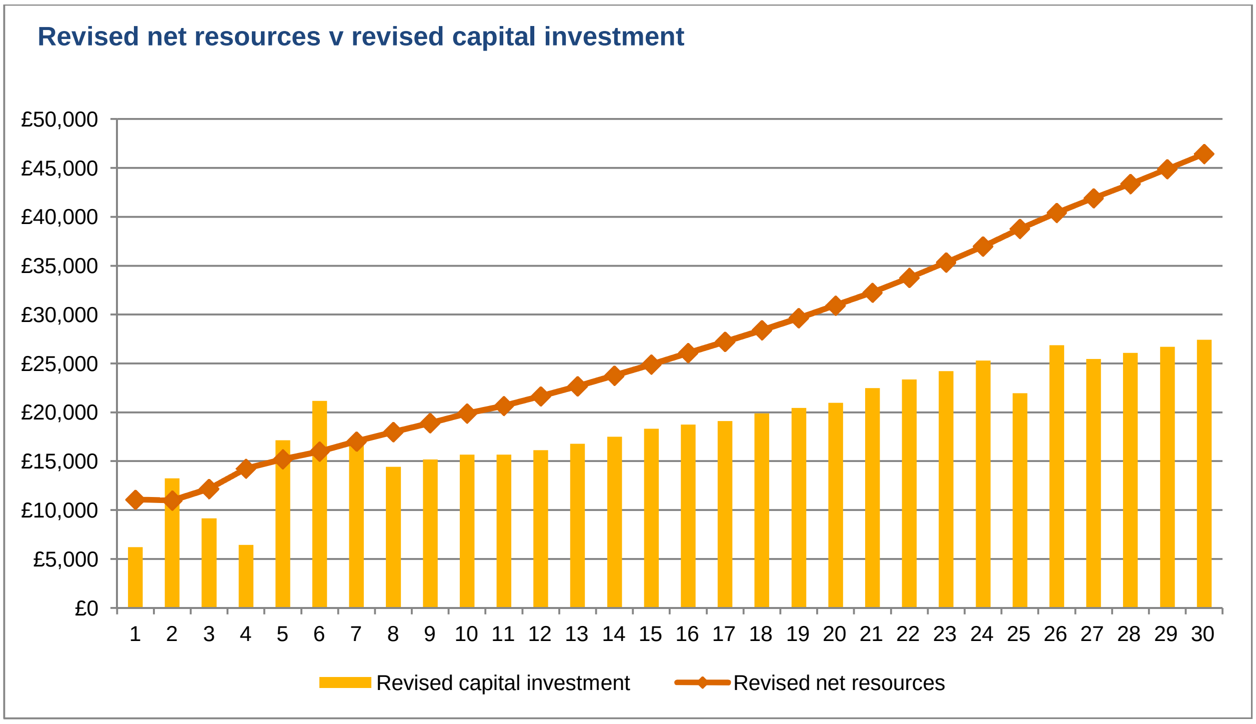


Figure five – Revised baseline comparison of available resources & capital investment including new build



Over time the surpluses increase as net resources exceed the investment required due to:

- The Council keeping the benefit of above inflation rent increases on existing stock (but not on new build or service charges)
- All costs increasing by inflation only, with 10% real savings built in from year four.
- The real value of HRA debt/interest is naturally eroded by inflation

Income sensitivity

The above inflation increases on the rent for existing dwellings is an important factor in the significant build up of surpluses in the revised baseline plan. We have therefore carried out a sensitivity to show the impact of rents increasing by the general rate of inflation (RPI) only from 2016/17 (after the next comprehensive spending review and at the end of rent restructuring).

Table eight – Impact of inflation only increases on rent

Cumulative surplus by year:	Revised baseline surplus incl. new build	Impact of rent sensitivity
Year 10	£25,871	£22,622
Year 30	£242,690	£157,452

The impact of inflation only rent increases from 2016/17 is to reduce the cumulative surplus in year 30 by £85 million to **£157 million**.

Investment needs

The investment needs of the stock are such a significant factor in the business plan that any changes to the cost profile would have a significant impact on the business plan. We would recommend therefore that the Council commissions an up to date stock condition survey to ensure the plan reflects the life cycle investment requirements of the existing dwellings.

Summary

The Council's original HRA business plan shows a surplus of £96 million by year 30. After allowing for a new build programme of 838 units spread over the life of the plan, this surplus reduces to £3 million.

Following discussion with Council officers, the original HRA business plan was updated with a series of refined assumption which included planned savings targets. The revised business plan indicates a much higher surplus of £390 million by year 30. After allowing for the Council's original new build programme of 838 units, this surplus reduces to £243 million.

Assuming the planned savings are achievable, the revised base case indicates that the Council could actually increase its new build programme to 1,860 units over 30 years (including 785 by year 15) and still be left with a surplus by year 30 of £16 million.

Overall, the revised HRA base case demonstrates that the Council does have capacity to increase its new build programme if it can deliver the planned efficiencies, however, the delivery would be spread out over the course of the plan rather than being able to accelerate the growth of housing. Whilst this option provides flexibility for the Council to determine the level of housing build it could deliver in any one year based on changes to resources it would have, it also means that the ability for the Council to match current demand is restricted and any future increases in construction price inflation may reduce the purchasing power of future free cashflow. This is reviwed in Section five of this report.

An analysis of the cashflows from the original and revised base case cashflows is included in appendix 3.

4. Objective one: Options to improve value for money

Options considered

The options considered under objective one – options to improve value for money of the housing service are as follows:

- Retain landlord service in-house
- Outsource – management & maintenance
- Service concession
- Arms length management
- Transfer

Current service and national comparisons

The Council's housing and property service has already embarked upon a service improvement journey and has taken a significant number of steps already, over the last 12 to 15 months. These have included:

- Improvements in customer participation structures – the Tenants' Panel has been cited as an example of good practice by the National Tenants' Organisation and there has been recognition at the Association of Retained Council Housing (ARCH) Excellence in Participation Awards. However, the service will continue to improve its customer relationships and put tenants at the heart of the service and further improve their satisfaction levels.

- Improvements to the repairs service – the Council is in the process of reprocuring repairs contracts to deliver better value for money, the Warwick response team has been nationally accredited with platinum status and resources from the customer service centre have been allocated to handle repairs calls as a result of feedback from customers. The percentage of repairs completed right first time is consistently high at around 96%, although there are further improvements to be made to ensure all properties have ane electrical test and asbestos survey.

- Improvements to the housing stock – compliance with Decent Homes is being maintained, there has been a significant installation programme of energy efficient boliers, and other "green" improvements in the form of the installation of photo voltaic panels. There has also been significant investment to improve the standard of sheltered housing schemes.

- Well managed HRA – based on the development of a prudent HRA 50 year business plan and good levels of performance when compared with Housemark comparators on cost performance indicators and improving relet times, void performance and rent collection.

Despite the obvious improvements in the Council's housing and property service, some of which are outlined above, evidence from Audit Commission inspection results has shown that there appears to be differences in the quality of service between different types of housing provider. The tables below illustrate the difference.

Table nine – Local authority performance ratings

		A good service					
Prospects for improvement		Poor	Fair (1 star)	Good (2 star)	Excellent (3 star)	**Total number**	**Percentage**
	Excellent	1	8	6	1	**16**	**8%**
	Promising	10	81	26		**117**	**57%**
	Uncertain	23	32	5		**60**	**29%**
	Poor	11	2			**13**	**6%**
	Total number	**45**	**123**	**37**	**1**	**206**	
	Percentage	**22%**	**60%**	**18%**	**0%**		**100%**

Table ten – ALMO performance ratings

		A good service					
Prospects for improvement		Poor	Fair (1 star)	Good (2 star)	Excellent (3 star)	**Total number**	**Percentage**
	Excellent		1	10	16	**27**	**29%**
	Promising		14	37	6	**57**	**61%**
	Uncertain	1	3	5		**9**	**10%**
	Poor		1			**1**	**1%**
	Total number	**1**	**19**	**52**	**22**	**94**	
	Percentage	**1%**	**20%**	**55%**	**23%**		**100%**

Table ten –Housing association performance ratings

		A good service					
Prospects for improvement		Poor	Fair (1 star)	Good (2 star)	Excellent (3 star)	**Total number**	**Percentage**
	Excellent		14	5	4	**23**	**10%**
	Promising	8	91	58		**157**	**69%**
	Uncertain	12	25	4		**41**	**18%**
	Poor	5	2			**7**	**3%**
	Total number	**25**	**132**	**67**	**4**	**228**	
	Percentage	**11%**	**58%**	**29%**	**2%**		**100%**

The tables above demonstrate that quality of service is highest for ALMOs (which is perhaps unsurprising given the link to the incentive of additional Government funding that previously existed), with retained services on the whole, being lower performing. As a result of this empirical evidence, the options to assess an ALMO and Housing Association delivering the landlord service have been reviewed.

Qualitative analysis

One of the Council's key objectives is to improve delivery of housing services to its customers, both internal corporate customers within the Council, and external customers including tenants and leaseholders, and the importance of this is reflected in the evaluation criteria that have been developed to assess the available options for objective one.

The options available for addressing objective one were considered and discussed in a workshop with key officers of the Council. The key advantages and disadvantages (or risks) of each option are outlined below, set against the evaluation criteria agreed at the outset of the project. Each option has then been scored by PwC according to the following method:

✗ Does not meet criteria

✔ Partially meets criteria

✔✔ Fully meets criteria

Retain service in-house

Table 11 – analysis of retention against evaluation criteria

Evaluation criteria	Analysis of this option	Score
Empower staff	• May be more difficult to achieve culture change in-house, especially with a low turnover of staff • May be capacity & capability constraints with limited opportunities for professional development • The housing fieldwork staff may benefit from a wider sense of belonging to the Council • Client function can be smaller as it is limited to managing external contracts • Challenge may only come from outside to keep thinking fresh and up to date	✔
Systems and process transformation	• IT service may be more orientated towards core business of the Council – housing management services may need to compete for IT resource • Dependent upon quality and	✔

	responsiveness of IT service provided corporately by the Council • However, core systems of the Council may also benefit housing (e.g. Invoicing, payments, Housing Benefit) - Wider networking back into these Council's systems is likely to be more straightforward • May be easier to achieve single view of customer (assuming systems are integrated)	
Commercialise HRA business	• Potential to unpool service charges • No performance penalties if arrears collection is poor/level of bad debts is high • Strategic asset management more closely linked to the service itself • Experience of different rent/tenure models may be limited • HRA continues to incur charges from the General Fund and probably has little say over these • Council's current repairs procurement does not impede this option	✔
Improve customer satisfaction	• No performance penalties for poor customer satisfaction or service plan performance indicators • External customers may experience a more joined up Council service and may like to "feel part of the Council" • Internal provider/customer relationship is more blurred • A culture shift may be required to change the way tenants are currently involved in shaping the service	✗

Outsource service

Table 12 - analysis of outsourcing against evaluation criteria

Evaluation criteria	Analysis of this option	Score
Empower staff	• Existing staff would be protected by TUPE • Potentially more opportunity for professional development , particularly for those staff wishing to pursue careers in housing • Opportunity for staff to experience a different culture and see an excellent specialist service provider in action and to benefit from their wider experience • Culture change may be enabled more quickly	✔
Systems and process transformation	• A large specialist housing provider would be in a position to invest in specifically tailored new systems and processes (e.g. to follow leading practice objectives set out by housing industry bodies) • It may be more difficult to join up with Council systems • Housing service may suffer from being less joined up with Housing Strategy	✔
Commercialise HRA business	• Market testing and a well defined tendering process could drive down costs • Council would still be responsible for delivering a balanced HRA budget, determining rent setting policy & the asset management strategy • The pricing of risk, a bigger client function with increased responsibilities and start up costs may balance out efficiencies in direct services • A properly structured contract would have penalties for poor income collection and could set clear VFM benchmarking standards • In the short to medium term, the	✔✔

	Council's current repairs procurement could impede this option if repairs contracts cannot be novated to the new provider and could restrict the level of savings that could be delivered within the first five years (the minimum period during which the new contracts would be in place)	
Improve customer satisfaction	• Ability to contract for outcomes to deliver improving service standards • Potential to start afresh with regard to participation structures by bringing in the thinking of a specialist provider • Tenant engagement and participation can be fostered and be proactive rather than passive • Tenants and residents may find it more complicated to access the Council's wider channels for consultation and involvement in services	✔✔

Service concession

Table 13 - analysis of service concession against evaluation criteria

Evaluation criteria	**Analysis of this option**	
Empower staff	• Similar to outsourced model	✔
Systems and process transformation	• Similar to outsourced model • Complications around collection of Housing Benefit means that IT systems need to be well integrated with clear data sharing protocols in place	✔
Commercialise HRA business	• Clear transfer of risk in terms of rent collection – "don't collect, don't get paid" model. • Difficult to separate income management from income policy decisions (e.g. Rent setting control remains with the Council, but provider is dependent upon income at a certain level) • Potential for wider VAT benefits as compared to outsourcing	✔

	• May be easier to secure wider partner offering in terms of new build • Greater risk transfer could mean the contract becomes more expensive – however, the act of agreeing the contract will force the Council (as client) and the provider to consider key delivery risks and find ways to address or mitigate them • Opportunity for service concession vehicle to secure more funding than the Council can • In the short to medium term, the Council's current repairs procurement could impede this option if repairs contracts cannot be novated or assigned to the new provider and could restrict the level of savings that could be delivered within the first five years	
Improve customer satisfaction	• Service may feel too far away from the Council with a lack of control over tenant engagement • Customers may feel disengaged from the Council and its wider participation structures	✗

Arms length management organisation

Table 14 - analysis of ALMO against evaluation criteria

Evaluation criteria	Analysis of this option	Score
Empower staff	• Introduction of "new blood" via the ALMO management team may help to create culture change quicker than the in-house model	✔
Systems and process transformation	• Housing management could be seen as less of a 'core' business for the Council (being separated but still wholly owned by the Council) – therefore the ALMO may find it harder to compete on the Council's wider agenda • ALMO can still be linked into the Council's main systems for invoicing. Payments and Housing Benefit	✔

Commercialise HRA business	• Potential for higher management costs as a new Executive team is created as well as potentially a bigger client function, however, the management costs could be managed down through the management fee • No longer a particular advantage with regards to securing additional funding under this model • Revenue fee will be paid to ALMO to manage services – if the ALMO makes a surplus, it can prudentially borrow against this income stream (which is Council borrowing but doesn't count against HRA borrowing cap) = potential for better fit with Objective 1 • The Council's current repairs procurement could mean that the level of savings deliverable within the first five years is restricted. However, it should be fairly straight forward to novate these new contracts to an ALMO.	✔✔
Improve customer satisfaction	• No longer have the incentive of securing additional funding by meeting a particular standard of service • Clearer separation between client/provider role may help to generate service improvements • The ALMO could be more focused as its whole purpose is to provide housing management • Tenants and residents would still have access to the Council's wider channels for consultation and involvement in services • Benchmark/peer group higher performing (than retained housing service peer group)	✔✔

Transfer

Table 15 - analysis of transfer against evaluation criteria

Evaluation criteria	**Analysis of this option**	**Score**
Empower staff	• Existing staff would be protected by TUPE • If transfer was to a large existing provider, culture change could be achieved more quickly and there would be more opportunities for professional development	✔
Systems and process transformation	• A large specialist housing provider would be in a position to invest in specifically tailored new systems and processes (e.g. to follow leading practice objectives set out by housing industry bodies) • It may be more difficult to join up with Council systems • Housing service may suffer from being less joined up with Housing Strategy, although an existing RP could be selected on the basis of their contribution to the Strategic Housing Partnership	✔
Commercialise HRA business	• Previous benefits of transfer (via gap funding and overhanging debt grant) are no longer on the table and self financing was intended to create a level playing field between retention and transfer. • The tenanted market value of the stock is unlikely to be sufficient to cover the revised HRA debt (unless significant savings could be made) so the potential benefit of a capital receipt to the General Fund is unlikely. • In the short term, the Council could continue to provide services to the new landlord (through SLAs), but longer term the Council (General Fund) may lose this income • A Registered Provider can secure funding outside of the HRA borrowing gap • The new repairs contracts would need to	✔

	be assigned to the new landlord	
Improve customer satisfaction	• If transfer were to a high performing existing landlord, service levels and customer satisfaction could be expected to increase • An existing landlord would have its own engagement & participation structures, and the potential selected providers could be evaluated on the basis of how good their existing arrangements are.	✔

The analysis and scoring in the tables above indicate that outsourcing and ALMO are the most favourable options from a qualitative perspective, followed by transfer. Retention and service concession appear to be the least favourable options. However, in the case of retention, this is more subjective and the score could be higher depending on the ability of the Council to continue with the transformation of the service, particularly with regards to the linked objectives of empowering staff and improving customer satisfaction. Further analysis of the objective one options and their fit with objective two, including legal and risk implications is included at appendix one.

Quantitative analysis

As part of the options appraisal we have undertaken some high-level financial analysis of the potential impact of the alternative options to retention, using the Council's revised HRA business plan as a baseline with which to make comparisons.

Outsourcing service

The option of outsourcing the service would be based on a contract of at least five years in length, that would normally involve either a fixed total fee or a fixed per dwelling fee for the delivery of landlord management service, repairs and management of the capital programme. Maximising the scale of the contract by including all services in this way, would help to maximise value for money and attract more potential bidders in the market place.

Given that the Council's repairs procurement process is already underway and there are plans in place to enter new repairs contracts from April 2013, the ability to deliver this option would be delayed until the new contracts come to an end or the new contracts would need to be novated to a new provider. As such, the savings the new provider could deliver would be limited by the existing contracts.

We have assumed that under this option, a new provider delivering management, repairs and capital programme management may deliver the following savings:

- 10% saving on all management costs (as opposed to 10% saving on staff only)
- 15% saving in repairs costs from year 6 (in other words, a further 5% saving compared to the Council's revised baseline). We have also assumed contingency would reduce from 5% to 3% and that repairs administration would be variable with stock, and a 10% could be delivered from year six.
- 15% saving in capital costs for existing dwellings from year 6 (in other words, a further 5% saving compared to the Council's revised baseline). A reduction in new build capital costs to the level for existing dwellings.
- In order to ensure the Council has the skills and capacity to manage the outsourced contract, we have also allowed for new small, but high-graded client team, to be added into the housing services structure.

This level of savings is considered possible based on previous similar transactions that have taken place in the sector.

Table 16 – Impact of outsourcing on surplus HRA resources

Cumulative surplus by year:	Revised baseline surplus (including new build)	Impact of outsourcing on surplus
Year 10	£25,871	£28,452
Year 30	£242,690	£287,622

In addition to the financial benefits identified in the table above, the outsourced contract could be structured and managed in such a way to ensure improved service delivery benefits as well.

Service concession

The option of a service concession would be based on a long term contract which involves a management fee payment to the chosen provider, likely to be equivalent to 100% of the rent. This would reflect the full transfer of responsibility and risk on rent collection (and indeed the transfer of reward, if the percentage of rent collection increased beyond the rate forecast in the business plan). This would effectively leave no control for the Council over its HRA resources and no buffer to deal with risks that arise, or to meet residual HRA costs that could not be delivered by the provider (for example, rent setting policy and the responsibility for and delivery of a balanced HRA budget). Following discussion with the Council, this option has been dismissed on the basis of it being complex to implement, and the inflexibility of the arrangement in terms of its ability to deliver and control resources for new build.

Arms length management organisation

The option of creating an arms length management organisation (ALMO) would seem somewhat contradictory given that some other authorities are bringing their ALMOs back in-house now that they have reached the end of their Decent Homes programmes. However, the ALMO option has been considered for its potential to deliver improved services and to allow more innovative solutions to be implemented with regards to using free resources in the HRA for new affordable housing, rather than the ability to deliver financial savings.

We have assumed that under this option, an ALMO could deliver the following savings and would involve the following additional costs:

- 10% saving on all management costs (as opposed to 10% saving on staff only)
- No additional savings on repairs and capital compared to the revised baseline
- In order to ensure the Council has the skills and capacity to manage the ALMO contract, we have also allowed for new small, but high-graded client team, to be added into the housing services structure and also built in an allowance for a new Executive management team (£250,000 per annum).

The table below illustrates the impact of the above changes.

Table 17 – Impact of ALMO on surplus HRA resources

Cumulative surplus by year £'000	Revised baseline surplus	Impact of outsourcing on surplus
Year 10	£25,871	£22,497
Year 30	£242,654	£230,589

The table above shows that overall the ALMO would potentially deliver slightly less savings than retention, due to the addition of a new client team and an allowance for a new Executive management team. However, it could be argued that these new costs would be in exchange for savings elsewhere in the housing services structure. The advantages of this option are centred more around improved service delivery and compatibility with and facilitation of objective two.

Transfer

We have prepared an indicative tenanted market valuation (TMV) of the Council's housing stock to show the potential receipt to the Council should it wish to transfer ownership of its housing stock to a new Registered Provider (RP) landlord. As the transfer would involve the assets already in ownership, this is based upon the Council's existing stock only.

The assumptions used for the TMV are similar to those in the revised baseline apart from the following changes:

- No stock changes (including no new build built into the model) – it is usual to based the TMV on the number of dwellings at transfer, and then any stock loss through Right To Buy is taken into account separately through a net income foregone calculation

- No inflation as the discount rate of 6.5% used to discount the cashflows back to a net present value is a real rate

- Management costs are uplifted by 10% to account for additional VAT on a proportion of costs

- Contingency on repairs is reduced from 5% to 3% (as a standard rate)

- 20% rate of VAT on repairs

- Capital works are uplifted by fees of 6% (as a standard rate)

- 20% VAT on capital costs, but then the VAT shelter is assumed to be in operation (which is a structure that is customary to set up in housing transfers, and allows the Council and the new landlord to save VAT on the initial phase of investment works).

Based on the above assumptions, the Council's existing housing stock has a positive valuation of **£109 million**. Given that the Council's new HRA debt under self financing is £136 million, the receipt would not be sufficient to repay the debt and provide resources for further capital investment to that envisaged in the current housing plan.

Currently, the TMV assumes a 50/50 share of the VAT shelter benefit between the Council and the new landlord, which helps to inflate the price of the stock. The remaining 50% would potentially provide the Council with a further **£10 million** of capital receipts over 15 years.

In order to increase the TMV further, the Council would need to negotiate with a prospective new landlord to agree to deliver further savings (beyond those built into the revised HRA baseline business plan) or to invest its own resources in order to close the gap and enable full debt repayment.

Alternatively, the Council could approach Communities and Local Government to explore whether financial support may be available to bridge the gap between the TMV and the HRA debt.

Table 18 – Impact of transfer

£'000	Receipt
TMV – receipt to Council	£109,208
Increase share of VAT shelter to new landlord to 100%	£115,750
And: Reduce management costs by 10%, and repairs and capital works by 15% from year 4	£126,059

As the table above shows, there is potential that the TMV could be improved to allow the Council to pay off almost all of its HRA debt.

The potential disadvantage of a transfer, even if it was possible to bridge the gap between the TMV and the HRA debt, is that it would be difficult for the Council to maintain any control over the future surplus resources associated with the housing stock, as the assets would be under new ownership. However, as part of transfer negotiations it may be possible to build in commitments from the new landlord to deliver new affordable housing and this is demonstrated below.

The base TMV above has been converted into an indicative RP business plan to demonstrate what surpluses this would produce and how these could be used to support further borrowing. In order to convert the TMV into a business plan, the following changes have been made:

- An initial payment for the existing stock of £109 million has been built into year 1.
- It is assumed the RP would need to take out a loan to support this payment (rather than utilising reserves)
- Interest rates of 6.5% have been assumed on the loan (to allow for margins on lending)

The indicative business plan shows a surplus of £167 million by year 30.

As part of the transfer negotiations, the Council could seek to ensure that this future surplus is utilised to deliver new build housing. As an example, the business plan shows that an RP could take out a further loan of £41.5 million in year 1, that could deliver c. 250 new build properties. The future cashflows from the existing and new build stock would allow the RP to fully pay off its initial loan by year 29, leaving it with a surplus of £10 million in year 30.

Summary

Working with Council officers we developed a set of evalution criteria for objective one, against which to compare the various options. From a qualitative perspective, the option of setting up an ALMO (or Council Housing Company) has the most potential to fulfil the combined objectives of empowering staff, transforming processes and improving customer satisfaction. This option would not be impeded by the repairs reprocurement process as it would be straightforward to novate the contracts to the ALMO.

From a quantitative perspective, the contract between the Council and the newly created ALMO could also be structured to build in the planned efficiency targets (and indeed these targets could be extended beyond the level in the revised base case). The delivery of these savings, as well as improvements in service and customer satisfaction, would be managed by a strong, but focused client-side team. The option of an ALMO would also not be detrimental to the General Fund, as support services could still be delivered to the housing service by the corporate centre. The ALMO option, therefore, also fulfils the objective of commercialising the HRA.

Furthermore, the option of setting up a Council Housing Company would allow the Council to utilise the HRA surpluses (outside of the HRA borrowing cap) to accelerate the delivery of new build, thereby also delivering on objective two. This is explored further under the next section.

The option of transferring the stock to a registered provider is also a possibility. Whilst the initial indicative tenanted market valuation of the existing stock of £109 million would not be sufficient to cover all of the Council's HRA debt, and provide a net receipt, there are number of options to increase this valuation.

A competition between existing registered providers could help to extract more value for the stock, a greater share of the VAT shelter could be built into the transfer valuation (although this would leave less capital receipts for the Council to meet the costs of transfer), and finally, the option of overhanging debt grant may be available from the Government, which could leave the Council with no housing debt.

The potential disadvantage of the transfer option is that it would be more difficult to ensure that the surplus resources within the transfer business plan are used to deliver new build, although this could be a key part of the transfer negotiations with a new landlord.

The service concession option has been discounted on the basis of its low qualitative score, and that it would effectively leave no control for the Council over its HRA resources, no buffer to deal with risks that arise, or to meet residual HRA costs, or indeed to deliver new build. It would also be a complex option to implement.

We understand that the Council's first priority is to continue with its restructure of the housing service, complete the reprocurement of repairs contracts and explore whether the planned savings can be delivered in house. However, if the expected savings or service improvements do not materialise over the course of the Council's improvement programme, or if the acceleration of the new build programme is determined to be the an immediate priority, the alternative option of the ALMO/Council Housing Company is something which should be considered as it has the most potential to fulfil both of the Council's key objectives, and indeed, could be a vehicle to help drive forward the transformation of the service.

5. Objective two: Options to accelerate new affordable housing

Options considered

The options considered under objective two are as follows:

- Direct institutional investment
- Build now, pay later scheme (Joint Venture)
- Build now, pay later scheme (Wholly Owned Company)
- Concession
- Council Housing Company (ALMO)

A full description of each option is included in Appendix 1, and a legal commentary of the applicability of each option is included in Appendix 3.

The purpose of objective 2 of the engagement is to assess whether the Council has the ability to accelerate its level of housing investment using HRA resources, compared to the annual rate of affordable houses delivered in the Council's HRA business plan.

In analysing the potential for using the Council's HRA resources to contribute towards the Council's target for affordable housing, the two key constraints that we have identified are the HRA's ability to directly borrow and enter into credit arrangements and the ability of the Council to access land. The HCFR acts as the key constraint, and is an absolute cap, regardless of the long term capacity of the HRA to accrue surplus resources.

One of the key reasons for gaining access to the potential accrued surpluses arising within the HRA is that such surpluses can act as the subsidy required to maintain rental income on properties at affordable or social levels.

One of the areas that we have explored therefore is how the HRA may interface with different delivery vehicles in order to use HRA resources as revenue payments for capital programmes. There are number of contractual interfaces that we have identified between the HRA and a delivery vehicle.

Institutional investment overview

The Council may enter into a direct contractual relationship with an institutional investor. Investors are seeking areas of stable returns which are backed with counterparties with significant covenant strength. Housing developments backed with resources from the HRA are therefore likely to be attractive to institutional investors.

The most likely route for acquiring housing through direct institutional investment is through a leasing structure. Under this option, the institutional investor either provides funding for the development of housing or acquires an interest in housing already completed.

The Council may choose to play the role of developer to construct the new properties. Under this option, the Council would prudentially borrow to draw down sufficient development finance to fund the development activity. The Council then sells the completed properties to the institutional investor, effectively entering into a "sale and leaseback" arrangement with the investor.

Alternatively, the Council may act as the managing agent on behalf of the institutional investor, where the institutional investor acquires the land and provides a licence for the Council to build properties on the land. The investor then leases the completed properties to the Council.

The lease will need to be carefully structured to ensure that it is classified as an operating lease. Under an operating lease, the lease term will be smaller than the useful life of the properties and the Council will have the option rather than obligation, to purchase the properties from the institutional investor at the end of the lease period for an agreed valuation, reflecting the tenure of the properties. In the event that the Council does not exercise this option, institutional investors will have the option to either continue to derive value from the properties or sell on the open market.

Upon leasing the new properties back to the Council, the institutional investors are offered an annual index linked return in the form of an annual lease payment which grows in line with a mark up on inflation. This index linked return is of critical importance to the institutional investor as it seeks to satisfy its own asset-liability matching requirements.

The future of accounting for leases is moving towards classifying all operating leases as finance leases. Careful thought therefore needs to be given as to the impact of any retrospective change of any lease entered into by the HRA.

Table 19 – Institutional investment analysis

Themes	Context	Score
Value for money of development programme	• Cost of funding is likely to be in the region of 4-4.5% real returns over the lease period, excluding the residual value of the assets. • Opportunity to develop higher quantities of housing at scale in the early years of the HRA business plan. • Little precedent for sale and leaseback provision in the HRA due to previous subsidy system. • For the return made on the lease, the investor will anticipate little construction or operating risk. For example, the lease will be a fixed payment regardless of the usage of the asset by the Council.	✔✔
Deliverability	• Where structured as an operating lease, any lease payment is a revenue cost to the HRA with no resulting impact on the HCFR. • Investor may purchase land direct on	✔?

	market, purchase land from Council or potentially purchase a programme of properties on the open market and section 106 contributions if leased to the HRA. • The manual of HRA accounts sets out the permissibility of lease payments as per debit item 3 (rents, rates, taxes and other charges) • As the payments are made over a 30 year lease period with residual value returning to the investor, there is a strong opportunity to accelerate housing investment in the early years of the HRA business plan. • Very attractive to institutional investors. Returns are indexed linked and matched with local authority covenant strength. • Whilst properties are leased to Council, the properties are treated as Council homes and tenancies would be secured. • HRA resources top up net rental income from properties to pay annual lease payments. • Deliverability a potential issue in the medium term due to the likely accounting changes for leases. All leases are likely to become finance leases, which will impinge upon the HCFR. The operating lease can accelerate housing, but any retrospective changes in accounting provisions in future years may cause the investment to breach the debt cap. • Right to Buy may impact on the commercial negotiation of the lease.	
Quality	• The leaseback arrangements are more tailored towards volume of properties being used for rent rather than sale. • Can promote a quality product, but likely to be at a minimum of £20m as single or aggregate developments.	✔

Joint Venture overview

Under this option the Council would enter into a partnership with a private sector partner (“PSP”) and form a Joint Venture company (“JVCo”).

The JVCo would be responsible for undertaking the development of properties, using the expertise of the private sector partner to undertake masterplanning and development.

In order to participate in the JVCo, the Council would either provide cash or land as an equity contribution to the JVCo; the private sector partner may match this with either cash or land contributions to define the share of the LLP between the Council and the PSP. It is possible that other local authority parties that are able to contribute land for equity may also be able to join the vehicle at inception or in subsequent stages.

The JVCo will procure financing either from an institutional investment, senior lending or prudential borrowing.

Once properties are developed or acquired the JVCo will undertake to sell or retain properties, depending on the desired tenure mix of the development. The JVCo may elect to establish a management agreement for properties to be managed on its behalf.

The Council may receive an annual coupon rate for the share of equity in the vehicle plus any returns from the residual value of the properties once sold on the open market.

The principal purpose of the vehicle is to act as a build now, pay later scheme. Properties which are developed by the JVCo are purchased overtime using the accrued surplus within the HRA. The benefit of this approach is to ensure that properties are constructed early to lock in favourable construction prices inflation indices and retaining the value of the surplus cashflows of the HRA.

Developments are delivered to the required mixed tenure requirements. Properties that are earmarked to be purchased as affordable housing overtime are retained by the JVCo and rented either at affordable rent or private rent. The HRA may manage the properties on behalf of the JVCo until such time that the properties are purchased by the HRA. During this period, the HRA will act as a managing agent on behalf of the JVCo and pay a net rental income back to the JVCo taking into account tenant landlord services. The net rental income is used to service the investment and debt contained in the JV until such properties are purchased.

Table 20- – JVCo analysis

Themes	**Context**	**Score**
Value for money of development programme	• The JVCo cost of financing depends on the form of debt procured. It is possible that the JVCo may be able to obtain institutional investment or longer term debt. • Development, construction and sales risk is shared with a Private Sector Partner. • The construction of properties in earlier years that are then purchased overtime by the HRA may provide significant value for money to the	✔

	HRA. Where the HRA directly constructed properties with surplus cashflow overtime, construction price inflation may mean that the amount of properties built in real terms would reduce.	
Deliverability	• Joint Venture schemes are a common form of housing development between local authorities and developers, typically where the Council has land to develop. • The key difference is that there is an additional agreement in the JV for the HRA to purchase properties overtime for an agreed sum, allowing properties to be built today and providing cost certainty to the HRA. • As properties are purchased at an agreed value by the HRA with available resources, there is no deemed impact on the HCFR. • SDLT and taxation issues, including VAT on irrecoverable tenancy costs may impact on the level of housing achievable. • The net rental income needs to be sufficient to service the costs of the JVCo • The Council would be required to undertake a procurement exercise in order to procure the PSP.	✔
Quality	• The Council has an element of control over the vehicle through its equity stake in the vehicle. It can therefore have some influence over the quality and standards of housing delivered.	✔

Wholly owned company overview

Under this option, the Council takes on the development activity itself through a wholly owned company ("WOC") it establishes for the purpose of delivering housing. The WOC is 100% owned by the Council and any developer profit it makes is therefore completely retained by the Council.

As the sole owner of the WOC, the Council will have complete control over the development activity and therefore the specification of the housing outputs delivered. The concept of the WOC is to develop mixed tenure housing, with the proceeds from sales of properties for owner occupation being used to cross subsidise affordable housing.

The purpose of the WOC is exactly the same as the previous JVCo model. The WOC will build out developments in order to lock in favourable construction prices in the current economic environment and to minimise the impact of any increases in future construction price inflation. This will enable the Council to use its HRA resources to purchase properties from the WOC overtime to assume properties into the HRA at agreed prices.

The WOC would retain an interest in properties and levy rent on these properties (to service debt) until they are purchased with resources available in the HRA.

Whilst the Council derives maximum land value through minimum leakage of developer profit, it also retains development and demand risk in its entirety. The role of the private sector may be limited to building properties or funding the activities of the WOC at market rates, although the WOC has the option to pursue prudential borrowing instead.

Table 21 - – Criteria for objective two: accelerating delivery of more new homes

Themes	Context	Score
Value for money of development programme	• The wholly owned company retains all risks, which means that the Council would need to be satisfied that the WOC had the right skill sets to deliver the required developments. • The cost of funding would be in the region of 3-4% using prudential borrowing rates.	✔
Deliverability	• A WOC could be set up without any requirement for a procurement exercise. • The activities of the WOC should be eminently deliverable, if the company has the right skills, expertise and resources to conduct the developments. However any significant cost impacts as a result of retained risks will need to be absorbed by the Council. • As properties are purchased at an agreed value by the HRA with available resources, there is no deemed impact on the HCFR. However it would require the Council to undertake full borrowing through the General Fund and take full risk on development and operations. • The requirement to sell properties is mitigated by an offtake agreement with the HRA to purchase properties overtime.	✔

Quality	• The Council has 100% control over the vehicle, enabling the Council to develop properties at standards it sets.	✔✔

Concession overview

Typically a Special Purpose Company ('SPC') is created to develop new build affordable housing. The SPC will be responsible for the management, maintenance and the major repairs of the housing stock for a concession period of circa 25 years.

At the end of the 25 years, the contractor will purchase the properties at an agreed residual value sum, which is used to act as a bullet repayment of any debt outstanding at the end of the concession period. In order to be deemed to be off the Council's balance sheet for the purposes of International Financial Reporting Standards and, in turn, not count towards the HCFR, the Council cannot be in control of, nor have influence over the use of the properties at the end of the concession.

In order to ensure that a concession structure can be deemed off balance sheet therefore, a third party will pay a residual value payment at the end of the concession to the SPC at the end of the concession which will be used to make a bullet payment for any residual debt outstanding.

Whilst the Council cannot control the assets at the end of the concession, to ensure that the payment to the contractor is off balance sheet, the contractor may still elect to sell them to the Council.

The SPC is financed through the payment of an operating charge by the Council, after taking into account the rent collected from properties. In return for the provision of any land and unitary operating charge payments, the Council receives nomination rights over the properties during the concession period. After the concession period is completed, the rights to the properties revert to the contractor.

This option is akin to the Housing PFI programme established by the Government until the abolishment of new projects by the Coalition Government. It is possible following the recent announcement of PF2, the new form of PFI projects that a programme for housing maybe developed by CLG through the Homes and Communities Agency. However there has been no announcement yet for a pipeline of PF2 projects and whether the Government will extend the programme to include housing.

Table 22 - – Concession analysis

Themes	Context	Score
Value for money of development programme	• Concessions for new build housing typically use senior lending, which has become more illiquid and therefore more expensive, since the credit crunch. Deals using bank debt are looking at early refinance periods and margins of LIBOR + 4-5%. Funding such projects with bank debt will be difficult to achieve in the short to medium term. • Concessions may be of interest to	✗

	institutional investors. However given the attitude towards risk and certainty over the expected income flows, it is unlikely that an investor would be prepared to accept the construction and operating risks under a concession agreement.	
Deliverability	• A concession arrangement provides a number of accounting issues that may count towards the HCFR, hence would require careful structuring. • Appetite for banks to lend to the market is uncertain. • The structure is known to the market through previous HRA and non-HRA PFI projects. • Project requires competitive dialogue and may take 18-24 months to procure a bidder for the project. • As per the accounting considerations, the Council cannot be control of the assets at the end of the concession. This means that the residual value of the properties may be vested with a third party. This may cause issues with respect to secure tenancies. • One procured, the Special Purpose Company is responsible for the design, build, finance and operation of the properties. However, as per experience of previous PFI projects, there are a number of risks which a SPC may seek the Council to retain i.e. changes in law, rent collection, demand for properties etc. Retention of these risks alongside the price of the unitary charge may make this option difficult to achieve value for money.	✗
Quality	• The Council provides an output specification as part of the competitive dialogue process in order to ensure that the quality of provision is based on the Council's requirements. • Deductions are made to the unitary charge for any properties not meeting the required standards or for any poor performance on services.	✔✔

Due to the concerns around the lending market, the key commercial issues and the likely cost of any unitary charge, it was not considered suitable and was discounted from any qualitative analysis. The Council may wish to revisit this model, if the Government seeks to create a pipeline of PF2 projects for housing.

Council Housing Company (ALMO light)

The Council maybe able to accelerate housing through the use of a council housing company, which bears similar characteristics to the establishment of Arms Length Management Organisations.

In principle a Council Housing Company ("CHC") is set up to deliver the landlord services of the whole HRA stock, and delivers the landlord service in accordance with a service agreement set out by the strategic function of the HRA. The company is not required to be a fully arms length that has its own executive management structure, but a company operated by the existing management of the HRA with a direct remit to deliver a landlord function.

In return for delivering the service, the Council Housing Company is paid a fixed annual management fee.

As part of the service level agreement, the CHC agrees to deliver efficiency savings against the management fee and to convert any efficiency savings into the development of new affordable housing, which is retained by the CHC.

As the CHC is outside of the remit of the HRA, any surplus cashflows projected from the CHC's business plan could be used to borrow against and therefore deliver new housing developments. In this respect the borrowing or credit arrangements entered into by the CHC would not count towards the HCFR as the company's borrowings are not HRA related and the HRA has no legal interest in the properties.

In this respect the CHC could either prudentially borrow to develop properties or enter into lease arrangements with institutional investors. As the company is outside of the remit of the HRA, the CHC could enter into finance leases which mean that properties are leased for over longer periods, which revert back to the CHC at nil value at lease expiry.

Table 23 - – Council Housing Company analysis

Themes	Context	Score
Value for money of development programme	• The CHC has the ability to offer the Council good value for money on developments. It will have the opportunity to extract surpluses from the management fee in which to deliver new build housing. • The CHC should be in a position to lock in favourable funding rates through accessing prudential borrowing or accessing institutional investment. • As the CHC is 100% owned company of the Council, there is no precedent or undertaking housing developments and the risk of	✔

	development may impact on the cost of delivering developments. Development expertise in the vehicle is therefore important to consider.	
Deliverability	• A CHC is relatively simple to set up with no requirement for any procurement activity. • As the CHC is seeking to deliver the landlord service influenced through the management of the HRA. With a different brand and focus the Council can use the company to deliver on its efficiency savings target. • The deliverability of any housing development will rest on the expertise and capability of the company to deliver. It will therefore be critical to ensure that the company has the right capacity to deliver. For example the company would need to understand the impact on the business plan for any adverse movements in costs on a development or the inability to sell properties as part of a mixed tenure development.	✔✔
Quality	• As the CHC is fully under the control of the Council, the Council will be in a position to set the standards required for housing.	✔✔

Qualitative analysis – summary

Other than the concession model, each option appears to offer the Council the ability to accelerate housing with the use of HRA resources.

The operating lease is the most direct and requires no separate vehicle to undertake the transaction. In return for a long term lease payment the Council can acquire significant upfront funding to deliver housing of which the lease is part paid for by the rental income of the new properties. However there are some issues which would need to be resolved i.e. The requirement to structure the project as an operating lease, how to deal with RTBs and secure tenancies on expiry of the lease and whether there is any risk of accounting rules changing in the future meaning a reterospective breach of the debt cap.

The build now pay later premise either via a Joint Venture or a Wholly Owned Company allows the council to accelerate housing building, operate the properties through the vehicle until such time the Council can purchase the properties. The key differences between the two vehicles is that the JV will provide more expertise through a private sector partner and could be structured so that all debt is off balance to the Council with no concerns as to the issues with the respect to use of HRA resources and the HCFR. Alternatively the Council may wish to establish a WOC which would be cheaper to fund through the use of prudential borrowing, but would be on balance sheet and full risk of development and operations would be assumed by the Council.

The Council Housing Company (ALMO light) option uses the free cash flow following any efficiencies against the management fee payable to the company. The company could use prudential borrowing to accelerate the build programme, as long as the forecast of free cashflow is robust.

A list of potential risk issues with respect to each commercial options, together with some resultant mitigating strategies has been included in Appendix 6.

Quantitative analysis of commercial options

Each option (other than the concession model) has been financially appraised to assess whether a new build programme could be accelerated.

The basecase position for the Council is to build units with annual free cashflow arising from the Housing Revenue Account.

Based on the original base case, the Council's business plan indicatesthat it is possible to build 838 units by year 30 leaving a small surplus of £3 million by year 30. The revised base case builds in significant savings on costs, which the Council believes it is able to deliver, and forecasts a surplus (excluding new build) of £390m by year 30. The revised business plan therefore indicates that the Council would be able to deliver the following number of properties;

Year	Number of properties that could be built (revised basecase)
5	205
10	485
15	785
30	1,860

However as the units are built over a 30 year period, there is uncertainty over the level of construction price inflation over this period and the level at which rental income will increase, which may impair the Council's ability to build the intended level of units.

On this basis we have performed sensitivities against the original and revised base case cashflows to assess what level of housing could be delivered, based on scenario of construction price inflation at RPI+2% and a separate scenario of rent increasing by RPI only.

Scenario	Surplus by year 30 before new build	Number of units delivered by year 30	Surplus by year 30 after new build
Original base case	£96m	838	£3m
Original base case - Rent increase at RPI (existing & new)	£27m	470	£7m
- Construction price inflation at RPI + 2%	£96m	665	£9m
Revised base case	£390m	1,860	£16m
Revised base case - Rent increase at RPI (existing stock)	£305m	1,475	£17m
- Construction price inflation at RPI + 2%	£390m	1,275	£10m

The financial appraisal undertaken for the commercial options identified is predicated on using the resources from the original and revised baseline HRA as per above. For the institutional investment, JV and Wholly Owned Company options, we have used the following assumptions.

Variable	Number	Build Cost
4 bedroom house	20%	£192,000
3 bedroom house	40%	£173,000
2 bedroom house	40%	£145,000
Average management cost per annum	£500	
Average repairs per annum	£750 (For WOC and JV assumed that irrecoverable 20% VAT has been absorbed)	
Average major repairs (from year 11)	£1,000 (For WOC and JV assumed that irrecoverable 20% VAT has been absorbed)	
Average rental income per week (as at 01.04.2013)	£132	
Average voids & bad debt	4%	

The assumptions for build cost, management, repairs and major works costs per dwelling and average rent per dwelling are broadly based upon the Council's HRA business plan. In respect of build costs, it is assumed that the figures from the HRA business plan contain professional fees, and land costs.

Institutional investment

An operating lease would flow through the HRA as an annual payment to the institutional investor indexed at RPI. All rental income and operating costs would continue to flow through the HRA as if the properties were owned by the HRA and therefore the Council would in effect incur a net cost of the rental income less management, maintenance and major repair costs, less lease payment.

At lease expiry, the Council would have the option to purchase the properties at Open Market Value. The Open Market Value may be determined by the existing and future use of the assets which would likely to be social/affordable housing. The value and methodology for agreeing the value would need to be agreed upfront, and the Council would need to ensure that it had sufficient funds to pay for the properties.

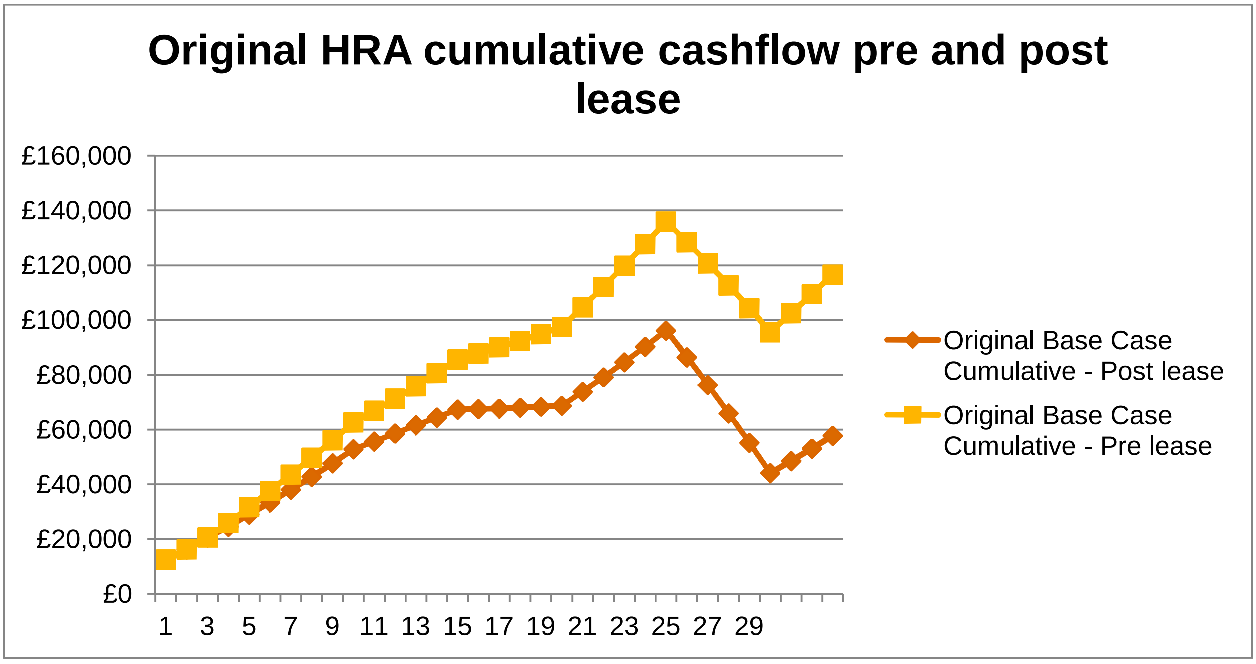
The key variables for the operating lease structure are shown below.

	Operating Lease
Lease period	30 years
Required initial income yield (real)	5%

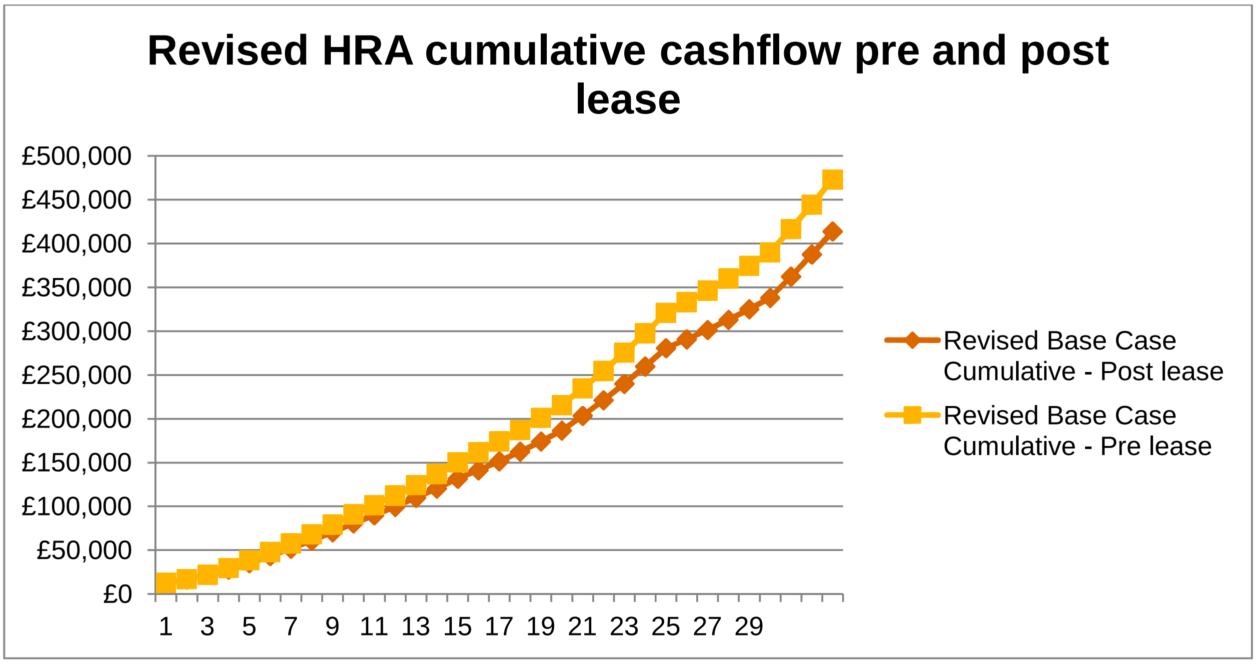
A calculation of the annual operating lease payment for 500 homes constructed over two years at a real running yield of 5.0% would be in the order of £4.0m per annum.

After taking account of the rental income less management, maintenance and major repair costs levied on the properties, the total net impact on the HRA would be in the order of £1.35m in real terms per annum.

As per the original business plan, the acquisition and leasing of 500 properties constructed over two years is considered achievable. The following graph shows the cumulative accrued balances of the HRA before and after the delivery of an operating lease. The cumulative balances of the HRA are based on the Council undertaking no new build housing other than a lease. The balance at the end of year 30 is £57m which suggests that there would be sufficient cash in the HRA to purchase properties at the end of lease expiry, depending on the future value of the properties.



Based on the revised base case, the position is far enhanced. A 500 property lease would very achievable. By the end of year 32 (2 year construction plus 30 year lease) the HRA balance would accrue to £414m. This would enable the Council to purchase the properties outright.



Such amounts would suggest that if the Council has were able to realise the revised base case and find land that was sufficiently affordable, a lease of 1,000 units would be potentially achievable.

Joint Venture & Wholly Owned Company

Using the same variable inputs as per the leasing structure, a financial appraisal can be constructed for a build now pay later scheme in both a Joint Venture Company and a Wholly Owned Company.

	Joint Venture	**Wholly Owned Company**
Units	500	500
Construction Period	2 years	2 years
Loan to Value	75%	100%
Project Loan	5% (Bank)	4% (Prudential Borrowing)
Build Cost – 4 bedroom	£192,000	£192,000
Build Cost – 3 bedroom	£173,000	£173,000
Build cost – 2 bedroom	£145,000	£145,000
Average management and maintenance costs per annum	£1,250	£1,250
Average major repair costs per annum from year 11	£1,000	£1,000
Project IRR	-	5%
Equity IRR threshold	12%	-
Rental Income per week	£132	£132

The purpose of the company structures is to develop upfront affordable housing, which flows into the Housing Revenue Account once the cashflow is available to purchase units. In the intervening period the properties are vested in the vehicle and managed on their behalf by either the HRA or a Registered Provider. The operating income from the properties is used to service the debt contained in the vehicle.

Joint Venture

In order for the JVCo to be economically feasible and for the private sector partner make a projected return of 12%, the Council would need to purchase affordable housing units at build cost +11.5% or alternatively, the JVCo would need to develop an additional 100 homes for sale in order for the HRA to purchase housing units at build cost +5.00% and maintain a return of 12.00%.

Under the scenario of 100% affordable housing using the original base case HRA accrued cashflows; the Council would be in a position to purchase 20 homes per annum, meaning that all homes would be purchased over 24 years (31 March 2037).

Under the scenario of 100% affordable housing using the revised base case HRA accrued cashflows; the Council would be in a position to purchase 42 homes per annum, meaning that all homes would be purchased over 12 years (31 March 2025).

In order to service the debt in the period (prior to any purchase of assets by the HRA), the annual operating income (i.e. net rent) is considered sufficient to service the debt.

Wholly Owned Company

In order for the Wholly Owned Company to be economically feasible, the Council could purchase affordable housing units at build cost + 2.5%

Under this scenario, using the original base case HRA cashflows the Council would be in a position to purchase an average of 22 homes per annum, meaning that all homes would be purchased over 23 years (31 March 2036).

Where the revised base case HRA cashflows are used the Council would be in a position to purchase 45 homes per annum, meaning that all homes would be purchased over 11 years.

In order to service the prudential borrowing (prior to purchase of assets by the HRA), the annual operating income (i.e. net rent) is considered sufficient to service the debt.

Clearly the Wholly Owned Company is more financially beneficial to the Council. The company is at liberty to obtain 100% borrowing and the cost of financing the debt will be cheaper than conventional debt. There is also no requirement to meet commercial thresholds of equity IRR, due to the removal of any private sector partner in the vehicle.

However consideration would need to be given to the lack of commercial or development expertise with the participation of the private sector partner and the high level of prudential borrowing undertaken.

Council Housing Company

We have analysed the use of a Council Housing Company under the revised base case where the management fee payable the Council Housing Company refects the rental income less debt service costs and costs of a strategic housing function and client team.

The projected surpluses available to the CHC after delivering efficiency savings against its cost base (c. 1% of the total fee), create capacity to allow it to take on new debt (outside of the HCFR borrowing cap), which can be used to accelerate the delivery of new build.

This is illustrated in the table below. Interest rates are assumed to be 4% and the total loan is drawn down by year 6.

	Revised Base Case	**CHC debt capacity**	**CHC repaid**
Scenario one			
CHC projected surplus year 30 £'000	3,829	125,000	Year 31
New build by year 5	700		
New build by year 10	920		
New build by year 15	1,045		

New build by year 30	1,530

By comparison to the base case of the HRA building when cash is available the CHC is able to build 500 more units by year 5 at 700 units. This is due to the CHC having the ability to borrow against its surpluses, and allowing for the acceleration of the new build programme.

The total number of housing is however lower that direct HRA build over the 30 years. This is due to the debt costs included in the overall CHC numbers ensuring that all debt is retired by year 31 and that irrecoverable VAT has been applied to the operating costs (repairs and lifecycle cost) of the new units. A balance therefore needs to be struck against acceleration of a build programme through the CHC against the potential level of units that could be built over a 30 year period through direct HRA build (subject to any changes in rent inflation and construction price inflation).

Summary

Each option financially appraised above demonstrates that the Council has the ability to significantly accelerate its housing programme in the early years of the HRA business plan, should the assumptions contained in the revised plan be delivered.

The options above seek to be compatible with the HCFR whilst enabling the Council to use HRA resources to develop new build housing.

The most direct route towards developing housing is the operating lease. The lease structure is a simple structure which provides the Council access to funding to develop housing, with payment through a fixed annual indexed linked lease payment. The surpluses contained in the HRA denote a lease payment to be affordable and could deliver a significant level of housing upfront.

However there are a number of issues that would need to be resolved. The accounting treatment between an operating and finance is delicately balanced and needs careful structuring, the security of tenancies against the option to purchase properties at the end of the lease is an issue and the future accounting for leases, may mean that any lease entered into today would become a finance lease and cause a retrospective breach of the HCFR. There is also the risk that once locked, the lease must be paid and any advsere performance on the HRA in the future could be seriously detrimental to the ability to provide services, if the lease is the first item to pay.

We believe there is merit in exploring this option further but only if the Council is satisfied as to the potential consequences of any breach of the HCFR following any potential accounting changes on leases.

The Joint Venture and Wholly Owned Company structures allows the Council to develop homes today whilst transferring them to the HRA once the cashflows are available. This is favourable to the base case position as it enables the Council to lock in the construction and land prices in today's values. Where the Council was to use cashflows to build properties in 10-15 years time, the construction price maybe significantly more expensive, reducing the purchasing power of the cashflows available. The risk to the Council is purchasing assets that are in excess of open market value or having the cash available to purchase the assets. This means that the Council has been able to accelerate its new build programme and will trickle properties into the HRA overtime.

As the HRA is purchasing assets overtime, the value can be fixed maintaining the purchasing power of the HRA cashflow. As the HRA can purchase assets, there is a natural amortisation profile on the debt making it attractive to senior lenders and the Council acting in a prudential manner.

Whilst both options are considered feasible, the Wholly Owned Company will offer better financial metrics to the Council due to the relative cost of borrowing. However this also needs to be considered against the lack of development expertise that would be available through with a private sector partner. In addition we believe that the Joint Venture vehicle may enable other stakeholders that own land to contribute their land as equity into the vehicle e.g. Coventry City Council.

We believe there is strong merit in assessing whether land on the periphery of the Council's boundaries with Coventry City Council could be contributed as equity into a vehicle in order to develop affordable housing across the Coventry City region.

The last option explored, the Council Housing Company, appears to offer the opportunity to meet both Objective 1 and Objective 2 and has been set out separately in the following section.

6. Achieving both objectives

The Council Housing Company

From the identification and appraisal of options for meeting both objectives 1 and 2, one particular stands out as having the capability of delivering both objectives under one option.

The establishment of a Council Housing Company appears to deliver on a number of different fronts.

1. It provides the Council with a conduit in which to deliver efficiency savings against the current operating costs. The Council Housing Company will serve as a useful change agent tool in which to affect the efficiency programme and becomes the Council's brand for delivering a more cost efficient and effective service. (Objective 1).

2. As the Council Housing Company is 100% owned by the Council, there is no requirement for procurement for any partners to establish the company and deliver operating services. (Objective 1 & 2).

3. If the Council Housing Company achieves the efficiency savings identified in the business plan against the current cost base (which forms the management fee), the Council Housing Company will have created free cashflow which it could either borrow against or lease properties to deliver an accelerated housing programme. (Objective 2).

4. As the company is delivering services on behalf of the HRA, but is not tied to the HRA, any borrowing or credit arrangements entered into by the vehicle should not be caught by the HCFR and therefore will not be breaching any caps imposed, subject to the Council's prudential code.

There are some drawbacks however. The level of housing over a thirty year period built does not appear to be as high as the direct HRA build at first glance. The prudential position of repaying back debt procured and incurring VAT on operating costs associated with the new build means that there is less cashflow to build housing over the 30 years. This should be considered in the round though, as the total number of properties that the HRA could build would reduce if construction price inflation were to increase significantly overtime.

Legal commentary on how the Council could implement such an option is included in Appendix 4.

7. Next Steps

Recommendations

This report has sought to introduce the Council to a range of different commercial models that it could use to deliver the landlord service and accelerate a new build housing programme. The range of options demonstrates that there are a number of ways to achieve this acceleration new build housing, but each comes with different commercial obligations, risks and issues for the Council.

The onset of HRA reform has opened up new opportunities for the Council which were not available previously, but which are not straightforward. Any option needs to be carefully planned and structured correctly and the Council needs to be satisfied that the option will not impact on the Council's HCFR.

In progressing any options set out in this report, the Council should consider the following recommendations and observations.

1 Ensure that the assumptions used to produce the revised base case are deliverable and realistic

This report has highlighted the opportunity for the Council to accrue levels of surplus income in the HRA, which has been used to assess the potential levels of housing investment the Council could deliver. The Council therefore needs to satisfy itself that such the assumptions used are realistic and deliverable before basing any new investment programme on the figures contained in this report.

2 Monitor the target efficiency programme

This report acknowledges that the Council has embarked upon a target efficiency programme within the HRA. Whilst we have undertaken an analysis of alternative options which suggest varying levels of efficiency savings, the Council's current programme suggests no immediate requirement to change course. If however, the monitoring of the programme, suggests that the targets are not being achieved, the Council may wish to use this report as a basis for alternate options.

3 Explore the use of the Council Housing Company further

As discussed in the report, the Council Housing Company appears to offer the Council a conduit in which the target efficiency programme could be delivered whilst offering an opportunity to borrow through the company to accelerate a new build programme. The Council should consider how best to implement such an option and assess what level of management fee provided to the Council Housing Company would be acceptable to stakeholders.

Depending on the level of management fee, the Council may choose to retain an element of rental income to create a direct HRA capital programme. In this instance all other commercial options would be applicable. The Council may therefore wish to create a portfolio of investments depending on the characteristics of the relevant transaction required.

4 Re-perform the HRA business plan with a robust early years development programme

Once the Council has an agreed development programme with sites identified, the Council should consider re-performing the impact on the HRA business plan against an agreed set of properties, depending on what preferred commercial option it has chosen to consider.

5 Seek further detailed advice and develop a business case

The Council will wish to satisfy itself that any option being entered into will not breach the HCFR. The Council should consider detailed accounting advice on the accounting treatment of the transaction, further legal advice on the impact on the HRA and Council and detailed taxation advice to ensure it understands the key VAT, SDLT and corporation tax positions of the delivery vehicle.

We recommend that with any option, the Council develops a business case to explore all issues prior to implementation.

6 Seek early external audit advice

The Council should seek an early review of their interpretation of accounting advice and vires for any strcuture from their external auditor.

7 Consult with CLG

The Council may consider it prudent to consult with CLG prior to adopting any parotuclar measure to ensure that the Council has support from Government for its proposals.

AP1. Commercial Structures – Detailed descriptions

Leases

To use the revenue resources in the HRA the Council may enter into an operating lease with an institutional investor. An operating lease structure enables the Council to treat the lease payment as revenue in nature. In contrast a finance lease means that the capital value associated with the lease is on the balance sheet of the Council and any payments relate to an amortising of the capital overtime. The determination of whether a lease is operating or finance in nature is based on different characteristics.

A potential operating lease model, with the Council engaging with the institutional investor to undertake land development for the delivery of housing is set out in figure 1. A delivery structure for a finance lease model would appear identical as the mechanics of the model, save for:

- **Lease period** - for a finance lease, the period can be of the same order as the useful economic life of the home (c. 60 years) but for an Operating Lease it would be sufficiently smaller than this (c. 30 years);
- **Residual value** - under a finance lease, the properties may revert back to the Council at nil value at the expiration of the lease agreement but under an operating lease, the Council has an option to acquire the properties at their existing use value measured at lease expiry; and

In the structure outlined in figure 1, the Council either transfers its land (at a pre-determined value) to an institutional investor under a long term lease or freehold. Where land needs to be sourced, the institutional investor may purchase land on the open market.

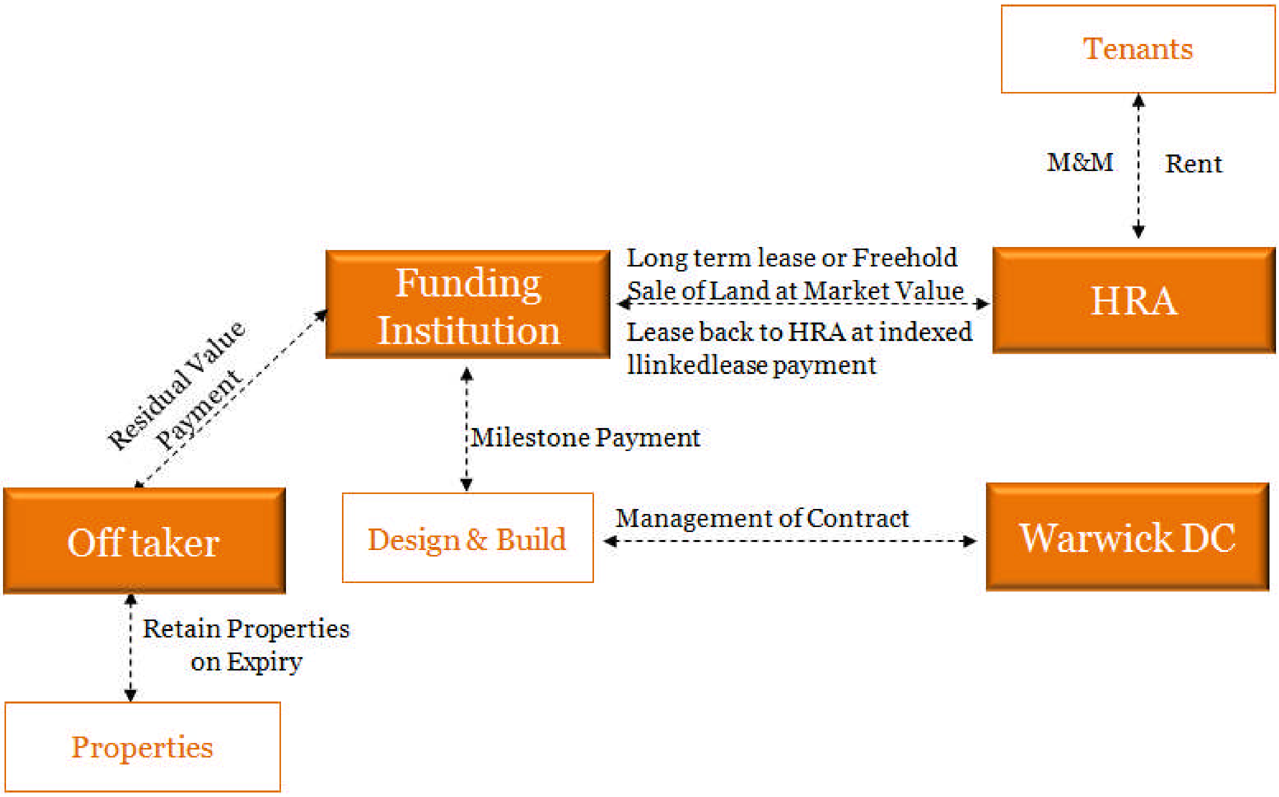
Under this scenario, the Council carries out the development activity on behalf of the investor, acting as the managing agent. The Council draws down the relevant construction finance from the investor to fund the corresponding milestone construction cost payments. The level of construction finance sought is appropriately reduced by any capital receipt flowing to the investor from any sales of plots to any developers in the construction period.

Upon construction completion, the Council leases the properties from the institutional investor under a conventional Fire, Repair and Insure lease agreement. This creates an obligation upon the Council to maintain properties to a lettable standard during the lease period.

During the lease the Council is responsible for rent collection, and the payment of ongoing operational costs associated with the properties. The net rental income collected contributes towards the annual lease payment made to the investor. To the extent that there is a shortfall between the annual net rental income and the annual lease payment, revenue support would be required from the Council. As an operating lease, it is anticipated that any additional financial support over and above the net rental income, made by the Council, would be revenue based, through resources contained within the HRA.

Under an operating lease, at the end of the lease period, the Council has an option (but not an obligation) to acquire the properties from the institutional investor. Under an operating lease structure, the residual value is akin to the open market value of the properties. However, given the nature and future use of the properties, this would be predicated on existing use value – social housing and therefore, the open market value would be based on a discounted cash flow of future net rent, as the market value of the properties.

Should the Council choose not to acquire the properties at the end of the lease period, it is the responsibility of the institutional investor to sell the properties on the open market or seek an alternative use to derive additional value from them, i.e. continue to rent properties or sell on the open market.



Key Commercial Characteristics

There are a number of key commercial characteristics underpinning the operating and finance lease models:

Operating lease requirements

An operating lease procurement route may be attractive to the Council as it potentially offers an off balance sheet approach to development and allow the Council to potentially count any lease payments as revenue costs, and thereby use any free resources within the HRA to help subsidise any difference in lease payments to net rent receivable.

The ability to make lease payments from the HRA appears to be permissible as per the HRA Manual of Accounts. Item 3 of HRA expenditure, 'rent, rates, taxes and other charges' sets out that rents are payable by a council on different categories of leased property except for:

- HRA leases which are 10 years or less, used for the purpose of homeless households; and
- Leases which are deemed credit arrangements for which credit cover is required for the initial cost of the assets and consequently be counted towards the Council's HCFR.

An operating lease agreement must satisfy a number of pre-requisite accounting conditions, relative to the transfer of the risk and reward of ownership, in order to prevent being considered a finance lease, which would be counted towards the HCFR.

For an agreement between the Council and the institutional investor to be accounted for as an operating lease, it must result in a significant proportion of the leased property's total value being put at risk of not been funded from rentals from the Council. The standards do not specify quantitative criteria to be met; instead the assessment should show on a rounded basis that the institutional investor will accept significant risk that it will need to meet its expected return from allowing parties other than the Council to access or to buy the properties. Examples of features that may meet this criterion are:

- **Lease period** – the minimum committed lease period must be sufficiently shorter than the leased assets' useful economic life.

- **Asset consumption:** The minimum committed rentals' present value must be sufficiently smaller than the assets' market value when the lease starts. This present value is derived from a discount rate equal to the internal rate of return for the investment assuming that the minimum rentals are earned for the properties' expected useful lives; and

- **Residual Value:** Any option for the Council to purchase the home either during or at the end of the lease must be close to the properties' open market value at the time the option is exercised and there should be a material possibility that the Council will exercise that option.

Failure to satisfy any of these criteria may require the lease to be accounted for as a finance lease. The corresponding debt associated with the transaction would then sit on the Council's balance sheet and count towards the HCFR.

Whilst an operating lease may be preferable to develop affordable housing, paid for through the net rent plus additional revenue available in the HRA, there are a number of items that require exploration:

- **Residual Value** – The Council would need to be satisfied that it had sufficient resources to make any residual value payment at the end of the lease (should the Council wish to purchase the assets at lease expiry). It would also need to consider how market value is calculated to assess whether properties could be valued at EUV-SH;

- **Security of tenure** – The ability of the institutional investor to secure a residual value at lease expiry may be difficult to achieve with ongoing secure tenancy arrangements. The Council would need to consider how secure tenancies are dealt with a lease expiry, for example through assessing how fixed term tenancies could apply within leased properties; and

- **Right to Buy** – Consideration needs to be given as to how properties are dealt with under Right to Buy provisions.

Development control and development risk

Where the Council acts as managing agent on behalf of the investor, it retains control over the scheme design and affordable housing outputs.

Flexibility of tenure mix

Under all options, the Council retains control over the tenure mix on the properties they leaseback from the institutional investor. The Council can therefore set the tenure mix to meet their specific housing needs. However, where any housing is to be leased via the HRA, the Council may be required to offer secure tenancy agreements.

Self financing models or subsidy

It may be possible for both leasing models to be self financing under particular tenure mixes. This position is achieved when the net rental income flowing to the Council is sufficient to support the annual lease payment agreed with the institutional investor to meet their desired returns. For the net rental income to create a self financing model, it will likely require a significant portion of the properties to be private rented or at least at affordable rent.

In tenure mixes with a majority of social and intermediate housing tenures, the model is likely to require additional revenue support to subsidise the net rental income earned by the Council on the properties. Lower rental values will ultimately be unable to support the annual lease payment required by the institutional investor and therefore require additional revenue support.

Demand risk

Under all options, demand risk on completed properties resides with the Council as the lease payment made by the Council is fixed regardless of usage. However demand risk may fall back to the institutional investor under the operating lease structure, as the properties may revert back to the institutional investor on lease expiry.

Institutional investor return

It is anticipated that the institutional investor will measure their return on the basis of

(1) *A running yield* - the annual return as a percentage of the upfront investment; and

(2) *A redemption yield* - the overall return to the institutional investor in cashflow terms measured as an IRR, after expiry of the lease and any residual value payment has been made.

The minimum running yield requirement may be in the region of a real rate 4.0-6.0% and this ultimately drives the annual lease payment required from the Council.

Institutional investors are likely to require an index linked running yield for the purpose of their fund's asset-liability matching requirements; although discussions with investors suggest that fixed annuity payments would also be acceptable. Both the operating and finance lease models lend themselves to delivering this – the net rental income collected by the Council is linked to RPI and this ultimately drives the annual lease payment made to the institutional investor.

The redemption yield is also predicated upon the annual lease payment, but additionally factors in the value the properties may derive at the end of the lease period. Under a finance lease, the value of the properties at lease expiry is nil and therefore this does not contribute to the redemption yield. Under the operating lease model, the residual value derived is determined by the end use of the properties. The Council may exercise their option to acquire the properties at tenure value, or alternatively they may derive a revenue stream from open market rent or open market sale.

It should be borne in mind that an increased running yield reduces the volatility imposed on the redemption value by the residual value that may or may not be extracted from the properties. The running yield takes into account early period returns, which have a greater impact on the present value of the investor return than any residual value which is to be discounted back from 25-35 years in the future. It follows that a greater running yield masks the impact of the residual value and investors may be less wary of the latter if they can be satisfied with the former.

In discussion with a number of institutional investors, the lease structure is appealing due to its long term income provision, secured against valued assets and covenant backed entity.

Institutional investor exit strategy

Under an Operating Lease, the uncertainty surrounding the destination of the properties at the expiry of the lease may be considered unappealing to some investors. However as the properties will have an open market value, the location and type of accommodation will be more relevant to the ability to derive a value following lease expiry.

As noted above, institutional investors may gain sufficient comfort in a deminimus running yield to render the residual value equation academic. Alternatively, the investor will seek to assess the alternative options available upon expiry of the lease (from private sale to ongoing private rent) and the revenue and capital streams that may be likely to accrue from these options.

Operational risk

Under all options, the Council retains responsibility for rent collection and for the management and maintenance of the properties. The Council may therefore suffer from any downside scenario on rent collection, voids and operational cost overrun.

Stamp Duty Land Tax

The transfer of land from the Council to the investor and the subsequent leasing of the properties by the Council may create two separate events for Stamp Duty Land Tax (SDLT) purposes. The second transaction (the leasing of the properties) may then qualify for SDLT relief. SDLT will be charged on the acquirer of the land – that is the investor. If the land is transferred at nil or negligible value, SDLT will crystallise on the fair value of the land which may be determined as the present value of the future inflow of economic benefit accruing on the land.

Application to the Housing Revenue Account

The commercial option assumes a direct contractual relationship between the HRA and the investor.

Where the Council can achieve sufficient levels of net rental income (i.e. gross rent less operating costs) to pay for lease payments, there is no requirement for further financial support from the Council and the issue of whether the lease is operating or finance in nature is less of a concern, as the project could be contained in the general fund.

Where the Council elects to use a lease for properties to be contained in the HRA, it is more important to assess the nature of the lease. Conventionally operating leases are revenue costs and therefore are unlikely to be caught by the definition of the HCFR. Any payments made by the HRA therefore, whether the lease payment is more or less than the net rental income derived from the properties, would be deemed to be a revenue cost to the HRA. This option may therefore enable the Council to use resources from the HRA to build housing.

A key issue however with the concept of leasing is future accounting rules. The International Accounting Standards Board and the US Financial Accounting Standards Board have been considering changes to the way in leases should be accounted. Proposals include removing the distinction between operating and finance leases, effectively classifying all leases as finance leases. The current view is that future changes to International Financial Reporting Standards would be applied from 2015 at the earliest.

A key consideration for the Council to consider therefore is how any retrospective review of leases would have on the HCFR and what, if any potential breach of the HCFR through accounting changes occurred would be treated by Government.

Joint Venture

A potential Joint Venture vehicle is included below

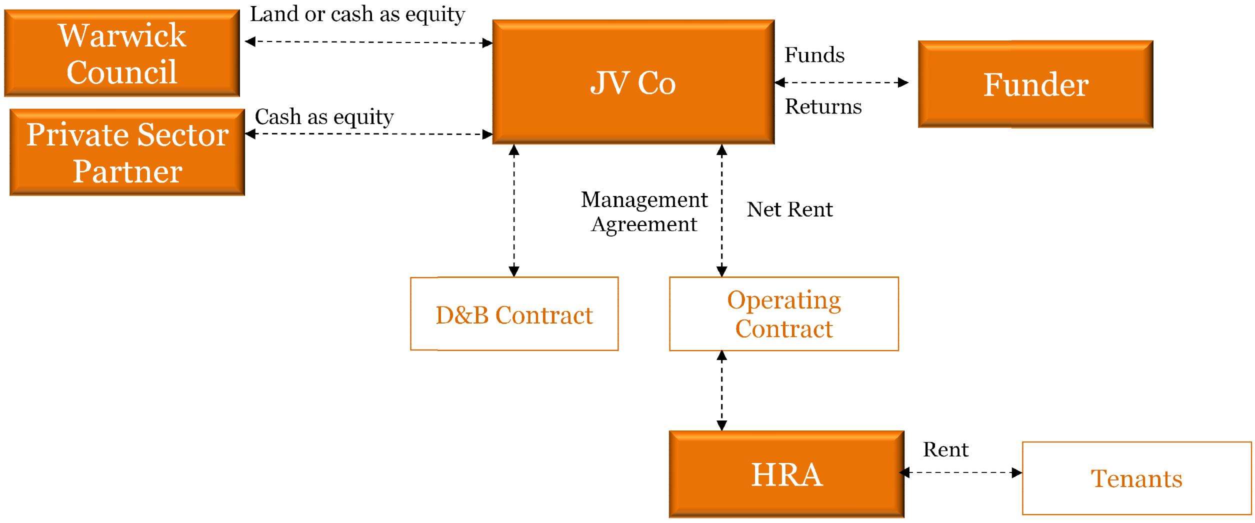


Figure [x]– A Joint Venture company

The Council enters into a joint venture agreement with a private sector partner for the purpose of developing sites either in the Council's ownership or on the open market. Whilst there are different forms that the Joint Venture may take, a Limited Liability Partnership (LLP) may offer tax transparency to the relevant partners. The Council's share of the company is based on its financial contribution towards equity.

The vehicle is responsible for the development of the site. The funding of the development will be sourced from a mix of the private sector partner's funds (its equity share) short term development financing (repayable through longer term institutional funding) or prudential borrowing.

Following any sale of properties, the vehicle will retain an interest in properties to be used for rent.

The vehicle may elect to seek a management agreement for either a Registered Provider or HRA to provide tenancy related services, with the net rental income from the properties being used to service the loans and/or investments. The Registered Provider or HRA would therefore pay over the surplus rental income after deducting relevant tenant related charges. Under the management agreement, the vehicle remains the landlord of the tenants, proving assured shorthold tenancies.

Overtime, the HRA may purchase a number of properties from the vehicle per annum based on the surplus cashflow available in the HRA. The vehicle and HRA will be in a position to agree a fixed price payment schedule upfront, which will provide the HRA will certainty of price, a certain pipeline and a hedge against construction price inflation risk (through building properties now rather than waiting for the HRA surpluses to accrue).

Overtime, the vehicle is at liberty to realise the residual value of any remaining properties in the vehicle. Any surplus residual value (if any final payment is required to redeem loans/ investment) in the properties would be divided between the Council and the private sector partner, according to their share of the vehicle.

Key Commercial Characteristics

There are a number of key commercial characteristics underpinning the JVCo model:

Form of vehicle

The Joint Venture may take different forms, but as a limited liability partnership, the Council has the advantage of the tax position of the LLP, which enables the Council to shield any returns from taxation as a result of the Council non taxpaying status. However this may be impacted by the requirement for the Council to use a limited company structure for trading activities (as per the Localism Act). In such circumstances, the Council interest in the LLP could be via a wholly owned subsidiary.

Development control but retained development risk

During the development phase, it is the vehicle that has joint control over the design and development of the housing scheme to be constructed. This provides the Council therefore, with a degree of control. In particular, the Council contributes towards agreeing the delivery rates and delivery timing of the new properties with the private sector partner. A joint venture vehicle gives the Council access to expertise in development and spatial strategy. It also means that the Council is sharing in the risk and reward of the development.

Cross subsidy principle

It is expected that private for sale properties would contribute significantly to the cashflows of the JVCo, as those properties will have the largest sales margins. Where the capital receipts from these properties occur during the construction period (for example through off plan sales, or with the private properties being constructed before the social and affordable properties), the receipts may be used to reduce the overall debt retained in the vehicle to be serviced from rented properties.

Demand risk

At the inception of construction, the JVCo may have entered dialogue with either Registered Providers or the HRA regarding the purchase of properties. Whilst this may reduce the demand risk the JVCo is exposed to, the JVCo remains vulnerable to prevailing market conditions on the sale of any private for sale properties. This must be borne in mind when considering the level of cross subsidy the private properties are deemed to provide – the receipts, and therefore the cross subsidy is not guaranteed.

If the JVCo retains properties, the issue of long term demand risk becomes more prominent. Where the JVCo retain properties for rent, the LLP needs to ensure that the rental income is secure through payment of rent and sufficient demand for the housing. Clearly where there is a prospect of properties being purchased overtime by the HRA, for example, the demand for the properties is mitigated.

Operational risk

Where the LLP retain stock to provide social and affordable rented properties, the LLP needs to ensure that is has the ability to provide tenant related services. On this premise it will need to sub-contract these services to a suitable housing provider, and a management agreement maybe applicable with the HRA or a Registered Provider. The housing sub-contractor will be paid for the provision of the housing related services. In return the JVCo will receive the net rental income proceeds and a full housing management service.

The net rental income payable for the properties is used to service the debt.

Tenure

The JVCo can develop all forms of tenure and therefore promote a mixed tenure approach to development. Where the JVCo retains properties for affordable and or social rent, the JVCo could offer assured shorthold tenancies rather than secure tenancies to retain flexibility in respect of tenure.

Stamp Duty Land Tax

SDLT may be charged to the JVCo on the transfer of land and purchase of land. If the land is transferred at nil or negligible value, SDLT will crystallise on the fair value of the land which may be determined as the present value of the future inflow of economic benefit accruing on the land.

V.A.T

Careful consideration will need to be given to the nature of the development costs incurred by the JVCo as some of these items may be considered to be irrecoverable for V.A.T purposes. The cost of any housing management service may also be deemed to be irrecoverable and therefore reduce the overall net rent flowing back to the JVCo for properties retained in the vehicle.

Application to the Housing Revenue Account

Whilst the JVCo would be operated via the General Fund, there is a significant interface between the JVCo and the HRA.

The key element is through a 'Build Now Pay Later' mechanism. Whilst the HRA is restricted from borrowing to develop affordable properties against its future free cashflow, the JVCo could develop properties now and manage properties until such time that there is sufficient free cashflow in the HRA to purchase properties. In this regard housing build is accelerated and a pipeline of housing is ready to filter into the HRA once the cash is available to acquire the properties. In the intervening period the properties are managed on behalf of the JVCo by either the HRA or a Registered Provider.

Wholly Owned Company

A potential Wholly Owned Development Company (WOC) model for the delivery of housing is set out in figure [x].

The purpose of the WOC is to undertake the development activity on the Council's available supply of land. It may seek to prudential borrow or procure a development finance facility to fund the construction payments for new build properties.

In order to develop the relevant levels of housing investment, the WOC would enter into a contract with a design and build contractor to undertake relevant masterplanning and construction of assets.

With respect to the developed properties, the WOC may undertake the following;

- Rent properties at a range of tenures (Private, Intermediate, Affordable, Social).
- Sell properties to a Registered Provider or HRA (Affordable, Social).
- Lease or have properties managed by the HRA
- Sell properties to owner occupiers for shared ownership, shared equity or on a restricted covenant basis.

In order for the WOC to demonstrate a viable scheme, the proceeds from the private for sale properties and sale of affordable properties to a Registered Provider would need to be sufficient to cover the overall debt incurred and any land value anticipated by the Council. Alternatively, where the Council retained properties in the WOC, the net rental income after taking account of the management fee would need to be sufficient to at least service debt.

The servicing of debt will be based on the WOC's ability to rent the properties retained in the vehicle. Where the WOC wishes to retain properties for the purposes of rent, the WOC would need to ensure that it has the ability to provide tenancy management services, including the ability to collect rental income and provide a comprehensive maintenance and repair service. Under this scenario, the WOC would need to sub-contract the provision of tenancy related services. This might be provided by the HRA.

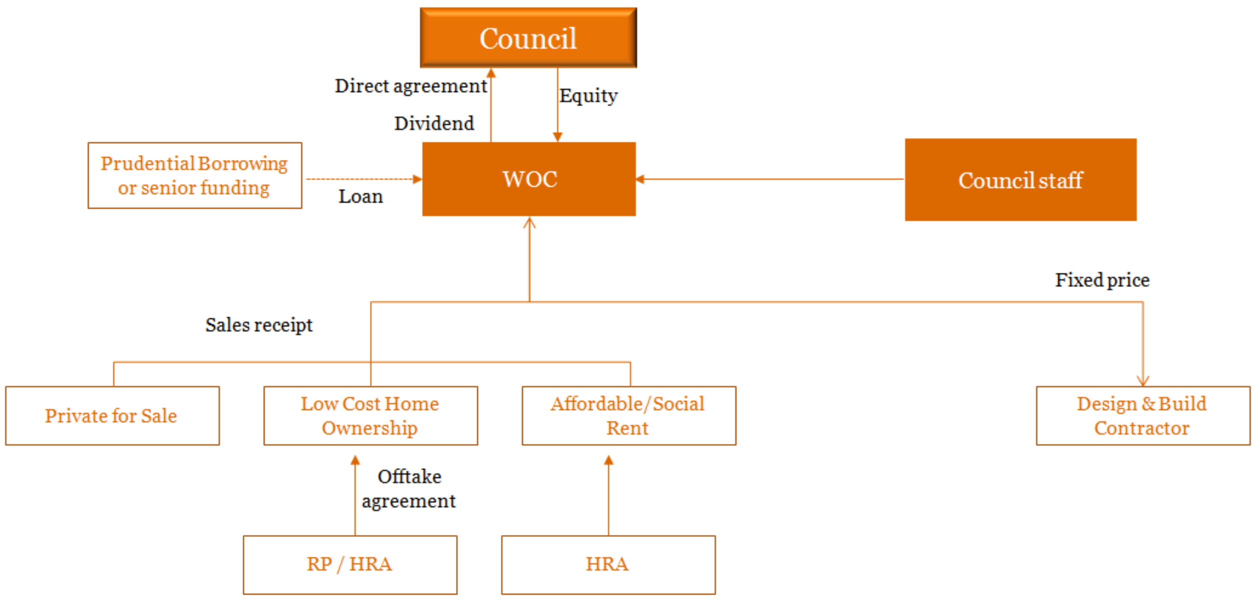


Figure three – A Wholly Owned Company Model

Key Commercial Characteristics

There are a number of key commercial characteristics underpinning the Wholly Owned Company model:

Form of vehicle

The WOC is essentially a wholly owned Council subsidiary which qualifies for the Teckal exemption on the standard procurement rules. The WOC will be run in line with the appropriate governance protocol, and in particular the Council will establish a shareholder and management agreement to conduct the activities of the WOC.

The WOC may be in a position to prudentially borrow from the Council to undertake development activity, rather than seek funding sources elsewhere. The vehicle would perform the same function as per the LLP vehicle as described in the previous section.

Procurement

As it is a Wholly Owned Company, the Council, permitted under Teckal exemptions, there is no requirement for any procurement.

Development control but retained development risk

The WOC structure bears similar characteristics to the LLP vehicle with respect to risk allocation, and how it may interface with the HRA.

The clear difference is based on the level of control that the WOC possess. As it is a 100% Council owned vehicle, the Council assumes the full risk and reward of developments and assumes full control over all development activity. This may mean that the Council has more cashflow in the vehicle (through a reduction in developer profit leakage), but also means that the full risk of any adverse changes remain with the Council. In respect of this vehicle, the Council does not partner with the private sector and therefore does not receive the same level of expertise in the vehicle, although it can clearly contract to obtain such expertise.

Taxation issues

The WOC does not qualify for the usual LA corporation tax exemption and would be potentially liable for corporation tax on any profits earned.

Stamp Duty Land Tax

SDLT may be charged to the WOC on the transfer of land from the LA. If the land is transferred at nil or negligible value, SDLT will crystallise on the fair value of the land which may be determined as the present value of the future inflow of economic benefit accruing on the land.

Stamp duty also arises on the acquirers of the completed properties. In the case of the HRA purchasing properties from the WOC, SDLT may arise from the group purchase of properties, at their average price.

V.A.T

Careful consideration will need to be given to the nature of the development costs incurred by the WOC as some of these items may be considered to be irrecoverable for V.A.T purposes. The cost of any housing management service may also be deemed to be irrecoverable.

Application to the HRA

The finances of the WOC would reside in the General Fund, but the WOC would have a number of potential interfaces with the HRA:

- The WOC may establish a management agreement with the HRA (where permissible) to provide tenant related services to properties vested in the WOC.
- The HRA may purchase assets from the WOC overtime.
- The HRA may enter into an operating lease with the WOC (see institutional investment).

A significant advantage of the WOC to the HRA is the potential for the WOC to undertake an early acceleration of housing development. Such an acceleration of housing development has the potential to lock in the construction price and hence mitigate against further increases in construction related inflation overtime. As the free cashflow of the HRA is likely to increase at RPI overtime, any cashflow available for new build housing in the future may erode in real terms where there is a divergence of RPI and construction price inflation.

Where the WOC can develop properties early and operate the properties until such time the HRA is able to purchase the assets, it may be possible to agree prices that maintain the purchasing parity of the HRA resources.

It is also possible that the WOC leases properties to the HRA in a similar fashion to that of an institutional investor lease. In this circumstance, the lease payments from the HRA are used to service the debt of the WOC and potentially make a return for the WOC's capital employed. At the end of the lease, the HRA may elect to purchase the assets from the WOC or the residual value be retained by the WOC.

Concession

A concession agreement using a Special Purpose Company ('SPC') for housing is set out in figure 4, with a variant included in figure five.

The company usually comprises of a building contractor, housing maintenance, lifecycle provider and investor.

The SPC will enter into a concession agreement with the Council for the provision of a new build supply of housing on land owned by the Council.

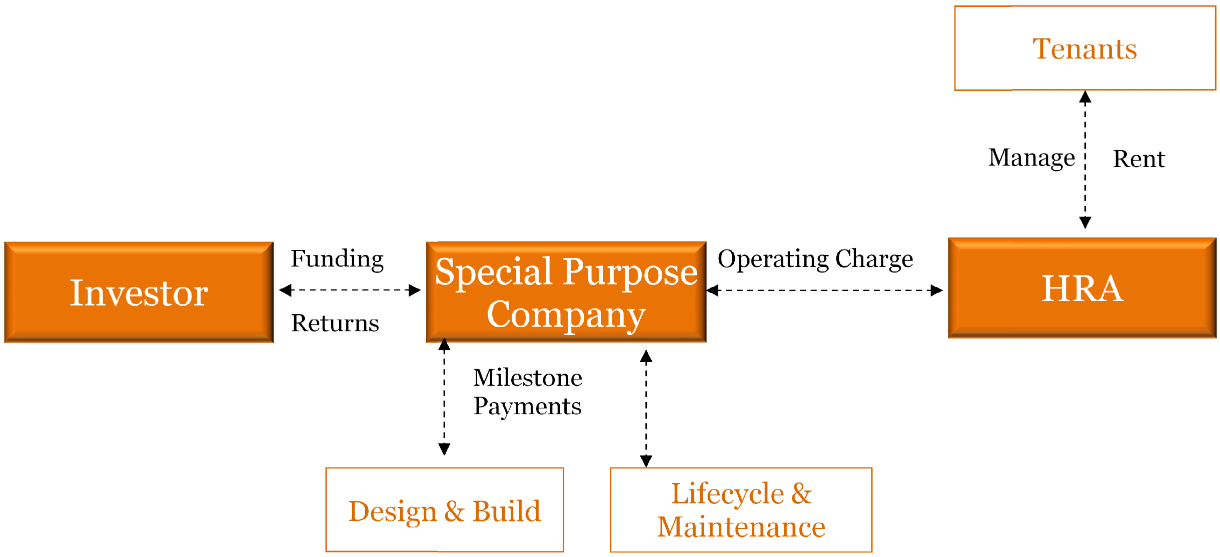


Figure [x] – Concession arrangement

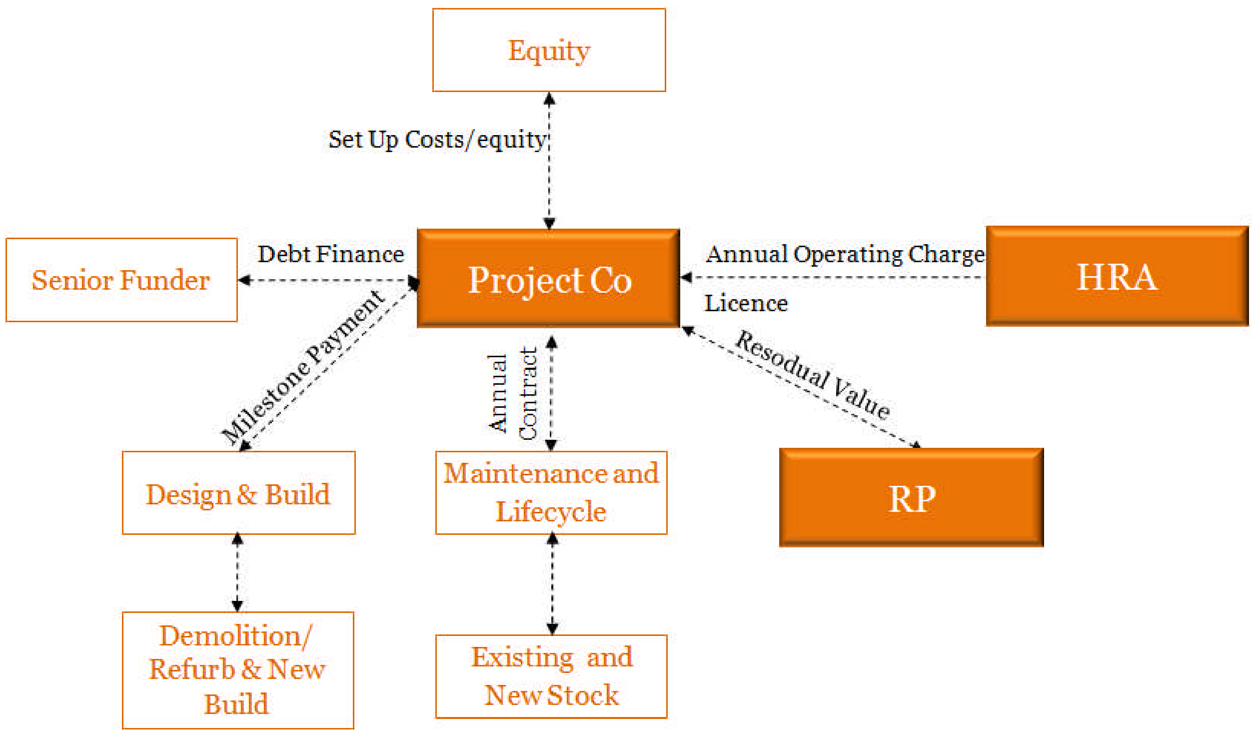


Figure [z] – Concession arrangement variant

The SPC funds the new build housing with a mix of debt and equity or institutional investment, which is used to fund the upfront costs of the SPC, the housing construction milestone payments and operating costs of the SPC during the construction period.

Upon commencement of services, the SPC will assume responsibility for the provision of property related services. The HRA may elect to provide the housing management services and would continue to set and collect rent as per it current stock. Alternatively as per figure five, the SPC uses a Registered Provider who manages the stock and collects the rental income.

As part of the project agreement with the Council, the SPC is fully responsible for the availability of the housing stock for the duration of the concession period. In return for meeting the tests of completion and adherence to the Council's output specification, the SPC will be remunerated through the payment of an operating charge. The operating charge will be subject to deductions arising from unavailability of properties.

The operating charge is the composite charge payable by the Council to fund the works, ongoing operating and major repair costs and returns on investment.

As part of the funding package, there are two tranches of debt. The first tranche of debt is fully repaid over the concession period, whereas the second tranche is an unamortised loan repayable as a bullet repayment at the end of the concession. The bullet repayment is made as a result of the SPC making a payment for the inherent residual value of the properties.

Key Commercial Characteristics

There are a number of key commercial characteristics underpinning the concession arrangement.

Demand

A key area of risk for the project is the future demand for properties. The risk could either be with the Special Purpose Company or with the Council, depending upon which party is assuming tenancy management risk and is collecting the rental income.

Residual Value

The residual value of the properties will form an important element of the concession. It is expected that the value of the assets, the 'residual value', is included as part of the overall project financing and the benefit included in a reduction in the operating charge. The value of the residual value will be determined by the permitted use of the assets at project expiry. Residual value will vary depending on whether the properties are being disposed of at open market value or being retained as social housing, and the nature of the land transfer at project expiry.

A key issue with regard to a concession arrangement is that the final control of the properties at the end of the concession must be with the SPC. This may pose a challenge for the Council where secure tenants reside in the properties. It is possible that whilst the SPC has full control, the SPC may elect to sell the properties to the Council at the SPC's discretion.

Taxation

The commercial structures used for Non HRA PFI projects give rise to various consequences for taxation. In respect of VAT for example, the contractor will make VAT exempt supplies in the form of rent, which means that it is not able to recover the VAT incurred on sub-contracted activities including maintenance, lifecycle costs and construction (where VAT rated).

Application to the HRA

The concession model maybe suitable to the HRA. However it needs to be structured carefully to ensure that it does not get caught within the lease accounting rules, be deemed to be a lease and be subject to the same future accounting rules.

Other key considerations will be the risk transfer and the appetite for institutional investors to assume property related risks. The cost of funding may be more as a result of the risk assumed by the SPC.

In order to be off balance sheet however, the residual value risk must remain in control of the SPC and could therefore mean that the properties do not vest in the HRA at the end of the concession.

There are therefore a number of challenges to the use of this model.

1. An off balance sheet solution requires the Council to have no control over the use of the assets at the end of the concession period. It will need to be carefully structured so as to not come under lease accounting.

2. The availability of bank lending is becoming more difficult. Institutional investors are willing to provide finance to the HRA, but will need to understand the risks associated with a concession arrangement prior to committing funds.

3. Any SPC that the Councils wish to enter into an arrangement with, is likely to be required to be procured. There will therefore be a requirement to undertake a procurement process which would impact on the development timetable.

Council Housing Company

A Council Housing Company ("CHC") is structured as per figure [x].

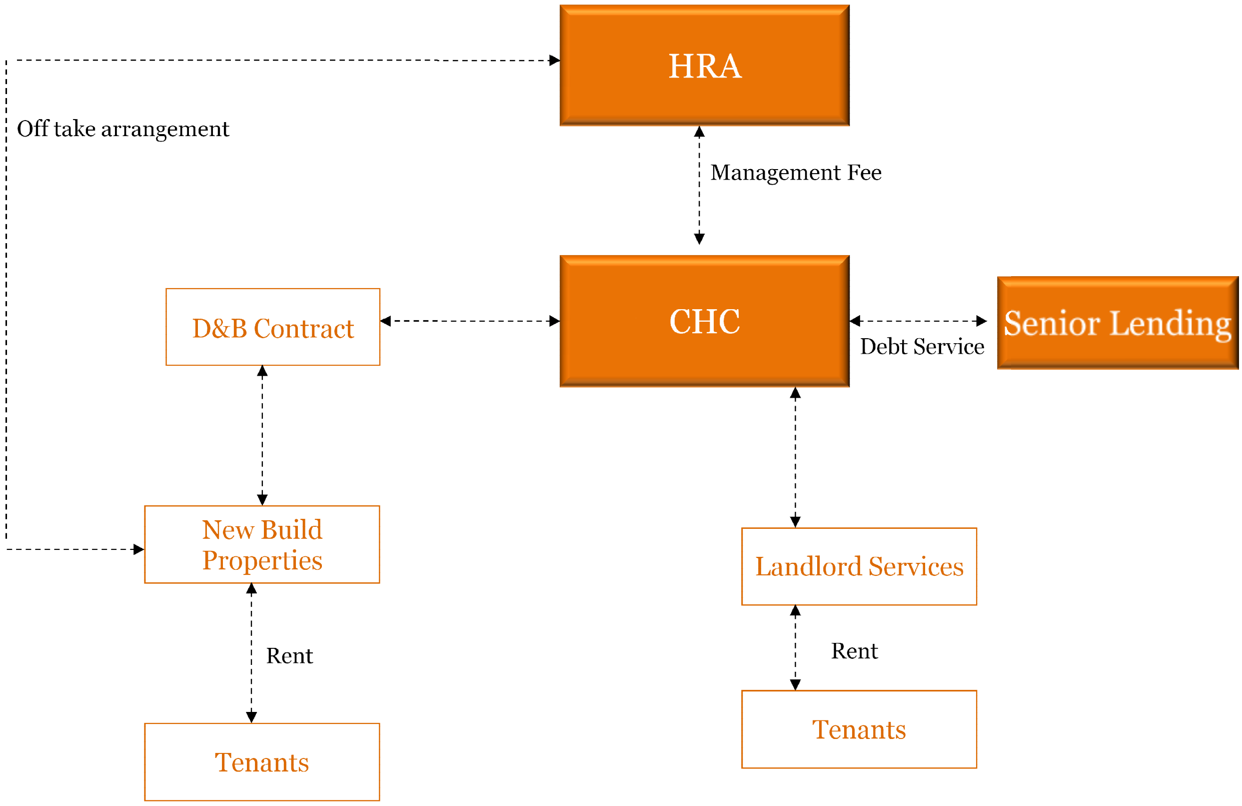


Figure [x] – Council Housing Company

In essence the Council Housing Company acts in a similar fashion to the Arms Length Management Organisations that were established by Councils in order to deliver the decent homes programme.

The Council Housing Company is primarily set up to deliver a landlord service on behalf of the Council and seek to deliver efficiency savings against the management fee agreed between the Council and the HRA. The management fee would reflect the rental income due to the HRA, less the strategic function of the HRA and the servicing of the HRA debt. The Council may also choose to retain a budget for the development of a new build capital programme.

Where the Council Housing Company is able to create a surplus against the management fee payable for services, it could seek to borrow against the projected surpluses of the business plan. Any applicable borrowing or entering into credit arrangements will not count towards the HCFR of the HRA as the company does not form part of the HRA.

The properties will be retained in the company and all rental and operating costs will flow through the company. As the properties are vested in the company, all tenancies will be assured shorthold tenancies and exempt from Right to Buy.

The company may act in a similar fashion to the Wholly Owned Company structure too, in that it may seek to develop properties more properties in the early years of the business plan which are not based on predicted future cashflows of the company, but an offtake agreement of properties from a HRA capital programme.

Key Commercial Characteristics

There are a number of key commercial characteristics underpinning the concession arrangement.

Demand

Any demand risk will be vested with the Council Housing Company. Demand could be offset through renting properties at different tenures and seeking to sell properties.

Residual Value

The Company is not seeking to sell properties, other than through an offtake arrangement with the HRA. There are therefore no concerns over residual value risks.

Taxation

The company is likely to be taxed over any surpluses made in the development of homes.

Application to the HRA

The model is likely to suit the mechanics of the HRA. The company has the ability to deliver services on behalf of the HRA, the ability to build housing to be vested in the company and produce housing to be offtaken by the HRA.

AP2 Options analysis for objective one, fit with objective 2 and legal & risk considerations

Objective one option	Pros	Cons	Fit with Objective two	Conclusion
Base case option – retain in house	• Simple/predictable/ possible to implement efficiency drive • Lot of cushion in business plan (high cost indicators) – a lot of resources to go at in the long term • Releasable resources available for housing investment • Can continue with repairs procurement • In control of all the resources available • Enables cross subsidy of General Fund – supports GF	• Not easy to embed change (culture change) • Tied to Council's austerity drive and therefore "the HRA being seen to spend" may not be an option • Tied to HCFR • Enables cross subsidy of General Fund – risk that HRA can be used to pick up more GF costs • Lack of customer focus • Lack of focus on housing service as not a primary/top priority function of the Council • Dependent on GF for support services – GF not necessarily focused on providing bespoke services for housing including IT	• Possible interface with WOC or SPV • If lease doesn't work (due to potential finance lease treatment), HRA will need to purchase assets when resources are available	• Keep on table but show an improved position (with no real increases) as a comparator for outsourcing and ALMO
Outsourcing (between 5-20 years)	• Able to embed change in business activity • TUPE – potential cost saving if new staff on different terms & conditions • Able to specify service requirements for best price – competition sets market price - contract for savings	• Potential for savings limited by R&M contract or a break clause has to be included in current procurement contract and enacted • TUPE – potential costs of bringing staff back in at end of contract • HCFR remains an issue • Contractual controls – additional cost of client team	• Possible interface with WOC or SPV • If lease doesn't work, HRA will need to purchase	• Shortlist option

	as well as performance improvement • More housing-focused – specialist provider focused on housing service • Skills and expertise from contractor e.g. asset management • Potential for more customer focus – can contract for better performance and tenant engagement • Economies of scale • No ballot (but requires consultation with staff and tenants) • Potential to link/commit contractor to be a development partner to help achieve objective 1 aims • Tenants would be on the Board helping to ensure customer focus	• Fixed price for the contract so flexibility in resources is limited to what is left over • Pensions – could be an issue unless the contractor can secure admitted body status • Limited precedent – we only know of 2 authorities that have done this • Potentially reduced income for GF if support services can be better provided by the external contractor • Time – competitive dialogue would take 18 months-2 years • If provider is a company or non-charitable RP – potential for tax costs	assets when resources are available • Potentially more resources if we have contracted for efficiencies	
ALMOs (Council Housing Company)	• Procurement timetable is quicker (easy to set up) • Could novate new R&M contract to ALMO – provided there is break &/or assignment flexibility • Control stays with Council with client/provider split – more flexibility with management fee potentially • TUPE fairly straightforward with no additional pension issues • Access to surplus and ability to deliver accelerated new housing	• TUPE consultation work required • Potential tax issues – company building houses may be subject to corporation tax on trading activities so would need to structure it in such a way to minimise this • Client side team required – although potentially less onerous than for outsourcing • Management team cost • Set up costs – financial &	• Can be delivered direct by the ALMO/Council Housing Company so don't need to create a new entity • Council Housing Company could enter into a	• Shortlist option

	• No HCFR issue • No ballot but consultation required with tenants & staff • Ability to become more customer focused • Can embed some culture change with new/different management team	legal advice	finance lease without affecting HCFR • Potentially more resources than retention if efficiencies are built in, but contractual relationship is softer than outsourcing	
Concession	• Potentially bypasses HCFR • Embedding change through incentivisation • Competition/price to bring about efficiencies • More risk transfer (in theory) e.g. income risk • Potential to lock into contract the requirement to deliver new build • Potential to lock into contract to cover HRA interest costs (otherwise there are no leftover resources to cover this)	• Council restricted to monitoring service – lack of control • Complexity and procurement • No income to pay for any issues or risks that come back to the Council • Market appetite may be lacking? • Termination payment could breach HCFR • TUPE • Potential for customer focus could be lost due to lack of control and influence	• Interface with WOC or SPV	• Too complex/ inflexible / significant risk around rent due to Welfare Reform. • Council has no buffer to deal with risks • Market risks
Transfer	• HCFR cap bypassed through transfer – RP is able to borrow • Precedent for this option – tried & tested • Business drivers/focus for the RP • Tenants would be on the Board (as well as independent) so customer focus through governance	• Receipt not sufficient to cover all the HRA debt – so Council (GF) would retain some debt and interest costs (although some authorities in the transfer pipeline are having some debt write off) • Costs are higher due to VAT (although VAT on capital	• Loss of control of surpluses to fulfil Objective two	• Shortlist but qualified by need to close gap • Could be discounted on basis of financial analysis

	• Community ownership is an option (but would be a leap for tenants in terms of level of involvement to date) • Potential for culture change if this is transfer to an existing RP, and potentially under a new RP as new management team • Focused specialist housing service with ability to invest in bespoke systems	saved through VAT shelter) • Council influence is reduced • Funding availability for the new RP (short term finance)? • Need for ballot – and what is on offer compared to retention? • Loss of control of resources and surpluses – only aspirations for new build can be captured but not firm commitments • Government policy changes? • No net receipt for General Fund • Set up costs • In effect, swapping relatively cheap debt for more expensive debt		• But keep options open in case financial assistance becomes available

AP3 *Original and revised HRA cashflows – including and excluding new build*

Original HRA baseline																																		
	1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*	*13*	*14*	*15*	*16*	*17*	*18*	*19*	*20*	*21*	*22*	*23*	*24*	*25*	*26*	*27*	*28*	*29*	*30*	*40*	*50*	*Total 50 years*	*Total 30 years*
Income:	***2012.13***	***2013.14***	***2014.15***	***2015.16***	***2016.17***	***2017.18***	***2018.19***	***2019.2***	***2020.21***	***2021.22***	***2022.23***	***2023.24***	***2024.25***	***2025.26***	***2026.27***	***2027.28***	***2028.29***	***2029.3***	***2030.31***	***2031.32***	***2032.33***	***2033.34***	***2034.35***	***2035.36***	***2036.37***	***2037.38***	***2038.39***	***2039.4***	***2040.41***	***2041.42***	***2051.52***	***2061.62***		
Rents gross - existing	£23,931	£25,042	£26,176	£27,407	£28,378	£29,273	£30,114	£30,946	£31,792	£32,659	£33,544	£34,450	£35,377	£36,328	£37,303	£38,312	£39,332	£40,378	£41,452	£42,554	£43,681	£44,834	£46,017	£47,230	£48,475	£49,747	£51,047	£52,380	£53,748	£55,151	£71,484	£92,838	**£2,622,446**	**£1,157,059**
Void loss - existing	-£258	-£270	-£283	-£296	-£306	-£316	-£325	-£334	-£343	-£353	-£362	-£372	-£382	-£392	-£403	-£414	-£425	-£436	-£448	-£460	-£472	-£484	-£497	-£510	-£524	-£537	-£551	-£566	-£580	-£596	-£772	-£1,003	**-£28,322**	**-£12,496**
Bad debts - existing	-£200	-£719	-£751	-£787	-£814	-£840	-£864	-£888	-£912	-£937	-£963	-£989	-£1,015	-£1,043	-£1,071	-£1,100	-£1,129	-£1,159	-£1,190	-£1,221	-£1,254	-£1,287	-£1,321	-£1,356	-£1,391	-£1,428	-£1,465	-£1,503	-£1,543	-£1,583	-£2,052	-£2,664	**-£74,777**	**-£32,721**
Net rent - existing	**£23,473**	**£24,053**	**£25,142**	**£26,324**	**£27,257**	**£28,117**	**£28,924**	**£29,724**	**£30,537**	**£31,369**	**£32,219**	**£33,089**	**£33,980**	**£34,893**	**£35,829**	**£36,798**	**£37,778**	**£38,783**	**£39,815**	**£40,873**	**£41,956**	**£43,063**	**£44,199**	**£45,364**	**£46,560**	**£47,782**	**£49,031**	**£50,311**	**£51,625**	**£52,972**	**£68,661**	**£89,171**	**£2,519,346**	**£1,111,842**
Rents gross - new build	£0	£0	£259	£355	£366	£812	£1,434	£1,901	£2,267	£2,670	£3,101	£3,467	£3,856	£4,277	£4,727	£5,211	£5,612	£6,028	£6,474	£6,942	£7,432	£8,145	£8,906	£9,715	£10,585	£11,317	£11,748	£12,101	£12,464	£12,837	£24,679	£42,353	**£685,909**	**£165,006**
Void loss - new build	£0	£0	-£3	-£4	-£4	-£9	-£15	-£21	-£24	-£29	-£33	-£37	-£42	-£46	-£51	-£56	-£61	-£65	-£70	-£75	-£80	-£88	-£96	-£105	-£114	-£122	-£127	-£131	-£135	-£139	-£267	-£457	**-£7,408**	**-£1,782**
Bad debts - new build	£0	£0	-£7	-£9	-£9	-£20	-£34	-£44	-£51	-£58	-£65	-£71	-£76	-£82	-£88	-£94	-£99	-£103	-£107	-£111	-£116	-£123	-£131	-£138	-£146	-£152	-£153	-£153	-£152	-£152	-£216	-£272	**-£6,836**	**-£2,545**
Net rent - new build	**£0**	**£0**	**£249**	**£342**	**£353**	**£783**	**£1,385**	**£1,837**	**£2,191**	**£2,583**	**£3,003**	**£3,358**	**£3,738**	**£4,148**	**£4,588**	**£5,060**	**£5,453**	**£5,860**	**£6,297**	**£6,755**	**£7,236**	**£7,934**	**£8,679**	**£9,472**	**£10,324**	**£11,044**	**£11,468**	**£11,817**	**£12,176**	**£12,546**	**£24,197**	**£41,623**	**£671,665**	**£160,680**
																																		£0
Service charges	£370	£380	£391	£402	£414	£426	£438	£450	£463	£477	£490	£504	£519	£533	£549	£564	£581	£597	£614	£632	£650	£669	£688	£707	£728	£749	£770	£792	£815	£838	£1,112	£1,477	**£40,069**	**£17,199**
Non-dwelling income	£792	£803	£818	£833	£849	£864	£880	£896	£912	£929	£949	£972	£996	£1,021	£1,046	£1,072	£1,098	£1,125	£1,153	£1,182	£1,211	£1,241	£1,271	£1,303	£1,335	£1,368	£1,401	£1,436	£1,471	£1,508	£1,924	£2,455	**£72,070**	**£32,734**
Grants and other income	£479	£453	£428	£405	£384	£364	£345	£328	£312	£297	£60	£55	£56	£58	£59	£61	£62	£64	£66	£67	£69	£71	£72	£74	£76	£78	£80	£82	£84	£86	£110	£141	**£7,424**	**£5,174**
Total original income	**£25,113**	**£25,689**	**£27,029**	**£28,307**	**£29,256**	**£30,554**	**£31,972**	**£33,235**	**£34,415**	**£35,654**	**£36,720**	**£37,979**	**£39,289**	**£40,653**	**£42,071**	**£43,555**	**£44,972**	**£46,429**	**£47,945**	**£49,509**	**£51,121**	**£52,977**	**£54,909**	**£56,920**	**£59,022**	**£61,019**	**£62,750**	**£64,439**	**£66,172**	**£67,950**	**£96,004**	**£134,866**	**£3,310,575**	**£1,327,629**
General management - existing	£2,857	£3,055	£3,145	£3,148	£3,242	£3,338	£3,438	£3,540	£3,646	£3,754	£3,866	£3,982	£4,100	£4,223	£4,349	£4,478	£4,612	£4,749	£4,891	£5,037	£5,187	£5,342	£5,501	£5,665	£5,834	£6,008	£6,188	£6,372	£6,562	£6,758	£9,068	£12,168	**£323,569**	**£136,868**
General management - new build	£0	£0	£5	£27	£28	£37	£84	£129	£160	£188	£221	£253	£281	£312	£346	£382	£418	£448	£481	£516	£553	£596	£656	£716	£781	£846	£893	£920	£948	£976	£1,838	£3,173	**£51,190**	**£12,204**
Special management	£2,215	£2,281	£2,349	£2,420	£2,492	£2,567	£2,643	£2,723	£2,804	£2,888	£2,974	£3,063	£3,155	£3,250	£3,347	£3,447	£3,550	£3,656	£3,766	£3,878	£3,995	£4,114	£4,237	£4,364	£4,495	£4,629	£4,768	£4,911	£5,058	£5,209	£6,996	£9,397	**£249,311**	**£105,247**
Other management	£32	£33	£34	£35	£35	£36	£37	£38	£39	£40	£41	£42	£43	£44	£45	£46	£48	£49	£50	£51	£53	£54	£55	£57	£58	£60	£61	£63	£64	£66	£84	£108	**£3,129**	**£1,409**
Total management costs	**£5,104**	**£5,369**	**£5,534**	**£5,629**	**£5,797**	**£5,979**	**£6,202**	**£6,430**	**£6,649**	**£6,871**	**£7,103**	**£7,341**	**£7,579**	**£7,829**	**£8,087**	**£8,354**	**£8,628**	**£8,902**	**£9,188**	**£9,483**	**£9,788**	**£10,106**	**£10,450**	**£10,802**	**£11,168**	**£11,543**	**£11,910**	**£12,265**	**£12,632**	**£13,009**	**£17,986**	**£24,845**	**£627,199**	**£255,729**
Responsive & cyclical repairs	£3,805	£4,279	£4,396	£4,522	£4,651	£4,784	£4,921	£5,061	£5,206	£5,354	£5,507	£5,663	£5,824	£5,990	£6,160	£6,335	£6,515	£6,699	£6,889	£7,085	£7,285	£7,491	£7,703	£7,920	£8,144	£8,373	£8,609	£8,851	£9,101	£9,357	£12,362	£16,353	**£446,524**	**£192,482**
Garage repairs	£130	£133	£136	£139	£143	£146	£150	£153	£157	£161	£165	£170	£175	£181	£186	£191	£197	£203	£209	£215	£222	£228	£235	£242	£249	£257	£264	£272	£280	£289	£387	£518	**£13,844**	**£5,881**
Contingency	£0	£221	£227	£233	£240	£247	£254	£261	£268	£276	£284	£292	£300	£309	£318	£327	£336	£345	£355	£365	£376	£386	£397	£408	£420	£432	£444	£456	£469	£482	£637	£843	**£22,827**	**£9,728**
Repairs admin	£388	£400	£412	£424	£437	£450	£464	£477	£492	£507	£522	£537	£553	£570	£587	£605	£623	£642	£661	£681	£701	£722	£744	£766	£789	£813	£837	£862	£888	£915	£1,229	£1,652	**£43,788**	**£18,469**
New build repairs	£0	£0	£24	£25	£26	£67	£111	£159	£184	£214	£279	£339	£391	£441	£497	£556	£601	£655	£711	£770	£833	£909	£986	£1,070	£1,159	£1,234	£1,304	£1,372	£1,445	£1,523	£2,775	£4,868	**£77,515**	**£17,883**
Total repairs	**£4,323**	**£5,032**	**£5,195**	**£5,344**	**£5,497**	**£5,694**	**£5,899**	**£6,112**	**£6,307**	**£6,512**	**£6,756**	**£7,002**	**£7,244**	**£7,490**	**£7,748**	**£8,014**	**£8,272**	**£8,544**	**£8,825**	**£9,116**	**£9,417**	**£9,737**	**£10,065**	**£10,407**	**£10,761**	**£11,109**	**£11,459**	**£11,814**	**£12,184**	**£12,565**	**£17,391**	**£24,235**	**£604,497**	**£244,443**
Total revenue expenditure	**£9,427**	**£10,401**	**£10,729**	**£10,973**	**£11,293**	**£11,673**	**£12,101**	**£12,543**	**£12,956**	**£13,383**	**£13,859**	**£14,342**	**£14,823**	**£15,319**	**£15,834**	**£16,368**	**£16,900**	**£17,447**	**£18,013**	**£18,599**	**£19,204**	**£19,843**	**£20,515**	**£21,208**	**£21,928**	**£22,652**	**£23,368**	**£24,080**	**£24,815**	**£25,574**	**£35,377**	**£49,080**	**£1,231,697**	**£500,172**
Capital spend - existing dwellings	£6,160	£6,877	£7,083	£7,295	£7,513	£7,738	£7,969	£8,208	£8,453	£8,706	£10,526	£10,841	£11,165	£11,500	£11,844	£15,145	£15,599	£16,066	£16,547	£17,043	£12,934	£13,321	£13,720	£14,130	£14,553	£30,917	£31,843	£32,798	£33,781	£34,793	£27,418	£36,830	**£1,009,663**	**£445,064**
Capital spend - garages	£74	£75	£77	£79	£81	£83	£85	£87	£89	£91	£893	£920	£947	£975	£1,004	£1,034	£1,065	£1,097	£1,129	£1,163	£1,198	£1,233	£1,270	£1,308	£1,346	£1,386	£1,428	£1,470	£1,514	£1,559	£780	£1,048	**£40,826**	**£24,760**
Capital spend - new build	£0	£6,404	£2,199	£0	£10,777	£14,800	£10,493	£7,647	£8,296	£8,707	£6,740	£7,057	£7,670	£8,083	£8,576	£6,363	£6,603	£7,185	£7,489	£7,820	£13,102	£13,878	£14,623	£15,646	£11,749	£3,875	£1,731	£1,862	£1,999	£2,142	£27,552	£14,845	**£686,002**	**£223,515**
Total capital	**£6,234**	**£13,356**	**£9,358**	**£7,373**	**£18,370**	**£22,620**	**£18,547**	**£15,941**	**£16,838**	**£17,505**	**£18,159**	**£18,818**	**£19,782**	**£20,558**	**£21,424**	**£22,542**	**£23,267**	**£24,348**	**£25,165**	**£26,026**	**£27,233**	**£28,432**	**£29,613**	**£31,084**	**£27,649**	**£36,178**	**£35,002**	**£36,129**	**£37,293**	**£38,494**	**£55,750**	**£52,724**	**£1,736,490**	**£693,339**
Debt repayment																																**£19,157**	**£136,157**	**£0**
FRS 17 adj	-£11	-£11	-£12	-£12	-£12	-£13	-£13	-£13	-£14	-£14	-£14	-£15	-£15	-£15	-£16	-£16	-£16	-£17	-£17	-£18	-£18	-£19	-£19	-£20	-£20	-£21	-£21	-£22	-£22	-£23	-£29	-£37	-£1,082	**-£487**
Financing:																																		
Interest paid	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	-£2,546	**£199,334**	**£142,967**
Interest received	-£107	-£167	-£219	-£372	-£458	-£267	-£96	-£47	-£47	-£47	-£47	-£49	-£51	-£51	-£54	-£55	-£56	-£57	-£57	-£61	-£64	-£65	-£67	-£67	-£138	-£174	-£136	-£127	-£113	-£93	-£102	-£385	**-£5,786**	**-£3,410**
Finance administration	£297	£11	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	**£308**	**£308**
Net cashflow	£4,509	-£2,667	£2,407	£5,579	-£4,703	-£8,225	-£3,332	£46	-£85	£61	-£2	£117	-£17	£78	£117	-£48	£112	-£57	£75	£198	£1	£20	£102	-£51	£4,838	-£2,381	-£228	-£388	-£568	-£768	£243	£16,873		
Opening balance	£8,015	£12,524	£9,857	£12,264	£17,843	£13,140	£4,915	£1,583	£1,629	£1,544	£1,605	£1,603	£1,720	£1,703	£1,781	£1,899	£1,850	£1,962	£1,906	£1,981	£2,179	£2,180	£2,200	£2,301	£2,251	£7,089	£4,707	£4,479	£4,091	£3,524	£3,342	£4,599		
Original cumulative cashflow	**£12,524**	**£9,857**	**£12,264**	**£17,843**	**£13,140**	**£4,915**	**£1,583**	**£1,629**	**£1,544**	**£1,605**	**£1,603**	**£1,720**	**£1,703**	**£1,781**	**£1,899**	**£1,850**	**£1,962**	**£1,906**	**£1,981**	**£2,179**	**£2,180**	**£2,200**	**£2,301**	**£2,251**	**£7,089**	**£4,707**	**£4,479**	**£4,091**	**£3,524**	**£2,756**	**£3,586**	**£21,472**		
30 year balance	**£2,756**																																	

Original HRA baseline - excluding new build	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	40	50	Total 50 years	Total 30 years
Income:	***2012.13***	***2013.14***	***2014.15***	***2015.16***	***2016.17***	***2017.18***	***2018.19***	***2019.2***	***2020.21***	***2021.22***	***2022.23***	***2023.24***	***2024.25***	***2025.26***	***2026.27***	***2027.28***	***2028.29***	***2029.3***	***2030.31***	***2031.32***	***2032.33***	***2033.34***	***2034.35***	***2035.36***	***2036.37***	***2037.38***	***2038.39***	***2039.4***	***2040.41***	***2041.42***	***2051.52***	***2061.62***		
Rents gross - existing	£23,931	£25,042	£26,176	£27,407	£28,378	£29,273	£30,114	£30,946	£31,792	£32,659	£33,544	£34,450	£35,377	£36,328	£37,303	£38,312	£39,332	£40,378	£41,452	£42,554	£43,681	£44,834	£46,017	£47,230	£48,475	£49,747	£51,047	£52,380	£53,748	£55,151	£71,484	£92,838	**£2,622,446**	**£1,157,059**
Void loss - existing	-£258	-£270	-£283	-£296	-£306	-£316	-£325	-£334	-£343	-£353	-£362	-£372	-£382	-£392	-£403	-£414	-£425	-£436	-£448	-£460	-£472	-£484	-£497	-£510	-£524	-£537	-£551	-£566	-£580	-£596	-£772	-£1,003	**-£28,322**	**-£12,496**
Bad debts - existing	-£200	-£719	-£751	-£787	-£814	-£840	-£864	-£888	-£912	-£937	-£963	-£989	-£1,015	-£1,043	-£1,071	-£1,100	-£1,129	-£1,159	-£1,190	-£1,221	-£1,254	-£1,287	-£1,321	-£1,356	-£1,391	-£1,428	-£1,465	-£1,503	-£1,543	-£1,583	-£2,052	-£2,664	**-£74,777**	**-£32,721**
Net rent - existing	**£23,473**	**£24,053**	**£25,142**	**£26,324**	**£27,257**	**£28,117**	**£28,924**	**£29,724**	**£30,537**	**£31,369**	**£32,219**	**£33,089**	**£33,980**	**£34,893**	**£35,829**	**£36,798**	**£37,778**	**£38,783**	**£39,815**	**£40,873**	**£41,956**	**£43,063**	**£44,199**	**£45,364**	**£46,560**	**£47,782**	**£49,031**	**£50,311**	**£51,625**	**£52,972**	**£68,661**	**£89,171**	**£2,519,346**	**£1,111,842**
Rents gross - new build																																	**£0**	**£0**
Void loss - new build																																	**£0**	**£0**
Bad debts - new build																																	**£0**	**£0**
Net rent - new build	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**
																																		£0
Service charges	£370	£380	£391	£402	£414	£426	£438	£450	£463	£477	£490	£504	£519	£533	£549	£564	£581	£597	£614	£632	£650	£669	£688	£707	£728	£749	£770	£792	£815	£838	£1,112	£1,477	**£40,069**	**£17,199**
Non-dwelling income	£792	£803	£818	£833	£849	£864	£880	£896	£912	£929	£949	£972	£996	£1,021	£1,046	£1,072	£1,098	£1,125	£1,153	£1,182	£1,211	£1,241	£1,271	£1,303	£1,335	£1,368	£1,401	£1,436	£1,471	£1,508	£1,924	£2,455	**£72,070**	**£32,734**
Grants and other income	£479	£453	£428	£405	£384	£364	£345	£328	£312	£297	£60	£55	£56	£58	£59	£61	£62	£64	£66	£67	£69	£71	£72	£74	£76	£78	£80	£82	£84	£86	£110	£141	**£7,424**	**£5,174**
Total original income	**£25,113**	**£25,689**	**£26,780**	**£27,965**	**£28,903**	**£29,771**	**£30,587**	**£31,398**	**£32,224**	**£33,071**	**£33,718**	**£34,621**	**£35,551**	**£36,505**	**£37,483**	**£38,495**	**£39,519**	**£40,570**	**£41,648**	**£42,754**	**£43,886**	**£45,043**	**£46,230**	**£47,449**	**£48,698**	**£49,976**	**£51,282**	**£52,621**	**£53,995**	**£55,404**	**£71,807**	**£93,243**	**£2,638,910**	**£1,166,949**
General management - existing	£2,857	£3,055	£3,145	£3,148	£3,242	£3,338	£3,438	£3,540	£3,646	£3,754	£3,866	£3,982	£4,100	£4,223	£4,349	£4,478	£4,612	£4,749	£4,891	£5,037	£5,187	£5,342	£5,501	£5,665	£5,834	£6,008	£6,188	£6,372	£6,562	£6,758	£9,068	£12,168	**£323,569**	**£136,868**
General management - new build																																	**£0**	**£0**
Special management	£2,215	£2,281	£2,349	£2,420	£2,492	£2,567	£2,643	£2,723	£2,804	£2,888	£2,974	£3,063	£3,155	£3,250	£3,347	£3,447	£3,550	£3,656	£3,766	£3,878	£3,995	£4,114	£4,237	£4,364	£4,495	£4,629	£4,768	£4,911	£5,058	£5,209	£6,996	£9,397	**£249,311**	**£105,247**
Other management	£32	£33	£34	£35	£35	£36	£37	£38	£39	£40	£41	£42	£43	£44	£45	£46	£48	£49	£50	£51	£53	£54	£55	£57	£58	£60	£61	£63	£64	£66	£84	£108	**£3,129**	**£1,409**
Total management costs	**£5,104**	**£5,369**	**£5,529**	**£5,602**	**£5,769**	**£5,941**	**£6,118**	**£6,301**	**£6,489**	**£6,682**	**£6,882**	**£7,087**	**£7,299**	**£7,516**	**£7,741**	**£7,972**	**£8,210**	**£8,455**	**£8,707**	**£8,967**	**£9,234**	**£9,510**	**£9,794**	**£10,086**	**£10,387**	**£10,697**	**£11,016**	**£11,345**	**£11,684**	**£12,033**	**£16,148**	**£21,672**	**£576,009**	**£243,525**
Responsive & cyclical repairs	£3,805	£4,279	£4,396	£4,522	£4,651	£4,784	£4,921	£5,061	£5,206	£5,354	£5,507	£5,663	£5,824	£5,990	£6,160	£6,335	£6,515	£6,699	£6,889	£7,085	£7,285	£7,491	£7,703	£7,920	£8,144	£8,373	£8,609	£8,851	£9,101	£9,357	£12,362	£16,353	**£446,524**	**£192,482**
Garage repairs	£130	£133	£136	£139	£143	£146	£150	£153	£157	£161	£165	£170	£175	£181	£186	£191	£197	£203	£209	£215	£222	£228	£235	£242	£249	£257	£264	£272	£280	£289	£387	£518	**£13,844**	**£5,881**
Contingency	£0	£221	£227	£233	£240	£247	£254	£261	£268	£276	£284	£292	£300	£309	£318	£327	£336	£345	£355	£365	£376	£386	£397	£408	£420	£432	£444	£456	£469	£482	£637	£843	**£22,827**	**£9,728**
Repairs admin	£388	£400	£412	£424	£437	£450	£464	£477	£492	£507	£522	£537	£553	£570	£587	£605	£623	£642	£661	£681	£701	£722	£744	£766	£789	£813	£837	£862	£888	£915	£1,229	£1,652	**£43,788**	**£18,469**
New build repairs																																	**£0**	**£0**
Total repairs	**£4,323**	**£5,032**	**£5,171**	**£5,319**	**£5,471**	**£5,627**	**£5,788**	**£5,953**	**£6,123**	**£6,298**	**£6,478**	**£6,663**	**£6,853**	**£7,049**	**£7,251**	**£7,458**	**£7,671**	**£7,890**	**£8,114**	**£8,346**	**£8,584**	**£8,828**	**£9,079**	**£9,337**	**£9,602**	**£9,875**	**£10,155**	**£10,442**	**£10,738**	**£11,043**	**£14,616**	**£19,367**	**£526,982**	**£226,560**
Total revenue expenditure	**£9,427**	**£10,401**	**£10,699**	**£10,921**	**£11,240**	**£11,568**	**£11,906**	**£12,254**	**£12,612**	**£12,980**	**£13,359**	**£13,750**	**£14,152**	**£14,566**	**£14,992**	**£15,430**	**£15,880**	**£16,344**	**£16,821**	**£17,313**	**£17,818**	**£18,338**	**£18,872**	**£19,423**	**£19,989**	**£20,572**	**£21,171**	**£21,788**	**£22,422**	**£23,075**	**£30,764**	**£41,039**	**£1,102,991**	**£470,084**
Capital spend - existing dwellings	£6,160	£6,877	£7,083	£7,295	£7,513	£7,738	£7,969	£8,208	£8,453	£8,706	£10,526	£10,841	£11,165	£11,500	£11,844	£15,145	£15,599	£16,066	£16,547	£17,043	£12,934	£13,321	£13,720	£14,130	£14,553	£30,917	£31,843	£32,798	£33,781	£34,793	£27,418	£36,830	**£1,009,663**	**£445,064**
Capital spend - garages	£74	£75	£77	£79	£81	£83	£85	£87	£89	£91	£893	£920	£947	£975	£1,004	£1,034	£1,065	£1,097	£1,129	£1,163	£1,198	£1,233	£1,270	£1,308	£1,346	£1,386	£1,428	£1,470	£1,514	£1,559	£780	£1,048	**£40,826**	**£24,760**
Capital spend - new build																																	**£0**	**£0**
Total capital	**£6,234**	**£6,952**	**£7,159**	**£7,373**	**£7,594**	**£7,820**	**£8,054**	**£8,294**	**£8,542**	**£8,797**	**£11,419**	**£11,761**	**£12,113**	**£12,475**	**£12,848**	**£16,179**	**£16,664**	**£17,163**	**£17,676**	**£18,206**	**£14,131**	**£14,554**	**£14,989**	**£15,438**	**£15,900**	**£32,303**	**£33,271**	**£34,268**	**£35,294**	**£36,352**	**£28,198**	**£37,879**	**£1,050,489**	**£469,824**
Debt repayment																																**£19,157**	**£136,157**	**£0**
FRS 17 adj	-£11	-£11	-£12	-£12	-£12	-£13	-£13	-£13	-£14	-£14	-£14	-£15	-£15	-£15	-£16	-£16	-£16	-£17	-£17	-£18	-£18	-£19	-£19	-£20	-£20	-£21	-£21	-£22	-£22	-£23	-£29	-£37	**-£1,082**	**-£487**
Financing:																																		
Interest paid	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	£4,766	-£2,546	**£199,334**	**£142,967**
Interest received	-£107	-£167	-£219	-£372	-£458	-£267	-£96	-£47	-£47	-£47	-£47	-£49	-£51	-£51	-£54	-£55	-£56	-£57	-£57	-£61	-£64	-£65	-£67	-£67	-£138	-£174	-£136	-£127	-£113	-£93	-£102	-£385	**-£5,786**	**-£3,410**
Finance administration	£297	£11	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	**£308**	**£308**
Net cashflow	£4,509	£3,737	£4,386	£5,289	£5,774	£5,896	£5,970	£6,145	£6,364	£6,588	£4,236	£4,408	£4,587	£4,765	£4,948	£2,192	£2,282	£2,371	£2,459	£2,549	£7,254	£7,469	£7,689	£7,909	£8,202	-£7,470	-£7,769	-£8,051	-£8,352	-£8,673	£8,212	-£1,863		
Opening balance	£8,015	£12,524	£16,261	£20,647	£25,936	£31,711	£37,606	£43,577	£49,721	£56,086	£62,674	£66,909	£71,318	£75,904	£80,670	£85,618	£87,810	£90,092	£92,463	£94,922	£97,472	£104,725	£112,194	£119,883	£127,792	£135,994	£128,524	£120,755	£112,704	£104,352	£162,663	£166,377		
Original cumulative cashflow exl. New build	**£12,524**	**£16,261**	**£20,647**	**£25,936**	**£31,711**	**£37,606**	**£43,577**	**£49,721**	**£56,086**	**£62,674**	**£66,909**	**£71,318**	**£75,904**	**£80,670**	**£85,618**	**£87,810**	**£90,092**	**£92,463**	**£94,922**	**£97,472**	**£104,725**	**£112,194**	**£119,883**	**£127,792**	**£135,994**	**£128,524**	**£120,755**	**£112,704**	**£104,352**	**£95,679**	**£170,875**	**£164,514**		
30 year balance	**£95,679**																																	

Revised HRA baseline agreed with WDC	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Income:	***2012.13***	***2013.14***	***2014.15***	***2015.16***	***2016.17***	***2017.18***	***2018.19***	***2019.2***	***2020.21***	***2021.22***	***2022.23***	***2023.24***	***2024.25***	***2025.26***	***2026.27***	***2027.28***
Rents gross - existing	£23,931	£25,136	£26,336	£27,628	£28,633	£29,409	£30,206	£31,022	£31,860	£32,719	£33,599	£34,500	£35,426	£36,376	£37,351	£38,349
Void loss - existing	-£153	-£161	-£169	-£177	-£183	-£188	-£193	-£199	-£204	-£209	-£215	-£221	-£227	-£233	-£239	-£245
Bad debts - existing	-£200	-£721	-£756	-£793	-£573	-£588	-£604	-£620	-£637	-£654	-£672	-£690	-£709	-£728	-£747	-£767
Net rent - existing	**£23,578**	**£24,254**	**£25,411**	**£26,658**	**£27,877**	**£28,633**	**£29,408**	**£30,203**	**£31,019**	**£31,855**	**£32,712**	**£33,590**	**£34,491**	**£35,416**	**£36,365**	**£37,336**
Rents gross - new build	£0	£0	£256	£350	£359	£793	£1,394	£1,839	£2,182	£2,558	£2,957	£3,289	£3,640	£4,019	£4,420	£4,849
Void loss - new build	£0	£0	-£2	-£2	-£2	-£5	-£9	-£12	-£14	-£16	-£19	-£21	-£23	-£26	-£28	-£31
Bad debts - new build	£0	£0	-£7	-£10	-£7	-£16	-£28	-£37	-£44	-£51	-£59	-£66	-£73	-£80	-£88	-£97
Net rent - new build	**£0**	**£0**	**£247**	**£338**	**£350**	**£772**	**£1,357**	**£1,790**	**£2,125**	**£2,490**	**£2,879**	**£3,202**	**£3,544**	**£3,912**	**£4,303**	**£4,721**
Service charges	£370	£379	£389	£399	£409	£419	£429	£440	£451	£462	£474	£486	£498	£510	£523	£536
Non-dwelling income	£792	£804	£819	£834	£849	£865	£881	£897	£913	£930	£950	£973	£997	£1,022	£1,047	£1,073
Grants and other income	£479	£453	£428	£405	£384	£364	£345	£328	£312	£297	£60	£55	£57	£58	£59	£61
Total revised income	**£25,218**	**£25,890**	**£27,295**	**£28,635**	**£29,869**	**£31,053**	**£32,421**	**£33,658**	**£34,819**	**£36,034**	**£37,074**	**£38,306**	**£39,587**	**£40,918**	**£42,298**	**£43,727**
Expenditure:																
General management - existing	£5,104	£5,349	£5,483	£5,254	£5,385	£5,519	£5,657	£5,799	£5,944	£6,092	£6,245	£6,401	£6,561	£6,725	£6,893	£7,065
General management - new build	£0	£0	£5	£27	£27	£37	£82	£125	£154	£181	£211	£240	£265	£294	£323	£355
Total management costs	**£5,104**	**£5,349**	**£5,488**	**£5,280**	**£5,412**	**£5,556**	**£5,739**	**£5,924**	**£6,098**	**£6,273**	**£6,456**	**£6,641**	**£6,826**	**£7,019**	**£7,217**	**£7,421**
Repairs & maintenance - existing & garages	£4,520	£4,999	£5,099	£4,734	£4,839	£4,947	£5,057	£5,169	£5,283	£5,400	£5,520	£5,643	£5,769	£5,897	£6,029	£6,163
Repairs & maintenance - new build	£0	£0	£24	£24	£25	£65	£108	£154	£177	£205	£266	£321	£369	£414	£464	£517
Total repairs & maintenance	**£4,520**	**£4,999**	**£5,123**	**£4,758**	**£4,864**	**£5,012**	**£5,164**	**£5,323**	**£5,461**	**£5,605**	**£5,786**	**£5,965**	**£6,138**	**£6,311**	**£6,493**	**£6,680**
Total revenue expenditure	**£9,624**	**£10,348**	**£10,611**	**£10,039**	**£10,277**	**£10,568**	**£10,904**	**£11,247**	**£11,559**	**£11,878**	**£12,241**	**£12,606**	**£12,964**	**£13,330**	**£13,710**	**£14,101**
Capital works - existing & garages	£6,197	£6,855	£6,991	£6,435	£6,578	£6,723	£6,871	£7,022	£7,176	£7,334	£9,150	£9,351	£9,557	£9,766	£9,981	£12,550
Capital works - new build	£0	£6,379	£2,180	£0	£10,579	£14,458	£10,201	£7,398	£7,987	£8,342	£6,521	£6,793	£7,242	£7,752	£8,341	£6,182
Total capital	**£6,197**	**£13,235**	**£9,170**	**£6,435**	**£17,157**	**£21,181**	**£17,072**	**£14,420**	**£15,164**	**£15,676**	**£15,672**	**£16,144**	**£16,799**	**£17,518**	**£18,322**	**£18,732**
Financing:																
Debt repayment	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Interest paid	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765
Interest receivable	-£253	-£209	-£268	-£421	-£383	-£281	-£281	-£351	-£424	-£507	-£605	-£713	-£829	-£951	-£1,080	-£1,225
Total expenditure	**£20,333**	**£28,139**	**£24,279**	**£20,818**	**£31,816**	**£36,233**	**£32,460**	**£30,082**	**£31,063**	**£31,813**	**£32,073**	**£32,803**	**£33,699**	**£34,662**	**£35,716**	**£36,374**
Annual net cashflow	**£4,885**	**-£2,249**	**£3,015**	**£7,816**	**-£1,947**	**-£5,181**	**-£39**	**£3,577**	**£3,756**	**£4,222**	**£5,001**	**£5,503**	**£5,887**	**£6,256**	**£6,581**	**£7,353**
Brought forward	**£8,015**															
Revised cumulative cashflow	**£12,900**	**£10,651**	**£13,667**	**£21,483**	**£19,536**	**£14,355**	**£14,316**	**£17,893**	**£21,649**	**£25,871**	**£30,872**	**£36,375**	**£42,263**	**£48,519**	**£55,100**	**£62,453**
30 year balance	**£242,690**															

Revised HRA baseline agreed with WDC	17	18	19	20	21	22	23	24	25	26	27	28	29	30	40	50	*Total 50 years*	*Total 30 years*
Income:	***2028.29***	***2029.3***	***2030.31***	***2031.32***	***2032.33***	***2033.34***	***2034.35***	***2035.36***	***2036.37***	***2037.38***	***2038.39***	***2039.4***	***2040.41***	***2041.42***	***2051.52***	***2061.62***		
Rents gross - existing	£39,370	£40,417	£41,492	£42,596	£43,724	£44,878	£46,061	£47,276	£48,522	£49,795	£51,097	£52,431	£53,800	£55,204	£68,155	£84,310	**£2,547,592**	**£1,159,145**
Void loss - existing	-£252	-£259	-£266	-£273	-£280	-£287	-£295	-£303	-£311	-£319	-£327	-£336	-£344	-£353	-£436	-£540	**-£16,305**	**-£7,419**
Bad debts - existing	-£787	-£808	-£830	-£852	-£874	-£898	-£921	-£946	-£970	-£996	-£1,022	-£1,049	-£1,076	-£1,104	-£1,363	-£1,686	**-£51,361**	**-£23,593**
Net rent - existing	**£38,330**	**£39,350**	**£40,397**	**£41,471**	**£42,570**	**£43,693**	**£44,845**	**£46,028**	**£47,241**	**£48,480**	**£49,748**	**£51,047**	**£52,380**	**£53,747**	**£66,356**	**£82,084**	**£2,479,926**	**£1,128,134**
Rents gross - new build	£5,197	£5,555	£5,937	£6,335	£6,749	£7,361	£8,010	£8,695	£9,427	£10,031	£10,362	£10,621	£10,887	£11,159	£15,962	£20,383	**£467,071**	**£149,230**
Void loss - new build	-£33	-£36	-£38	-£41	-£43	-£47	-£51	-£56	-£60	-£64	-£66	-£68	-£70	-£71	-£102	-£130	**-£2,989**	**-£955**
Bad debts - new build	-£104	-£111	-£119	-£127	-£135	-£147	-£160	-£174	-£189	-£201	-£207	-£212	-£218	-£223	-£319	-£408	**-£9,347**	**-£2,990**
Net rent - new build	**£5,060**	**£5,408**	**£5,780**	**£6,168**	**£6,571**	**£7,166**	**£7,798**	**£8,465**	**£9,178**	**£9,766**	**£10,088**	**£10,341**	**£10,599**	**£10,864**	**£15,541**	**£19,845**	**£454,735**	**£145,285**
																		£0
Service charges	£550	£563	£577	£592	£607	£622	£637	£653	£670	£686	£703	£721	£739	£757	£970	£1,241	**£36,085**	**£16,251**
Non-dwelling income	£1,099	£1,126	£1,154	£1,183	£1,212	£1,242	£1,272	£1,304	£1,336	£1,369	£1,403	£1,437	£1,473	£1,509	£1,926	£2,457	**£72,140**	**£32,765**
Grants and other income	£62	£64	£66	£67	£69	£71	£72	£74	£76	£78	£80	£82	£84	£86	£110	£141	**£7,428**	**£5,175**
Total revised income	**£45,101**	**£46,512**	**£47,974**	**£49,481**	**£51,028**	**£52,793**	**£54,626**	**£56,524**	**£58,501**	**£60,380**	**£62,022**	**£63,628**	**£65,275**	**£66,964**	**£84,903**	**£105,769**	**£3,050,314**	**£1,327,610**
Expenditure:																		
General management - existing	£7,242	£7,423	£7,609	£7,799	£7,994	£8,194	£8,399	£8,609	£8,824	£9,044	£9,270	£9,502	£9,740	£9,983	£12,779	£16,359	**£476,501**	**£215,107**
General management - new build	£387	£412	£441	£471	£503	£539	£590	£641	£695	£750	£788	£808	£828	£849	£1,189	£1,527	**£34,806**	**£11,028**
Total management costs	**£7,629**	**£7,836**	**£8,050**	**£8,270**	**£8,496**	**£8,732**	**£8,989**	**£9,249**	**£9,519**	**£9,794**	**£10,058**	**£10,310**	**£10,568**	**£10,832**	**£13,968**	**£17,886**	**£511,307**	**£226,135**
Repairs & maintenance - existing & garages	£6,299	£6,438	£6,580	£6,726	£6,874	£7,024	£7,178	£7,336	£7,496	£7,660	£7,826	£7,996	£8,169	£8,346	£10,360	£12,885	**£398,205**	**£187,017**
Repairs & maintenance - new build	£557	£603	£652	£703	£757	£822	£887	£958	£1,032	£1,094	£1,150	£1,204	£1,263	£1,324	£2,298	£3,839	**£64,947**	**£16,139**
Total repairs & maintenance	**£6,856**	**£7,042**	**£7,232**	**£7,429**	**£7,630**	**£7,846**	**£8,065**	**£8,293**	**£8,528**	**£8,754**	**£8,976**	**£9,200**	**£9,432**	**£9,670**	**£12,658**	**£16,724**	**£463,152**	**£203,155**
Total revenue expenditure	**£14,485**	**£14,877**	**£15,282**	**£15,699**	**£16,127**	**£16,578**	**£17,054**	**£17,542**	**£18,047**	**£18,548**	**£19,034**	**£19,510**	**£19,999**	**£20,502**	**£26,626**	**£34,609**	**£974,459**	**£429,290**
Capital works - existing & garages	£12,823	£13,102	£13,386	£13,677	£10,434	£10,659	£10,889	£11,123	£11,362	£23,303	£23,798	£24,303	£24,818	£25,344	£18,416	£22,802	**£732,763**	**£357,557**
Capital works - new build	£6,290	£6,792	£7,054	£7,295	£12,042	£12,701	£13,317	£14,178	£10,609	£3,555	£1,662	£1,772	£1,887	£2,074	£23,001	£12,010	**£597,426**	**£211,584**
Total capital	**£19,113**	**£19,894**	**£20,441**	**£20,971**	**£22,476**	**£23,360**	**£24,205**	**£25,301**	**£21,971**	**£26,858**	**£25,459**	**£26,075**	**£26,706**	**£27,418**	**£41,417**	**£34,811**	**£1,330,188**	**£569,140**
Financing:																		
Debt repayment	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£19,157	**£136,157**	**£0**
Interest paid	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£335	**£215,417**	**£142,965**
Interest receivable	-£1,384	-£1,551	-£1,732	-£1,927	-£2,119	-£2,323	-£2,542	-£2,771	-£3,101	-£3,367	-£3,689	-£4,029	-£4,385	-£4,759	-£8,497	-£12,209	**-£220,551**	**-£48,460**
Total expenditure	**£36,980**	**£37,986**	**£38,757**	**£39,508**	**£41,249**	**£42,381**	**£43,484**	**£44,838**	**£41,683**	**£46,804**	**£45,570**	**£46,322**	**£47,085**	**£47,926**	**£64,312**	**£76,704**	**£2,435,670**	**£1,092,935**
Annual net cashflow	**£8,121**	**£8,526**	**£9,218**	**£9,972**	**£9,779**	**£10,413**	**£11,142**	**£11,687**	**£16,818**	**£13,575**	**£16,453**	**£17,307**	**£18,190**	**£19,037**	**£20,591**	**£29,065**		
Brought forward																		
Revised cumulative cashflow	**£70,574**	**£79,101**	**£88,318**	**£98,290**	**£108,069**	**£118,482**	**£129,624**	**£141,311**	**£158,129**	**£171,704**	**£188,157**	**£205,463**	**£223,653**	**£242,690**	**£433,360**	**£622,659**		
30 year balance																		

Revised HRA baseline agreed with WDC	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Income:	***2012.13***	***2013.14***	***2014.15***	***2015.16***	***2016.17***	***2017.18***	***2018.19***	***2019.2***	***2020.21***	***2021.22***	***2022.23***	***2023.24***	***2024.25***	***2025.26***	***2026.27***	***2027.28***
Rents gross - existing	£23,931	£25,136	£26,336	£27,628	£28,633	£29,409	£30,206	£31,022	£31,860	£32,719	£33,599	£34,500	£35,426	£36,376	£37,351	£38,349
Void loss - existing	-£153	-£161	-£169	-£177	-£183	-£188	-£193	-£199	-£204	-£209	-£215	-£221	-£227	-£233	-£239	-£245
Bad debts - existing	-£200	-£721	-£756	-£793	-£573	-£588	-£604	-£620	-£637	-£654	-£672	-£690	-£709	-£728	-£747	-£767
Net rent - existing	**£23,578**	**£24,254**	**£25,411**	**£26,658**	**£27,877**	**£28,633**	**£29,408**	**£30,203**	**£31,019**	**£31,855**	**£32,712**	**£33,590**	**£34,491**	**£35,416**	**£36,365**	**£37,336**
Rents gross - new build																
Void loss - new build																
Bad debts - new build																
Net rent - new build	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**
Service charges	£370	£379	£389	£399	£409	£419	£429	£440	£451	£462	£474	£486	£498	£510	£523	£536
Non-dwelling income	£792	£804	£819	£834	£849	£865	£881	£897	£913	£930	£950	£973	£997	£1,022	£1,047	£1,073
Grants and other income	£479	£453	£428	£405	£384	£364	£345	£328	£312	£297	£60	£55	£57	£58	£59	£61
Total revised income	**£25,218**	**£25,890**	**£27,047**	**£28,296**	**£29,519**	**£30,281**	**£31,064**	**£31,868**	**£32,695**	**£33,544**	**£34,195**	**£35,104**	**£36,042**	**£37,006**	**£37,994**	**£39,006**
Expenditure:																
General management - existing	£5,104	£5,349	£5,483	£5,254	£5,385	£5,519	£5,657	£5,799	£5,944	£6,092	£6,245	£6,401	£6,561	£6,725	£6,893	£7,065
General management - new build																
Total management costs	**£5,104**	**£5,349**	**£5,483**	**£5,254**	**£5,385**	**£5,519**	**£5,657**	**£5,799**	**£5,944**	**£6,092**	**£6,245**	**£6,401**	**£6,561**	**£6,725**	**£6,893**	**£7,065**
Repairs & maintenance - existing & garages	£4,520	£4,999	£5,099	£4,734	£4,839	£4,947	£5,057	£5,169	£5,283	£5,400	£5,520	£5,643	£5,769	£5,897	£6,029	£6,163
Repairs & maintenance - new build																
Total repairs & maintenance	**£4,520**	**£4,999**	**£5,099**	**£4,734**	**£4,839**	**£4,947**	**£5,057**	**£5,169**	**£5,283**	**£5,400**	**£5,520**	**£5,643**	**£5,769**	**£5,897**	**£6,029**	**£6,163**
Total revenue expenditure	**£9,624**	**£10,348**	**£10,582**	**£9,987**	**£10,224**	**£10,466**	**£10,714**	**£10,968**	**£11,227**	**£11,493**	**£11,765**	**£12,044**	**£12,330**	**£12,622**	**£12,922**	**£13,228**
Capital works - existing & garages	£6,197	£6,855	£6,991	£6,435	£6,578	£6,723	£6,871	£7,022	£7,176	£7,334	£9,150	£9,351	£9,557	£9,766	£9,981	£12,550
Capital works - new build																
Total capital	**£6,197**	**£6,855**	**£6,991**	**£6,435**	**£6,578**	**£6,723**	**£6,871**	**£7,022**	**£7,176**	**£7,334**	**£9,150**	**£9,351**	**£9,557**	**£9,766**	**£9,981**	**£12,550**
Financing:																
Debt repayment	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0
Interest paid	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765
Interest receivable (-ve)	-£253	-£336	-£437	-£588	-£759	-£941	-£1,134	-£1,339	-£1,556	-£1,786	-£1,992	-£2,211	-£2,443	-£2,689	-£2,949	-£3,177
Total expenditure	**£20,333**	**£21,632**	**£21,901**	**£20,600**	**£20,808**	**£21,014**	**£21,217**	**£21,417**	**£21,613**	**£21,806**	**£23,689**	**£23,950**	**£24,209**	**£24,466**	**£24,719**	**£27,366**
Annual net cashflow	**£4,885**	**£4,258**	**£5,146**	**£7,697**	**£8,711**	**£9,267**	**£9,847**	**£10,451**	**£11,082**	**£11,738**	**£10,507**	**£11,154**	**£11,833**	**£12,540**	**£13,275**	**£11,640**
Brought forward	**£8,015**															
Original cumulative cashflow exl. New build	**£12,900**	**£17,158**	**£22,304**	**£30,001**	**£38,711**	**£47,978**	**£57,825**	**£68,276**	**£79,358**	**£91,096**	**£101,603**	**£112,757**	**£124,590**	**£137,130**	**£150,405**	**£162,045**
30 year balance	**£390,090**															

Revised HRA baseline agreed with WDC	17	18	19	20	21	22	23	24	25	26	27	28	29	30	40	50	Total 50 years	Total 30 years
Income:	***2028.29***	***2029.3***	***2030.31***	***2031.32***	***2032.33***	***2033.34***	***2034.35***	***2035.36***	***2036.37***	***2037.38***	***2038.39***	***2039.4***	***2040.41***	***2041.42***	***2051.52***	***2061.62***		
Rents gross - existing	£39,370	£40,417	£41,492	£42,596	£43,724	£44,878	£46,061	£47,276	£48,522	£49,795	£51,097	£52,431	£53,800	£55,204	£68,155	£84,310	**£2,547,592**	**£1,159,145**
Void loss - existing	-£252	-£259	-£266	-£273	-£280	-£287	-£295	-£303	-£311	-£319	-£327	-£336	-£344	-£353	-£436	-£540	**-£16,305**	**-£7,419**
Bad debts - existing	-£787	-£808	-£830	-£852	-£874	-£898	-£921	-£946	-£970	-£996	-£1,022	-£1,049	-£1,076	-£1,104	-£1,363	-£1,686	**-£51,361**	**-£23,593**
Net rent - existing	**£38,330**	**£39,350**	**£40,397**	**£41,471**	**£42,570**	**£43,693**	**£44,845**	**£46,028**	**£47,241**	**£48,480**	**£49,748**	**£51,047**	**£52,380**	**£53,747**	**£66,356**	**£82,084**	**£2,479,926**	**£1,128,134**
Rents gross - new build																	**£0**	**£0**
Void loss - new build																	**£0**	**£0**
Bad debts - new build																	**£0**	**£0**
Net rent - new build	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**
																		£0
Service charges	£550	£563	£577	£592	£607	£622	£637	£653	£670	£686	£703	£721	£739	£757	£970	£1,241	**£36,085**	**£16,251**
Non-dwelling income	£1,099	£1,126	£1,154	£1,183	£1,212	£1,242	£1,272	£1,304	£1,336	£1,369	£1,403	£1,437	£1,473	£1,509	£1,926	£2,457	**£72,140**	**£32,765**
Grants and other income	£62	£64	£66	£67	£69	£71	£72	£74	£76	£78	£80	£82	£84	£86	£110	£141	**£7,428**	**£5,175**
Total revised income	**£40,042**	**£41,104**	**£42,194**	**£43,313**	**£44,457**	**£45,627**	**£46,828**	**£48,059**	**£49,322**	**£50,614**	**£51,934**	**£53,287**	**£54,676**	**£56,099**	**£69,362**	**£85,924**	**£2,595,579**	**£1,182,325**
Expenditure:																		
General management - existing	£7,242	£7,423	£7,609	£7,799	£7,994	£8,194	£8,399	£8,609	£8,824	£9,044	£9,270	£9,502	£9,740	£9,983	£12,779	£16,359	**£476,501**	**£215,107**
General management - new build																	**£0**	**£0**
Total management costs	**£7,242**	**£7,423**	**£7,609**	**£7,799**	**£7,994**	**£8,194**	**£8,399**	**£8,609**	**£8,824**	**£9,044**	**£9,270**	**£9,502**	**£9,740**	**£9,983**	**£12,779**	**£16,359**	**£476,501**	**£215,107**
Repairs & maintenance - existing & garages	£6,299	£6,438	£6,580	£6,726	£6,874	£7,024	£7,178	£7,336	£7,496	£7,660	£7,826	£7,996	£8,169	£8,346	£10,360	£12,885	**£398,205**	**£187,017**
Repairs & maintenance - new build																	**£0**	**£0**
Total repairs & maintenance	**£6,299**	**£6,438**	**£6,580**	**£6,726**	**£6,874**	**£7,024**	**£7,178**	**£7,336**	**£7,496**	**£7,660**	**£7,826**	**£7,996**	**£8,169**	**£8,346**	**£10,360**	**£12,885**	**£398,205**	**£187,017**
Total revenue expenditure	**£13,541**	**£13,861**	**£14,189**	**£14,525**	**£14,868**	**£15,218**	**£15,577**	**£15,944**	**£16,320**	**£16,704**	**£17,096**	**£17,498**	**£17,909**	**£18,329**	**£23,139**	**£29,243**	**£874,706**	**£402,124**
Capital works - existing & garages	£12,823	£13,102	£13,386	£13,677	£10,434	£10,659	£10,889	£11,123	£11,362	£23,303	£23,798	£24,303	£24,818	£25,344	£18,416	£22,802	**£732,763**	**£357,557**
Capital works - new build																	**£0**	**£0**
Total capital	**£12,823**	**£13,102**	**£13,386**	**£13,677**	**£10,434**	**£10,659**	**£10,889**	**£11,123**	**£11,362**	**£23,303**	**£23,798**	**£24,303**	**£24,818**	**£25,344**	**£18,416**	**£22,802**	**£732,763**	**£357,557**
Financing:																		
Debt repayment	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£19,157	**£136,157**	**£0**
Interest paid	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£4,765	£335	**£215,417**	**£142,965**
Interest receivable (-ve)	-£3,419	-£3,675	-£3,946	-£4,231	-£4,604	-£4,996	-£5,407	-£5,840	-£6,294	-£6,537	-£6,793	-£7,064	-£7,349	-£7,649	-£13,847	-£20,127	**-£381,912**	**-£102,395**
Total expenditure	**£27,710**	**£28,053**	**£28,395**	**£28,735**	**£25,463**	**£25,647**	**£25,823**	**£25,992**	**£26,153**	**£38,235**	**£38,866**	**£39,502**	**£40,144**	**£40,790**	**£32,474**	**£51,410**	**£1,577,131**	**£800,250**
Annual net cashflow	**£12,331**	**£13,051**	**£13,799**	**£14,577**	**£18,994**	**£19,980**	**£21,004**	**£22,067**	**£23,169**	**£12,379**	**£13,068**	**£13,785**	**£14,532**	**£15,309**	**£36,887**	**£34,513**		
Brought forward																		
Original cumulative cashflow exl. New build	**£174,376**	**£187,427**	**£201,226**	**£215,803**	**£234,797**	**£254,777**	**£275,781**	**£297,848**	**£321,017**	**£333,396**	**£346,464**	**£360,249**	**£374,781**	**£390,090**	**£706,191**	**£1,026,463**		
30 year balance																		

AP4 *Legal consideration in respect of the various options*

1 **Leasing arrangement with Institutional Investor**

1.1 **Vires**

The principal Council power to participate in a leasing arrangement where the Council leases land to an Institutional Investor and takes a leaseback of that land is the general power of competence under Section 1 of the Localism Act 2011 (the **2011 Act**).

Section 1(1) of the 2011 Act provides that "A local authority has power to do anything that individuals generally may do". It therefore allows the Council to undertake a range of activities including, but not limited to, incurring expenditure, providing financial assistance to any person, entering into arrangements or agreements with any person and providing staff, goods and services. However, it should be noted that Sections 2(1) and 2(2) of the 2011 Act restrict the exercise of this power by providing that if there are any statutory limitations or restrictions or there is another local authority power that is subject to restrictions, which were either in force before Section 1 of the 2011 Act or they are contained in an Act passed before the parliamentary session in which the 2011 Act was passed, then those limitations and restrictions will also apply to the general power.

Additional (secondary) power is available under section 111 of the Local Government Act 1972 (the **1972 Act**) which provides, amongst other things that a local authority shall power to do anything (whether or not involving the expenditure borrowing or lending of money or the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the discharge of any of their functions.

A final point to note in connection with the use of powers is the requirement for the Council to act reasonably in the exercise of its powers and to exercise its powers for proper purposes. In that regard, whilst powers exist (as identified), to authorise the various elements of the proposed leasing arrangement the totality of the transaction needs to be considered to ensure that overall the Council considers it is a reasonable use of powers, having regard to its fiduciary duty to Council tax and other rate payers in its area and that the powers are being used for a proper purpose. For example, it would be an improper purpose to enter into the transaction purely to avoid the right to buy or to avoid Government imposed expenditure controls. Having said that, the exclusion of the right to buy, for example, does not of itself make a transaction improper provided there are other reasonable justifications for the Council's participation.

As the leasing arrangements may involve the disposal of land by the Council the statutory provisions relating to the disposal of local authority land need to be complied with.

1.2 **Disposal of HRA land - Section 32 of the Housing Act 1985**

If the Council is to transfer Housing Revenue Account (**HRA**) land to the Institutional Investor on either a leasehold or a freehold basis, its power to do so is contained in Section 32 of the Housing Act 1985 (the **1985 Act**). The use of the Section 32 power is conditional upon obtaining the prior consent of the Secretary of State. There are some general consents, which are currently contained in "The General Housing Consents 2012".

One of these general consents (A3.2) provides that "A local authority may dispose of vacant land". If this general consent applies then the specific consent of the Secretary of State under Section 32 would not need to be sought.

1.3 **Disposal of General Fund land - Section 123 of the Local Government Act 1972**

The Council's power to transfer General Fund land to the Institutional Investor (either on a leasehold or freehold basis) is contained in Section 123 of the 1972 Act. The use of this power is also conditional upon obtaining the prior consent of the Secretary of State in certain circumstances. If the land is to be disposed of for consideration that is the best that can reasonably be obtained then no consent is required for the disposal. If the land is to be disposed of for consideration that is less than the best that can reasonably be obtained the Secretary of State's consent is required but a general consent "the Local Government Act 1972: General Disposal Consent 2003" will apply if the purpose of the disposal is likely to contribute to the promotion or improvement of economic, social or environmental wellbeing in respect of the whole or part of the Council's area or of any people in the area and the difference between the unrestricted value of the land to be disposed of and the consideration for the disposal does not exceed £2 million.

1.4 **Acquiring a leaseback from the Institutional Investor**

The Council power to enter into a leaseback of the land from the Institutional Investor will depend on which Council account the land is to be held. If the land is to be held in the HRA then Section 17 of the Housing Act 1985 provides that "(1) A local housing authority may for the purposes of this part… acquire land as a site for the erection of houses…" If the land is to be held within the Council's General Fund then the General Power of Competence under Section 1 of the 2011 Act provides the Council with sufficient powers of acquisition. [It is anticipated in the report that the land would be held in the Council's HRA. We assume this is on the basis that the dwelling-houses to be provided on the land would be to meet general housing need and would be let at social rent levels. We believe this is correct as it would be difficult in our view to justify accounting for such dwelling-houses in the Council's General Fund as the obvious source of power to acquire the lease of the dwelling-houses is in Part II of the 1985 Act.]

The Secretary of State has made a determination under Section 171 of the 2011 Act providing the Council with a limit of indebtedness in respect of housing debt (the **Limit of Indebtedness Determination**). The Council needs therefore to be mindful of this Limit of Indebtedness Determination. It is our understanding that the leasing arrangement would be structured in such a way as to be categorised as an operating rather than a financing lease thus ensuring that the total value of the proposed transaction is not accounted for by the contract. However it is also our understanding that there is a risk that the International Finance Board will in future decide that all leases are to be regarded as finance leases and if this is subsequently supported by Government the Council would breach its Limit of Indebtedness Determination if the land leased back from the Institutional Investor is accounted for in the HRA. Although there is no certainty of this happening it is nonetheless a matter which the Council needs to be alert to.

1.5 **Procurement**

The key question for consideration is whether the leasehold/freehold disposal from the Council to the Institutional Investor constitutes a public works contract. There are a number of matters which will be relevant in deciding whether the transaction constitutes of a public works contract including:

- is a work or works required or specified by a contracting authority;
- is there an enforceable obligation (in writing) or a contract to carry out that work or works; and
- is there some pecuniary interest for carrying out the work (not necessarily a cash payment)?

All of the above matters need to be answered in the affirmative and on our understanding of the proposal there would be no enforceable obligation on the part of the Institutional Investor to carry out work or works and therefore the leasehold/freehold disposal would not in our view constitute a public works contract.

In addition to the above conclusion, the Council may seek to rely on the general exclusion from the scope of the Public Contracts Regulations 2006 (as amended) provided for by Regulation 6(2)(e), which provides an exclusion for a proposed public contract for "the acquisition of land, including existing buildings and other structures…", known colloquially as the "land exemption".

1.6 **Other legal implications relevant to the proposed leasing arrangement**

1.6.1 **Right to Buy implications**

Section 118 of the 1985 Act provides that a secure tenant has the right to buy subject to various conditions and exceptions set out in Schedule 5. Paragraph 4 of Schedule 5 excludes the right to buy arising in circumstances where the interest of the Council does not exceed 21 years if the right to buy application is in respect of a house or 50 years if it is in respect of a flat. Therefore the unexpired term of the leaseback from the Institutional Investor will determine whether or not a right to buy application is able to be pursued. Please note that it is irrelevant whether the Council's leasehold interest is held in the HRA or the General Fund as the right to buy would apply in the event that the tenancies are let by the Council as secure tenancies, which is unaffected by the account in which the Council holds the dwelling houses.

1.6.2 **Tenure issues**

(a) It is anticipated in the leasing arrangement that at the end of the leaseback term the Council will have an option to purchase the properties for their residual value. [As identified in the report] the reason for having an option to purchase rather than an obligation to purchase is to assist in the categorisation of the lease as an operating rather than a financing lease but please note the comments in paragraph 1.4 above. Unless one of the exemptions in Schedule 1 to the 1985 Act applies then provided the landlord (Section 80) and tenant (Section 81) conditions are met the tenancies granted by the Council of dwellings constructed on the land leased back from the Institutional Investor will be secure tenancies.

(b) Under Section 107A of the 1985 Act (which was introduced by Section 154 of the 2011 Act) councils now have the power to grant flexible tenancies (which will be secure tenancies) for a minimum period of not less than two years. The Council could therefore avail itself of flexible tenancies to manage the lettings of dwelling houses. For example, in circumstances where there are four years remaining of the leaseback term, the Council could in theory choose to let a new tenancy on a four year flexible tenancy (subject of course to any Council policy that may have been developed in relation to the grant of flexible tenancies). It is worth noting at this point however that the Homes and Communities Agency has issued a Tenancy Standard which is binding on both private and public registered providers (including local authorities) which provides that, amongst other things, flexible tenancies should be for a minimum period of five years except in exceptional circumstances where the term may be for a minimum period of two years.

2 Joint Venture

2.1 Vires

The principal source of Council power to enter into a Joint Venture arrangement is the general power of competence contained in section of the 2011 Act (see paragraph 1.1 of this Appendix for details of the breadth of this power and restrictions on its use). While the general power of competence in section 1 of the 2011 Act is a sufficient power of first resort for the Council to participate in a Joint Venture. Additional (secondary) power is available under section 111 of the 1972 Act which provides, as already rehearsed in paragraph 1.1.

The rationale for the Council entering into a Joint Venture needs to be fully understood so as to ensure that the restriction on doing things for a commercial purpose are complied with. Section 4 of the 2011 Act provides that the general power confers power on a local authority to do things for a commercial purpose only if they are things which the authority may, in exercise of the general power, do otherwise than for a commercial purpose. This is not be problematic as provision of housing is something that the Council does have power to do, other than for commercial purposes. However section 4(2) provides that where, in exercise of the general power, a local authority does things for a commercial purpose, the authority must do them though a company. The term "commercial purpose" is not defined nor, in our knowledge, has it been subject to judicial interpretation. However, it is our view that it should be given a wide interpretation and not be limited merely to profit making. All this means is that if the Council's rationale for entering into a Joint Venture is for commercial purposes then its participation in the Joint Venture must be through a company (i.e. there is a restriction on the Council participating in a Joint Venture Limited Liability Partnership). We can explore further the issues around commercial purpose and the Council's justification for entering into a Joint Venture in the event of this option is pursued.

2.2 Disposals

The same considerations as set out in paragraph 1.2 and 1.3 above apply in respect of any land to be disposed of by the Council to the proposed Joint Venture vehicle.

In addition, in the event that the Council is not the ultimate landlord of the dwelling-houses to be let the Council needs to consider the provisions of sections 24 and 25 of the Local Government Act 1988 (the **1988 Act**). Where the Council provides financial assistance to the Joint Venture by (a) granting or loaning it money, (b) acquiring shares or loan capital in the Joint Venture, (c) guaranteeing the performance of any obligations owed to or by the Joint Venture or (d) indemnifying the Joint Venture in respect of any liabilities, loss or damages, and the financial assistance is in connection with the provision of housing accommodation to be privately let (either by the Joint Venture or some other body such as a registered provider), the Council must use its power under section 24 of the 1988 Act to do so. The exercise of this power is subject to Secretary of State consent. The Secretary of State has issued some general consents in respect of sections 24 and 25 of the 1988 Act – "the General Consents under Section 25 of the Local Government Act 1988 (Local Authority Assistance for Privately Let Housing) 2010". In particular, General Consent C ("the General Consent under Section 25 of the Local Government Act 1988 for financial assistance to any person 2010") gives the Secretary of State's consent generally as follows:

> "a local authority may provide any person with any financial assistance (other than the disposal of an interest in land or property):
>
> (a) for the purpose of or in connection with the matters mentioned in section 24(1) of the 1988 Act;
>
> (b) … or
>
> (c) …"
>
> (Limbs (b) and (c) are not relevant for these purposes).

This General Consent could apply where the Council grants or loans money to the Joint Venture where this financial assistance is to be provided in connection with the acquisition and construction of the property which intended to be privately let as housing accommodation by the Joint Venture Vehicle or some party other than the Council, in which case no specific consent of the Secretary of State would be required.

Depending on the Council's rationale for entering into the Joint Venture the Council may be able to use its powers of investment under section 12 of the Local Government Act 2003 (the **2003 Act**) to justify the investment of equity in the Joint Venture. Section 12 provides as follows:

> "a local authority may invest –
>
> (a) for any purpose relevant to its functions under any enactment, or
>
> (b) for the purposes of the prudent management of its financial affairs".

2.3 Procurement

The Council is a contracting authority for the purpose of the EU Procurement Regulations (the Consolidated Directive 2004/18 as implemented by the Public Contracts Regulations 2006) and is therefore obliged to follow an EU compliant procurement procedure when procuring any works contracts exceeding £4,348,350. The question in the context of the proposed Joint Venture is whether or not the establishment of the Joint Venture as presently envisaged can amount to a works contract. On the basis that both the Council and a private sector partner will come together to form a Joint Venture and each provide land or equity (or both) then that arrangement in itself would not amount to a works contract. If on the other hand the intention is for the private sector partner to be awarded the building contract then the procurement rules would apply to the appointment by the Council of the private sector partner to the Joint Venture. We can advise further on the procurement rules to follow if necessary.

2.4 **Use of HRA resources**

In the event that the Joint Venture is the landlord and owns the dwelling-houses it will be able to let the dwelling-houses on assured tenancies. One significant implication of the dwelling-houses being owned and let by the Joint Venture is that the Council would be constrained in its use of HRA resources. The dwelling-houses owned by the Joint Venture will not form part of the Council's HRA and it would therefore not be possible for the Council to use HRA resources to invest in the Joint Venture. However if the Joint Venture leased the properties to the Council for the Council then to hold in its HRA there would be no obvious constraint on the use of HRA resources to invest in the Joint Venture. The constraints on the use of HRA resources are contained in Schedule 4 to the Local Government and Housing Act 1989.

2.5 **Purchase of the dwelling-houses**

In the event that the Joint Venture is not to be the landlord of the dwelling-houses [as identified in the report], the Council may wish to have the option to the purchase dwelling-houses from the Joint Venture. Purchase by the Council of the dwellings could be either through HRA resources or General Fund resources. The ring-fencing of the HRA as provided for in section 74 of the 1989 Act restricts the use of HRA resources to properties held for the purposes of the HRA. HRA resources therefore would only be able to be used to purchase the dwelling-houses if they are to be held by the Council in the HRA. The ring-fence does not apply to the General Fund and the Council is free to determine how it wishes to use its General Fund resources (e.g. by General Fund prudential borrowing) and could use General Fund prudential borrowing to purchase the units from the Joint Venture for them to be held in the Council's HRA. General Fund borrowing to purchase units to be held in the HRA will be regarded as housing debt for the purposes of the Limit of Indebtedness Determination as such General Fund borrowing would be borrowing incurred on an interest in housing land. The Council therefore needs to be mindful of the Limit of Indebtedness Determination which for Council has been set at £149,998,000.

2.6 **Management by the Council**

In the event that the Council wishes to manage the properties held by the Joint Venture prior to any arrangement for the Council to purchase the dwelling-houses we believe that the general power of competence contained in section 1 of the 2011 Act and the ancillary powers in section 111 of the 1972 Act provide sufficient power for the Council to enter into a management arrangement with the JV. The Council could not rely upon the general housing management powers contained in section 21 of the 1985 Act as that power is only exercisable in connection with the Local Authorities own housing. [However the income derived from the provision of management services should not be credited to the HRA as such sums do not fall in the list of items to be credited in accordance with part I of

Schedule 4 to the 1989 Act. If HRA resources are being utilised for the management services then recharging the appropriate amount from the Council's General Fund is likely to be appropriate.]

2.7 **Council as operator**

If under the Joint Venture arrangement the Council were to act as operator (rather than taking on a management services role as identified in paragraph 2.6) the Joint Venture would enter into a lease with the Council. The issues rasied in paragraphs 1.4 and 1.6 would apply equally here.

3 **Wholly-owned company (WOC)**

3.1 **Vires**

The principal Council powers to establish a wholly-owned company (**WOC**) are the general power of competence under section 1 of the 2011 Act and the subsidiary power of local authorities under section 111 of the 1972 Act. The provisions are set out in paragraphs 1.1 above apply equally here.

3.2 **Disposal of land**

The issues raised in paragraphs 1.2 and 1.3 in relation to the disposal of HRA land and General Fund land apply equally here.

3.3 **Consent for the provision of financial assistance for privately let housing accommodation**

As the dwellings would be owned by the WOC they would be regarded as privately let housing accommodation. Paragraph 2.2 above in relation to the provision of financial assistance applies equally to the WOC. However the General Consent C referred to in paragraph 2.2 above would not apply to any disposal of land from the Council to the WOC at an undervalue. The only general consent which could potentially apply would be General Consent A but this would require the WOC to register as a registered provider (**RP**).

General Consent A applies to disposal of land to an RP for development as housing accommodation where (i) any accommodation on that land is vacant, (ii) where the disposal is freehold or a lease of at least 99 years, (iii) the development is completed with three years of disposal, (iv) the completed units are let by the RP on a periodic tenancy or on certain other permitted bases specified in the consent, (v) the Council is not entitled under any arrangement on or before disposal to manage or maintain the completed units, and (vi) the amount of the financial assistance given to the RP by the Council under the general consent does not exceed £10,000,000 in the same financial year.

If none of the section 25 general consents applies then the Council would need to obtain specific section 25 consent for the transfer of land to the WOC at an undervalue.

3.4 **Consent under section 133 of the Housing Act 1988**

It should be noted that if the Council were to transfer land pursuant to a section 32 consent (see paragraph 1.2 above) (rather than a section 25 consent) then it may be that the WOC would need either Secretary of State or Homes and Communities Agency consent to any onward disposal under section 133 of the Housing Act 1988 and this may be necessary in respect of any private sale units sold by the WOC.

3.5 **Funding**

Any Prudential borrowing by the Council which is on-lent to the WOC would be General Fund borrowing provided that the freehold or a lease for at least 21 years (with no break clause in the lease before that point) of the land is transferred to the WOC. This is because, for HRA property to be taken out of the HRA, the Council must dispose of it and if the disposal is a leasehold one it has to be a long lease (see section 74(5)(b) of the 1989 Act and section 115 of the 1985 Act).

We would also mention here that the Council could not forward its retained right to buy receipts to the WOC under its retention agreement with CLG (pursuant to section 11(6) of the Local Government Act 2003) as the agreement prohibits the retained amounts being provided to a body in which the Council holds a controlling interest.

4 **Procurement**

4.1 **Transfer of land by the Council to the WOC**

A pure disposal of land by the Council to the WOC would not be subject to advertisement under EU procurement rules by virtue of the "land exemption" (see paragraph 1.5 above). The case of C-220/05 *Jean Auroux and Others v Commune de Roanne* (**Roanne**) provides practical guidance on the way in which the European Court is likely to approach the analysis of any development scheme in determining whether an arrangement let by a local authority falls under land exemption or whether it constitutes a "public works contract" and is therefore caught by the EU procurement regime.

It is clear from Roanne that, in the event that an envisaged agreement between the Council and the WOC sets out requirements that need to be delivered by the WOC and these amount to specific requirements of the Council, then it is likely to be viewed as a public works contract. Whether any contractual arrangement is a "public works contract" for the purpose of EU procurement rules depends on the requirements and obligations set out in the agreement. It is highly likely that the Council would impose requirement on the WOC in connection with the development of units on the land to be transferred and thus a Public Works Contract would likely exist.

However, should the agreement amount to a public works contract, the "Teckal" exemption is likely also to apply. The Teckal exemption allows public contracts in relation to works, services or supplies let by a local authority and a third party (here, the WOC) to be let without the following the EU procurement regulations where two tests are fulfilled:

4.1.1 The control test: the Council must exercise over the WOC a level of control similar to that which it exercises over its internal departments; and

4.1.2 The "essential part of its activities" test: the WOC must carry out the "essential part" of its activities for the Council. Although not definitive, this test is likely to be fulfilled in the event that the WOC carries out over 90% of its activities (in terms of turnover) for the Council.

As a wholly owned vehicle it is likely that the Council will be able to satisfy the terms of Teckal and thus ensure that it is able to establish the WOC and transfer land to it without the need to submit the arrangement to competition.

4.2 Procurement of services by the WOC

A wholly-owned subsidiary of the Council, such as the WOC, is a contracting authority and as such is itself subject to the EU procurement rules. This means that the WOC will need to procure any construction and refurbishment works and housing management contract which it wishes to outsource in accordance with EU procurement rules.

It may be that the WOC would let a management contract to the Council in respect of the unit for the dwelling-houses constructed. As noted above, the Teckal exemption envisages that one of the requirements is that the procuring authority exercises over the performing entity "a level of control similar to that which it exercises over its internal departments". It is clear however that the WOC is not going to exercise over the council a requisite amount of control in order to comply with the Teckal test. The question therefore is whether a "reverse" Teckal exemption might apply.

In October 2011 the European Commission published a "Commission Staff Working Paper concerning the application of EU public procurement law to relations between contracting authorities" where it seems to suggest that as long as there is institutional/vertical/in-house corporation with no private capital involved then the Teckal exemption is likely to apply, regardless of whether the controlled entity (i.e. the WOC) is procuring from the parent entity (i.e. the Council) or vice versa.

The Staff Working Paper evidently relies heavily on EU competition law principles and is plainly at odds with recent/previous European Court procurement case law, which tends to concentrate on the first limb of "control". Given the absence of any control by the WOC over the Council, and given the non-binding nature of the Staff Working Paper we would be cautious of advising the Council that the reverse Teckal exemption is available at this time, even though it is likely that this will be codified in the new EU procurement regulations.

Nevertheless, given the nature of the proposed arrangements, it seems to us that the risk of any housing management provider challenging the WOC for letting a housing management contract to the Council without advertising it is likely to be very low. Furthermore, the risk of any successful challenge being made could be mitigated through the use of a voluntary transparency notice and/or collapse provision in the management agreement itself.

4.3 State aid

If the Council disposes of land for less than best consideration or provides loans below market rates it would need to comply with the state aid rules set out down by the EC Commission.

Under section 107(1) of the Treaty on the Functioning of the European Union (the **TFEU**) a number of measures are identified which all need to be satisfied if state aid is present. These are in shorthand: (1) state award, (2) conferral of an advantage, (3) selectivity, (4) distortion of competition (or threat to distort) and (5) affects trade between Member States.

These are two obvious potential sources of state aid in connection with the WOC proposal, namely providing a loan and transferring land at an undervalue.

In providing a loan to the WOC, this is an advantage conferred from state resources on the WOC only. However, if the loan is made on standard market terms there is unlikely to be any distortion of competition and, accordingly, no state aid. However, if the loan is provided at better rates than the WOC would be able to obtain commercially, the loan is likely to meet the criteria for potentially distorting competition and affecting trade between Member States and therefore would be state aid.

In transferring land to the WOC at an undervalue, the Council also confers a benefit on the WOC from state resources. By receiving land at an undervalue, the WOC is placed in a better position that other housing providers and therefore competition is distorted and trade between Member States may be affected.

An exemption from the need to notify the Commission under the TFEU is provided by the "Commission Decision of 20 December 2011 (2012/21/EU)" (the **2012 Decision**). If the provisions of this Decision are complied with, there will still be state aid but there will be not requirement for notification of the state aid to the EC Commission. The Decision applies to any undertaking that provides social housing and receives state aid to do so.

It should be noted that the UK Government confirmed through discussions with the Commission that the intention was that the "Commission Decision, of 28 November 2005" (which was replaced by the 2012 Decision) facilitated providing those in need with any form of housing at below market cost, whether for rent or for owner occupation and therefore covers sub-market housing. Since the 2012 Decision contains many equivalent provisions, we assume that this is also the intention of the 2012 Decision.

In seeking to rely upon the 2012 Decision the Council would have to demonstrate that the value of any aid represented by the provision of any loan to the WOC at less than market rates or disposal of land at an undervalue is necessary to make sub-market housing viable. If it is anticipated that there may be some private sale element under the WOC proposal there can be no state aid provided in connection with the private sale units as these are not categorised as below market cost housing.

4.4 Power for HRA to purchase units

Paragraph 2.5 above applies equally here and would confer power on the Council to enter into an agreement to purchase properties developed by the WOC.

5 Council Housing Company (CoHoCo)

5.1 Vires

Paragraph 3.1 above applies equally to the Council Housing Company model (CoHoCo) as to the wholly-owned company (**WOC**) proposal.

5.2 Borrowing and its impact on the Limit of Indebtedness Determination

The CoHoCo would be established as a separate company and, subject to any restrictions in its constitution, would have the power to borrow against any surpluses generated from its business. As rehearsed at paragraphs 2.2, Section 1 of the 2003 Act provides that

"A local authority may borrow money –

(a) for any purpose relevant to its functions under any enactment, or

(b) for the purposes of the prudent management of its financial affairs.

Section 2 of the 2003 Act requires that the Council keep under review how much it can afford to borrow.

The Council could therefore borrow and on-lend to the CoHoCo against the surpluses to build new affordable housing to be owned by the CoHoCo provided the Council considers it prudent to do so. Since the CoHoCo's fee and any new build housing developed by the CoHoCo would be held outside the HRA, any borrowing directly by the CoHoCo or any prudential borrowing on-lent to the CoHoCo in respect of new build development would be general fund borrowing and would therefore not account towards the Council's Limit of Indebtedness (see paragraphs 1.4 and 2.5 above).

5.3 **Purchase of CoHoCo dwellings by the Council's HRA**

As a separate legal entity, subject to any constitutional restriction, the CoHoCo will have power to develop and acquire dwelling-houses. .

Subject to any security arrangements which the CoHoCo may have entered into with private lenders in the event that the CoHoCo borrowed directly to fund new build dwelling-houses, there is no reason why the Council could not purchase the units developed by the CoHoCo, either using HRA resources or General Fund resources, and the issues raised in paragraph 2.5 would apply equally here.

6 **Concession arrangement**

6.1 **Vires**

Subject to the consent of the Homes and Communities Agency (being the "Appropriate Authority" under section 27 of the 1985 Act) the Council has power to enter into a concession agreement for the management of its houses and/or land under section 27 of the 1985 Act. In addition, the general power of competence under section 1 of the 2011 Act would also be available to the Council, subject to compliance with the provisions of section 27 of the 1985 Act.

In exercising its powers to enter into a concession agreement the Council must be mindful of its fiduciary duty to Council Tax and other rate payers. In the light of the fact that concession agreements can be considered to be an expensive option it would be necessary for the Council to have objective and reasonably justifiable grounds for pursuing the concession agreement as opposed to other options that might be available.

The Secretary of State's consent under section 25 of the Local Government Act 1988 will be required in order to enter into the concession agreement as the provision of the operating charge will constitute gratuitous benefit as defined in section 25(5) of the 1988 Act. No general consent issued under section 25 would apply so a specific consent from the Secretary of State would be required.

The provisions of paragraph 1.4 above apply equally to the concession arrangement in that the arrangement needs to be treated as operating rather than a financing lease.

6.2 **Procurement**

The Council will be required to comply with the EU procurement rules in selecting the project company as the contract will inevitably breach the works and services thresholds.

Trowers & Hamlins

[Draft: 10/1/13]

AP5 *Warwick District Council – Note of the likely implementation steps*

1 **Introduction**

Warwick District Council (the **Council**) is considering options for the delivery of the housing management functions and a new build housing programme.

We have been asked to outline the likely implementation steps if the Council proceeds with the option of the Council Housing Company (**CoHoCo**).

2 The implementation steps can be categorised by reference to the following key stages:

- preliminary decisions;
- setting up the CoHoCo;
- documentation;
- consents and approvals.

Each of these stages are dealt with in separate sections below which summarise the key steps that are likely to be required but are subject to change as the project develops. In addition to the headline issues described below there would be a number of practical issues that would need to be addressed to ensure that the CoHoCo was able to commence operations, such as, opening bank accounts, appointing auditors etc. Those detailed practical steps would need to be identified in a project plan and are not covered in this high level note.

3 **Preliminary decisions**

The following initial decisions/actions are required to be taken:

- choosing the corporate form for the CoHoCo (e.g. a company or IPS);
- financial planning/modelling (i.e. preparing the business plan for the CoHoCo);
- formally consulting secure tenants on the proposed changes to housing management (consultation with other residents and stakeholders could also take place at the same time);
- considering charitable status for the CoHoCo;
- deciding on the CoHoCo's size and composition of the board (i.e. how many board members should it have and what constituencies should be represented); and
- considering and deciding on the recruitment/selection/election process for the board members (e.g. Council direct nomination, tenants' election etc.).

4 Setting up the CoHoCo

The following key steps are likely to be required in order to set up the CoHoCo:

- establishing the shadow board of the CoHoCo (i.e. recruiting/selecting/electing the first board members);
- preparing and approving the form of constitution for the CoHoCo;
- deciding on the first officers (e.g. the secretary)and the registered office location;
- incorporating the CoHoCo (e.g. with the Companies House in case of a company and with the Financial Services Authority in case of an industrial and provident society);
- if relevant, converting the shadow board to a "real" board;
- preparing and adopting the relevant governance policies and procedures (e.g. code of conduct);
- board member training;
- appointment of accountants/auditors; and
- agreeing the CoHoCo staffing structure (including the managerial roles) and dealing with any recruitment if relevant.

Please note that we have not addressed any issues regarding the implementation of a TUPE transfer as that is outside the scope of this note.

5 Dealing with documentation

The following key steps are likely to be required in order to prepare and finalise the documentation:

- agreeing the scope of the service and delegations (including the service specification, standards and other targets etc.);
- agreeing the heads of terms for the management agreement (e.g. duration, termination rights, mechanism for calculation of fees, payment of fees, additional services or services back and in particular the arrangements for identifying surpluses and ensuring their use for a new build programme etc.);
- preparing the draft agreement and negotiating its terms;
- dealing with pensions and TUPE issues as required;
- considering continuing contracts (e.g. to be assigned/novated or for the CoHoCo to manage); and
- finalising any contractual documentation.

6 Consents and approvals

It would be necessary to obtain the following consents and approvals (as a minimum):

- Council's/Cabinet approval;
- The CoHoCo's board approval; and
- HCA consent under section 27.

7 Conclusion

A detailed project plan would be needed to cover all steps required to ensure an effective implementation of the project and the establishment of the CoHoCo.

Trowers & Hamlins LLP

22 January 2013

AP6 *Objective 2 – Analysis of options – Key risks assessment*

Option	Risk issue	Mitigating strategies
Institutional Investment – Operating Lease	1. Future Lease Accounting rules may mean that any operating lease would retrospectively impact on the existing debt cap imposed.	Council could discuss issue with CLG prior to implementation. There is no certainty as to how the future accounting lease rules may change or whether it would impact upon the Council.
	2. Secure tenancy issues on expiry of lease, where Council chooses not to purchase assets on lease expiry.	Council would need to consider the use of flexible tenure as a means of voiding properties prior to non purchase of assets on lease expiry. Council purchasing the assets would remove the issue.
	3. Right to Buy impacting upon lease.	Discussion with institutional investor to ensure that any RTB occurring could be swapped with another void property of the HRA to maintain integrity of the lease. Length of lease will also impact on tenant's ability to invoke right to buy.
	4. Inability to pay lease, insufficient cashflow	Council would be required to pay lease or a termination of the lease may occur, causing accelerated lease repayment. Costs would need to be saved from existing HRA budgets or Council enters into a lease with sufficient headroom to ensure payment can be made.
	5. Institutional investor not willing to assume construction risk.	Council could seek to prudentially borrow to deliver construction that is then refinanced through the institutional investor making a payment for the properties.

	6. Availability of land, or land prohibitive cost	Council would need to consider the affordability of the lease price prior to entering into an agreement, to ensure that the price payable for the lease was value for money. Council needs to ensure that it is aware of the availability of land prior to commencing a lease.
	7. Collection of rent, due to welfare reform	Council would need to consider the capability of the Council's systems to recover any accrued rent arrears following welfare reform.
	8. Increases in rent reduces below RPI+0.5%	Council needs to assess different sensitivities on the level of potential accrued surpluses in the HRA to ensure that any potential lease is affordable.
	9. Appetite of institutional investors	Soft market testing can be performed prior to any commencing of a leaseback structure.
Joint Venture – Build now pay later scheme	1. Procurement of private sector partner required. Competitive dialogue timetable slips.	Council would need to ensure that a robust mechanism is in place to ensure that competitive dialogue is kept to timetable.
	2. Lack of long term debt or equity.	Council may have the option to on lend to Joint Venture to act as senior lender, which will have its own potential risks and accounting considerations. Where land is contributed by other parties, this may act as an equity contribution to the project. Council would need to consider all forms of finance including institutional investment.

3. Prohibitive debt terms.	Council may have the option to on lend to Joint Venture.
4. Lack of demand for any properties due to sell.	·
5. Net rental income insufficient to service debt interest. Collection of rent impacted by welfare reform.	Joint Venture could introduce private rented sector units to increase level of revenue to service debt.
6. No appetite to assume rental income risk to manage properties from third parties.	Council may seek to act as managing agent using HRA staff. However Council would be required to guarantee rent to vehicle, which may have balance sheet issues for either the General Fund or the HRA.
7. Lack of land availability or at prohibitive cost.	Council need to consider the affordability of the overall scheme once land cost has been built into the model.
8. Lack of land availability or at prohibitive cost.	Council need to consider the affordability of the overall scheme once land cost has been built into the model.
9. Taxation issues – lack of awareness of potential leakage in value from Corporation Tax, VAT and Stamp Duty Land Tax. Changes in taxation rates overtime.	Council would need to ensure that is had conducted a thorough analysis of the taxation issues prior to completion, through any business case and procurement stage. Council would need to perform sensitivities on the potential changes to taxation rates.
10. Land transfer – legal considerations	Council would need to consider the legal issues with respect to any land transfer made from the Council to the vehicle.
11. HRA has insufficient cashflow to purchase properties as per commercial structure.	Council would need to ensure through business planning that there is sufficient headroom to undertake purchases.

		Otherwise need to be sensitivity analysis undertaken to assess whether the JV can retain properties or sell on open market.
	12. Accounting issues with respect to any offtake agreement.	Council would need to ensure that is has undertaken a full accounting analysis of the vehicle to ensure that there are no hidden liabilities to the HRA in any offtake arrangement.
Wholly Owned Company – Build now pay later scheme	1. Construction cost risk	The Council would need to ensure that any construction contracts entered into pass pricing risk to contractor.
	2. Net rent insufficient to service debt. Collection of rental income – welfare reform impact on ability to collect income.	Council may attempt to mitigate risk through using a third party to manage properties on behalf of Council.
	3. Operating cost budget insufficient.	Council may attempt to mitigate risk through using a third party to manage properties on behalf of Council.
	4. Sales risk – lack of demand for any properties due to sell.	Properties could be rented for a short period of time at market rent prior to agreeing any sales. This income would be used to service debt expected to be repaid.
	5. State Aid – Any challenge made by private sector	Block exemption from EU for affordable housing. Council
	6. HRA has insufficient cashflow to purchase properties as per commercial structure.	Council would need to ensure through business planning that there is sufficient headroom to undertake purchases. Otherwise need to be sensitivity analysis undertaken to assess whether the JV can retain properties or sell on open market.
	7. Accounting issues with respect to any	Council would need to ensure that is has

	offtake agreement.	undertaken a full accounting analysis of the vehicle to ensure that there are no hidden liabilities to the HRA in any offtake arrangement.
	8. Impact of prudential borrowing on General Fund. Insufficient planning of revenue impact.	Council would need to consider the treasury management carefully to ensure there in no revenue impact on the General Fund during the works period.
	9. Lack of land availability or at prohibitive cost.	Council need to consider the affordability of the overall scheme once land cost has been built into the model.
	10. Lack of land availability or at prohibitive cost.	Council need to consider the affordability of the overall scheme once land cost has been built into the model.
	11. Taxation issues – lack of awareness of potential leakage in value from Corporation Tax, VAT and Stamp Duty Land Tax. Changes in taxation rates overtime.	Council would need to ensure that is had conducted a thorough analysis of the taxation issues prior to completion, through any business case and procurement stage. Council would need to perform sensitivities on the potential changes to taxation rates.
	12. Land transfer – legal considerations	Council would need to consider the legal issues with respect to any land transfer made from the Council to the vehicle.
Council Housing Company (ALMO light)	1. Inability to deliver efficiency savings to service any additional borrowing in the Council Housing Company.	Council would need to undertake robust business planning to ensure that any efficiency targets are deliverable.
	2. Management Fee cannot grow as expected due to changes in rental income growth at less than RPI+0.5%	Council would need to consider the sensitivities of a reduced management fee, and the ability of the Council Housing Company to service and repay any debt incurred.

	3. Prudential borrowing rates increase overtime.	For any further debt drawn down, the Council would need to ensure that future debt interest and repayments are affordable to the Council Housing Company.
	4. Accounting and taxation implications of the Council Housing Company.	Council will need to ensure that all relevant taxation and accounting issues have been fully explored with respect to new housing built and retained by the Council Housing Company. The Council should consider any relevant sensitivities to assess impact of any taxation rate changes.
	5. Construction cost overrun.	Council Housing Company to ensure that there is sufficient risk passed to construction contractor.
	6. Land costs prohibitive	Council to consider availability of land and whether prices for land are affordable as part of any development.
	7. Collection of rental income – welfare reform impact on ability to collect income.	Council Housing Company need to consider methods in which income can be recovered.