CITY OF Lincoln COUNCIL

EXECUTIVE

Monday, 18 December 2017	6.00 pm	Committee Room 1, City Hall

Membership: Councillors Ric Metcalfe (Chair), Donald Nannestad (Vice-Chair), Rosanne Kirk, Neil Murray, Fay Smith, Peter West and Test

Officers attending: Rob Baxter, Angela Andrews, Democratic Services, Kate Ellis, Bob Ledger, Simon Walters and Carolyn Wheater

A G E N D A

SECTION A **Page(s)**

MINUTES AND EXTRACTS

Please note that, in accordance with the Members' Code of Conduct, when declaring interests members must disclose the existence and nature of the interest, and whether it is a disclosable pecuniary interest (DPI) or personal and/or pecuniary.

HOUSING

You are asked to resolve that the press and public be excluded from the meeting during the consideration of the following items because it is likely that if members of the press or public were present, there would be disclosure to them of 'exempt information'.

In accordance with the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012, notice is hereby given of items which will be considered in private, for which either 28 days' notice has been given or approval has been granted by the appropriate person specified in the Regulations. For further details please visit our website at http://www.lincoln.gov.uk or contact Democratic Services at City Hall, Beaumont Fee, Lincoln.

This item is being considered in private as it is likely to disclose exempt information, as defined in Schedule 12A of the Local Government Act

1972. No representations have been received in relation to the proposal to consider this item in private.

SECTION B

HOUSING

Present: Councillor Ric Metcalfe *(in the Chair)*,
Councillor Donald Nannestad, Councillor Rosanne Kirk,
Councillor Neil Murray, Councillor Fay Smith and
Councillor Peter West

Apologies for Absence: None.

80. Confirmation of Minutes - 30 October 2017

RESOLVED that the minutes of the meeting held on 30 October 2017 be confirmed.

81. Declarations of Interest

No declarations of interest were received.

82. Procurement Policies

Purpose of Report

To update the Executive on proposed changes to the Council's internal procurement policies following an internal review of the current provision.

Decision

That the proposed procurement policies be recommended to Council for approval and inclusion within the Council's Constitution.

Alternative Options Considered and Rejected

None.

Reason for Decision

Further to the decision to withdraw from the shared service arrangement under Procurement Lincolnshire, there was a need to ensure that the Council had a robust procurement service in place. A comprehensive review had therefore been undertaken to ensure that the service and its underpinning policies and strategies met the needs of both the Council and those who the Council wished to do business with.

The following policies and strategies were therefore developed which, alongside the Council's Contract Procedure Rules, would enable all parties to have a clear and transparent understanding of what was required of them:

- Procurement Protocol;
- Delivering Social Value Through Procurement;
- How To Do Business With City of Lincoln Council;
- Local Purchasing Strategy.

Each of these documents was appended to the report.

It was agreed that, subject to formal adoption by the Council, a publicity campaign should be undertaken via the Council's Communications Team in order that they were promoted as much as possible.

83. Financial Performance - Quarterly Monitoring Quarter 2

Purpose of Report

To present to the Executive the second quarter's performance, up to 30 September 2017, on the Council's general fund, housing revenue account, housing repairs service and capital programmes.

Decision

That the Executive:

(1) Notes the progress on the financial performance for the period 1 April 2017 to 30 September 2017 and projected outturns for 2017/18.

(2) Notes the underlying impact of the pressures and underspends identified in paragraphs 3.2, 4.3 and 5.2 of the report and associated appendices.

(3) Approves, in principle, the carry forward request of £8,000 for the 'Charter Project' at the Guildhall.

(4) Approves the changes to the general investment programme, as detailed in paragraph 7.5 of the report.

Alternative Options Considered and Rejected

None.

Reason for Decision

The Council's Financial Procedure Rules require members to receive, on a quarterly basis, a report prepared jointly by the Chief Finance Officer and Corporate Management Team commenting on financial performance to date.

In terms of the general account, the general fund summary was currently projecting a forecast underspend of £141,404. This variance was the result of a number of forecast year-end variations in income and expenditure against the approved budget, summarised as follows:

- Towards Financial Sustainability Programme – savings target underachievement of £58,300;
- Interest payable – reduced expenditure of £74,390;
- Bus station – increased expenditure of £40,000;
- City Hall car park – increased expenditure of £110,830;
- Lincoln properties – increased income of £49,820;
- City Hall – reduced expenditure of £92,320.

As the forecast outturn for the general fund was showing a forecast underspend of £141,404, subject to outturn, a carry forward request of £8,000 was considered for the 'Charter Project' at the Guildhall. This amount was proposed to be spent on restoring the historic charters at the Guildhall to enable them to be displayed to the public. It was noted that this work would cross into 2018/19 and therefore, if not complete by the end of the financial year, this money would be required in 2018/19. The forecast outturn for the general fund would therefore be £133,404.

The housing revenue account was currently projecting an in-year underspend of £50,051 which would increase general balances to £1,073,150 at the end of 2017/18. The assessed prudent minimum balance for the housing revenue account was currently £1 million. The components of this underspend were summarised as follows:

- Vacancy savings – reduced expenditure of £123,000;
- Reduced requirement for in year DRF of £200,000;
- Rents – reduced income of £213,000;
- Repairs – amendment of accounting policies on capital spend £838,000;
- Depreciation – revaluation of housing stock of £1,211,000.

For 2017/18 the Council's housing repairs service net revenue budget was set at zero, reflecting its full cost recovery nature. The service was forecasting a breakeven position in 2017/18 at quarter two. It was noted, however, that this prediction had been made on the basis that the billing process for the second quarter had not yet fully concluded.

Further information relating to earmarked reserves, the capital programme and the housing investment programme was set out in the report.

Work was currently taking place to establish, through an evidence-based model, how much the City Council had contributed to the local economy.

84. Strategic Risk Register - Quarterly Review

Purpose of Report

To provide the Executive with an update report on the revised Strategic Risk Register as at the end of the second quarter of 2017/18.

Decision

That the Strategic Risk Register as at the end of the second quarter of 2017/18 be noted.

Alternative Options Considered and Rejected

None.

Reason for Decision

An update on the Strategic Risk Register was last presented to members in August 2017 and contained seven strategic risks. Since then, the Risk Register had been reviewed and updated.

A number of further control actions had been progressed or completed, with key movements for each Strategic Risk highlighted as part of the report.

Strategic Risk 3 had been increased slightly from ‘Amber: possible/major’ to ‘Amber: probable/major’. Control actions continued to be implemented and risks managed accordingly.

A revised copy of the Strategic Risk Register was appended to the report.

85. Strategic Plan Progress - Q2 2017-18

Purpose of Report

To provide the Executive with a progress report on strategic projects monitored by the Strategic Plan Implementation Team against its milestones for the second quarter of 2017/18.

Decision

That progress in delivery of strategic projects be noted.

Alternative Options Considered and Rejected

None.

Reason for Decision

The Strategic Plan Implementation Team was currently monitoring 19 strategic projects. 10 projects were currently on target in terms of their physical and financial and risk profiles. Of these, 6 projects had been completed and were currently awaiting a post implementation review.

None of the projects were off target in accordance with the three designated areas of monitoring, which were noted as being physical progress, financial position and risk analysis. The following two projects were currently off target in one or two of these areas:

- CCTV upgrade – works schedule, staff training and contracts milestones had missed deadlines but work on this project was drawing to an end;
- Compulsory acquisition – 12 Albany Terrace had missed 5 milestones primarily relating to legal aspects.

Three new projects had been recommended for approval in the second quarter, noted as follows:

- Crematorium car park lighting improvements;
- Allotment capital improvements;
- Purchase of new surface car parks.

The following six projects had completed their defined actions and were now awaiting completion of a Post Implementation Review:

- Car park safety – Broadgate car park improvements;
- New build scheme – Birchwood bungalows (20 new-build affordable units);
- Phase 2 proposed alternations – City Hall improvements;
- Replacement of DMS depot master – updated software for the Servitor project.

The following projects had submitted an initial Post Implementation Review, but additional data was requested so these would be finalised in the next quarter:

- Data recovery and back up;
- Bereavement services – improvements to facilities.

Updates on 'mega projects', including the Western Growth Corridor and the Transport Hub, were set out in the report. Progress reports on disabled facilities grants, delivering decent homes in the private sector and the housing revenue account business plan were also outlined in the report as ongoing annual projects.

Discussion ensued on the disabled facilities grant and it was noted that officers were in the process of putting a scheme together, in consultation with public health, to ring fence a proposed amount of £200,000 for the installation of central heating in homes where the owner or occupier was very vulnerable. This would need to go through the relevant decision making processes of the City Council and County Council and it was hoped the scheme would be available in mid-January.

86. Q2 2017-2018 Operational Performance Report

Purpose of Report

To present the Executive with a summary of the operational performance position for quarter 2 of the financial year 2017/18 from July 2017 to September 2017.

Decision

That the Executive:

(1) Notes the achievements, issues and future concerns highlighted in the report for this quarter.

(2) Agrees that relevant Portfolio Holders ensure that management has a local focus on those highlighted areas showing deteriorating performance.

Alternative Options Considered and Rejected

None.

Reason for Decision

Regular monitoring of the Council's operational performance was a key component of the Local Performance Management Framework.

The report provided an update on four corporate measures noted as:

- sickness;
- corporate complaints, including ombudsman rulings;
- employee fulltime equivalent headcount, vacancies and turnover;
- staff appraisals completed.

In terms of performance, the following exceptional areas of performance were noted:

- business rates in year collections were at 61.13%, 1.05% higher than the previous year;
- the time taken to process new benefit claims remained above target at 23.24 days;
- the average time to process housing benefit claim changes of circumstances continued to out-perform its 9 day target at 7.62 days;
- the number of housing benefit and council tax support customers awaiting assessment had reduced from 1021 at quarter 2 last year to 810 at quarter 2 this year;
- there were now just over 63,000 individuals on the electoral register, above the target of 62,500;
- the end-to-end time to determine a planning application had dropped from 63.49 days last quarter to 54.32 days this quarter;
- both major and non-major planning applications were being determined within the government's 2-year rolling target;
- the number of people requesting Public Protection and Anti-Social Behaviour services had dropped from 1049 at quarter 2 last year to 818 at quarter 2 this year;
- satisfaction with service at Yarborough Leisure Centre had risen to 88% from 79%.

Areas of underperformance were noted as follows:

- the volume of face-to-face enquiries in customer services remained high, at 12,123;
- the average time taken to answer a call to customer services had risen to 62 seconds from 41 seconds at quarter 2 last year;
- the level of outstanding revenues customer changes had more than doubled to 624 from 289 in quarter 2 last year;
- the percentage of food health and safety visits completed to schedule had dropped from 90.1% last quarter to 81.1% in quarter 2;
- satisfaction with the way that Public Protection and Anti-Social Behaviour complaints were handled was down from 88% to 68% in quarter 2;
- satisfaction with the cleanliness of public highways had declined from 84.3% to 73% in quarter 2;
- the percentage of households approaching the Council considering themselves homeless, where advice intervention resolved the situation had declined further below target to 30.87%;
- the average time taken for re-lets did not meet the lower target of 28 days despite improving at 29,95 days. It was noted that September and October had met target, so there should be an improvement in performance at quarter 3.

The overall year to date sickness data as at 30 September 2017 was 6.34 days per full time equivalent, excluding apprentices. This was 1.24 days more per full time equivalent compared to the same point last year. The Council's Corporate Management Team had instigated a new project on the High Performing Services Programme to look at the causes and possible actions needed.

All performance measures by individual directorate groupings, with annual and quarterly measures, were set out in Appendix A of the report.

87. Treasury Management and Prudential Code Update Report

Purpose of Report

To provide the Executive with an update on the Council's treasury management activity and the actual prudential indicators for the period 1 April 2017 to 30 September 2017 in accordance with the requirements of the Prudential Code.

Decision

That the Executive:

(1) Notes the Prudential and Local Indicators and actual performance against the Treasury Management Strategy 2017/18 for the half-year ended 30 September 2017.

(2) Supports the change to the Minimum Revenue Provision Policy and recommends this to Council for approval.

Alternative Options Considered and Rejected

None.

Reason for Decision

It was noted that the Council held £20.4 million of investments at 30 September 2017, with its investment profile outlined in Appendix A to the report.

As of 30 September 2017 the Council held £75.354 million of external borrowing, of which 100% was fixed rate loans. For the six months ended 30 September 2017, the Council achieved an average rate of 4.15% on its external borrowing, which was slightly lower than the budgeted rate set in the Medium Term Financial Strategy.

Further information relating to Prudential Indicators, particularly in respect of capital expenditure, financing of the capital programme, the capital financing requirement and external debt and limits to borrowing activity were set out in paragraphs 4.1 to 4.6 of the report.

The report also provided information on the Treasury Management Strategy 2017/18 to 2019/20 in relation to an economic update, borrowing activity, the Investment Strategy 2017/18 to 2019/20 and risk benchmarking as outlined in paragraphs 5.1 to 5.4.2 of the report.

88. Amendment of Lincoln's Air Quality Management Areas

Purpose of Report

To seek approval to commence consultation on the revision and revocation of the Council's existing Air Quality Management Areas.

Decision

That the Executive:

(1) Approves the commencement of consultation on the revision and revocation of the Council's existing Air Quality Management Areas.

(2) Grants delegated power to the Portfolio Holder for Environmental Services and Public Protection, in consultation with the Assistant Director of Health and Environment, to authorise any subsequent amendment or revocation orders in relation to the existing Air Quality Management Areas, subject to any consultation responses.

<u>Alternative Options Considered and Rejected</u>

None.

<u>Reasons for Decision</u>

The City of Lincoln Council currently had two Air Quality Management Areas which had been declared by the Council due to historical non-compliance with the national air quality objectives for two road traffic related pollutants, namely nitrogen dioxide and particulate matter smaller than 10 microns.

The Council's latest detailed air quality assessment, undertaken in March 2017, confirmed that there had been a significant air quality improvement in many areas of the city. As a result, the report concluded that the Air Quality Management Area for nitrogen dioxide could be reduced in size and the Management Area for particulate matter smaller than 10 microns revoked due to these improvements.

Prior to amending or revoking Air Quality Management Areas, the Council is obliged to consult with a number of statutory consultees.

The proposed amended boundary for the nitrogen dioxide Air Quality Management Area, to include only those areas that were likely to exceed or be within 10% of the national air quality objectives for this pollutant, was illustrated in figure 2 of Appendix 2 of the report.

It was agreed that this was a good news story for the city and should be publicised. Members were informed that the consultation, although for statutory consultees, would be uploaded onto the Council's website for anyone to respond to. Publicity via the Council's Communications Team would take place upon publication of the consultation.

89. <u>Housing Assistance Policy Amendment - Emergency Housing Grant Scheme</u>

<u>Purpose of Report</u>

To propose an amendment to the Housing Assistance Policy, suspended in March 2015, to temporarily reintroduce the minor works grant scheme.

Decision

That the Executive:

(1) Adopts the proposed amendment to the Housing Assistance Policy set out in Appendix 1 of the report and that housing assistance be made available under the terms of the amendment and under no other part of the policy.

(2) Agrees that the term of the policy amendment be extended to 31 March 2018 and then from 1 October to 31 March annually thereafter, subject to funds in future years, and that any grant applications approved in the time up to and including that date be paid on completion of the works.

Alternative Options Considered and Rejected

Alternative options considered and rejected were noted as follows:

- to lift the suspension of the policy. The current policy was adopted in 2007 and no longer fully reflected the Council's corporate priorities. The staffing resources currently available to the Council would prevent the effective delivery of the assistance;
- to lift the suspension of part of the policy. The current policy made generous provision for grant aid and required a high officer input to deliver the service. To make the Decent Homes Grant universally available could expose the Council to a high financial burden. The staffing resources currently available to the Council would prevent the effective delivery of the assistance;
- to make no financial provision for assistance. To make no provision and have a policy of 'no assistance' could expose the Council to a challenge of not having considered and fulfilled its statutory duty.

Reason for Decision

All local authorities were granted the power to provide 'housing assistance'. The City of Lincoln Council had a Housing Assistance Policy but this was suspended in March 2015.

The Policy Scrutiny Committee at its meeting on 26 March 2015 considered an appraisal of the Housing Assistance Programme since its adoption in 2007 and expressed the desire that some form of assistance should continue to be made available. In October 2015 and October 2016 members agreed to fund emergency works through use of an amended Minor Works Grant, until the end of the relevant financial year only. Four applications were approved in each of 2015/16 and 2016/17. It was proposed that a similar arrangement was made for this financial year and on a yearly basis by means of an amendment to the existing policy. This would mean that the City Council had not placed itself in a position of having a universal answer of 'no' to applications for assistance. The proposal sought to limit officer involvement with the proposed works and to allow applications to be determined swiftly, with the Council's role being strictly that of a funder and homeowners themselves being responsible for management of the works.

90. Brownfield Land Register

Purpose of Report

To provide the Executive with an overview of the new requirements of the Town and Country Planning (Brownfield Land Register) Regulations 2017 and set out how the Council's Planning Team would implement the Brownfield Land Register.

The report also advised the Executive that the Council be recommended to amend the Constitution to include decision making associated with its forthcoming Brownfield Land Register.

Decision

That the Executive:

(1) Notes the report on the new requirements of the Town and Country Planning (Brownfield Land Register) Regulations 2017.

(2) Notes how the Council's Planning Team will implement the Brownfield Land Register.

(3) Recommends that the Council amends the Constitution to include decision making associated with its forthcoming Brownfield Land Register.

Alternative Options Considered and Rejected

To not prepare a Brownfield Land Register would put the Council in breach of the legal requirements contained within the 2017 Brownfield Land Register Regulations.

Reasons for Decision

The Town and Country Planning (Brownfield Land Register) Regulations 2017 came into force which introduced a requirement on Local Planning Authorities to publish and maintain a Brownfield Land Register. Brownfield land referred to land which had previously been developed and was or had been occupied by a permanent structure.

There was a legal requirement for all Local Authorities to comply with the deadline for publication of the register by 31 December 2017 and the Department for Communities and Local Government had published a prescribed format that all Local Authorities must use to publish their data.

Part 1 of the Brownfield Land Register included details of all sites within the Council's area which were categorised as previously developed land irrespective of planning status and which met the following criteria:

- the land must be at least 0.25ha and have capacity to accommodate at least five dwellings;
- the land must be 'suitable' for residential development;
- the land must be 'available' for residential development;
- housing development on the land must be 'achievable'.

The terms ‘suitable’, ‘available’ and ‘achievable’ were defined in Regulation 4 of the Brownfield Land Register Regulations.

Implementation of Part 1 of the Brownfield Land Register would be carried out by the Principal Planning Officer with support from the Departmental Management Team Leader and Planning Manager. This would comprise of a review of sites that had previously been identified through the Strategic Housing and Economic Land Availability Assessment which formed part of the evidence base in support of the recently adopted Central Lincolnshire Local Plan. A review of other suitable sites had also been undertaken which met the Brownfield Plan definition criteria.

Part 2 of the Brownfield Land Register was effectively a subset of Part 1, which allowed Local Planning Authorities to select sites that they considered to be appropriate to grant permission in principle for housing-led development. This was an additional tool that the Government had created and the Council had to carefully consider whether it was beneficial to use it, and if so where. At this stage it was considered that no sites should be put into Part 2 of the City of Lincoln Council’s register. This was due to the focus being on preparing for Part 1 of the register in order to meet the legal deadline. Further consideration would be given to Part 2 of the register as part of the annual review of the Brownfield Land Register in 2018.

91. Exclusion of the Press and Public

RESOLVED that the press and public be excluded from the meeting during consideration of the following items of business because it was likely that if members of the public were present there would be a disclosure to them of ‘exempt information’ as defined by Section 100I and Schedule 12A to the Local Government Act 1972.

These items were considered in private as they were likely to disclose exempt information, as defined in Schedule 12A of the Local Government Act 1972. No representations had been received in relation to the proposal to consider these items in private.

92. Write-outs - Irrecoverable Non Domestic Rates

Purpose of Report

To seek approval form the Executive to write out debts deemed as being irrecoverable.

Decision

That the Executive approves the write outs as set out in Appendix A of the report.

Alternative Options Considered and Rejected

None.

Reason for Decision

Debts that were deemed to be irrecoverable were written out in accordance with the Council’s write out policy. Authority was required from the Executive where the total outstanding amount on any individual account was over £5,000.

Appendix A included details of debts deemed as irrecoverable.

93. Human Resources and Payroll Restructure

Purpose of Report

To request that the Executive approved a proposed restructure of the Human Resources and Payroll Team.

Decision

That the proposed restructure of the Human Resources and Payroll Team, as set out in the report, be approved.

Alternative Options Considered and Rejected

None.

Reason for Decision

A review had been undertaken to explore the current Human Resources and Payroll Team structure in order to consider options for building resilience in the team.

Details regarding the proposed structure, compared to the current structure, were detailed within the report.

It was noted that there were no staff at risk of redundancy as a result of the proposal, which had been supported by the City of Lincoln Council and Employee Joint Consultative Committee at its meeting on 10 October 2017.

EXECUTIVE

18TH DECEMBER 2017

SUBJECT:	**ESTABLISHMENT OF A WHOLLY OWNED HOUSING COMPANY**
DIRECTORATE:	**HOUSING AND REGENERATION**
REPORT AUTHOR:	**BOB LEDGER, STRATEGIC DIRECTOR OF HOUSING AND REGENERATION**

1. Purpose of Report

1.1 This report sets out more detail for the proposed Housing Company which would be wholly owned by the Council. It includes the proposed narrative of the business plan along with the high level financial assumptions.

1.2 The formation of such a company has been previously approved by Executive subject to a detailed business plan. The detailed financial assumptions have now been completed along with a high level due diligence process in conjunction with Capita.

2. Executive summary

2.1 The Executive approved in principle the formation of a wholly owned housing company at its 29th February 2016 meeting. This was part of a three stranded strategy to intervene in a failing housing market and provide additional housing direct and/or through facilitating others. Work streams to develop Housing within the Housing Revenue Account and in conjunction with other affordable housing providers are progressing and are now reported separately.

2.2 The meeting on the 29th February 2016 approved the governance arrangements for the Company. In summary, these are that the Company Board will be made up of 3 officers of the Council and potentially 2 external advisers (subject to finding two suitable candidates). The Council will exercise overall control of its wholly owned company through a new Committee which it is now recommended to be the Executive without the Housing portfolio holder. The latter omission is proposed to enable the portfolio holder to retain a brief that is entirely from the Housing Revenue Account perspective.

2.3 The February 2016 report clearly stated that the company would be dependent upon significant borrowings in the General Fund and on-lending to the Company in order to build its initial stock of properties. That position has not changed. The detailed financial model delivers full market value for the land assets being utilised by the Company but also requires that those receipts be reinvested in the Company as equity.

2.4 The initial report also offered the prospect of some financial return to the General Fund. This is now confirmed but at relatively modest levels, proportionate to the scale of investment, in the short and medium term. The return to the General Fund in these circumstances would be in the order of an estimated £34k per annum.

2.5 Inevitably, if building for rent was a more commercially viable product the market would be doing it. As a further consequence of having to borrow over such a long period the company and its business plan is not able to deliver any affordable units. This was not modelled at the outset but it is worth remembering that the market rent product was highlighted as strategically important to add quality into a poor quality private rented sector and in recognition that our HRA will exhaust its borrowing capacity through delivering affordable commitments.

2.6 More significant financial returns are deliverable in the longer term once the debt incurred in building has been paid off. In addition the new homes built will generate additional Council tax and New Homes Bonus income.

2.7 Alongside investing in a wholly owned company to deliver additional market housing, the Council is also committing in the region of £26m in the building of 250 additional affordable rented homes within the Housing Revenue account and facilitating a significant number in the housing association sector (an overall target of 400 affordable units is contained within Vision 20:20). If the company developed out its initial target number of 53 units as entirely market housing, combining that with the HRA investment, an overall affordable level of at least 82% affordable housing would be achieved.

2.8 This report was considered and approved by the Policy Scrutiny Committee at its meeting held on the 28th November 2017.

3. The Strategic Context

3.1 The 2017 Local Plan assessed that the City requires an average of 374 additional properties per year (in each of the next 20 years) against recently delivery of an average of 212 properties per year (over the last 5 years). In 2016/17 the actual delivery figure was 188 across all tenures. The effect of all this under delivery has been to increase pressure still further on the local housing market driving up both rental and sale prices. This is not a unique position and the City position largely reflects the national housing crisis relating to under supply and over demand.

3.2 It was in this context that the Executive decided in principle at its 29th February 2016 to progress the Company proposal and Council officers have been working up a detailed business case in the intervening period. At that February position we were still in the first tranche of Councils progressing the option.

3.3 Since then, and according to Trowers and Hamlins the leading legal support firm working on such companies, over 30 local authorities have now established companies to intervene in their local housing market in order to stimulate housing and wider growth. Trowers are also working with a further 50 local authorities on the formation of similar company models i.e. approximately half of all stock retained Councils either now have a company or are actively pursuing the development of one.

3.4 Trowers and Hamlins also report that by far the most common model being used is the wholly owned company model limited by shares, as opposed to joint venture models. The strategic reasons for this are several fold:

1) The shares can be 100% owned by the local authority

2) It can be quickly formed whereby partner arrangements usually need extended negotiation
3) Partner arrangements usually incorporate caveats relating to risk and speed of development.
4) Overall strategic control and direction remains with the Council and the land assets are not traded.

3.5 An established wholly owned company would enable the potential for the Council to maximise other market opportunities and provide a more flexible approach to development other than that afforded by the Housing Revenue Account. For instance the Company would provide the opportunity to act as a managing agent on private sector investment in rented housing and to invest resources in housing linked to regeneration of a specific area.

3.6 The decision of 29th February 2016 was part of a three strand approach to new build, directly delivered or facilitated by the Council. In that original report there was mention of the potential for an ongoing net return to the General Fund and no mention of the company delivering affordable housing i.e. most of the rental income after management and maintenance allowances would need to go to debt repayment. In essence, the provision of affordable housing needs a subsidy.

3.7 Even though the Council took a decision in principle to progress a Company formation it can, of course, revisit that decision and the rationale underpinning it. Potential alternatives could be revisited re the viability of selling off land in return for capital receipts, and/or affordable housing commitments, and the receipts used for other purposes. However those alternatives trade our land assets on a once only basis i.e. once the land is sold the Council cannot generate any further income from it. We could revisit the joint venture option as a way of sharing risk and investment but this is likely to entail protracted negotiation and will mean sharing control of the Council's assets.

3.8 Throughout the last year other Councils have continued to progress their company models. Those designed, such as ours, that don't seek to trade the local authority's land assets in return for income will similarly not make short term returns unless the income generated by the rents is higher allowing debt to be paid off more quickly and/or an ongoing return for the General Fund to be made.

3.9 In addition, most models are for Councils with significant land holdings and a more balanced housing market. Lincoln has very tight geographical boundaries, where developable land is at a premium, and a very large but largely poor quality private rented sector.

3.10 In developing a company there may be some concerns about the opportunity cost of doing so or in exposing the Council to undue risk or more fundamentally that the Council's appetite for such large scale investment is tempered by the continued projected shortfalls in the General Fund. The Company is not proposed to employ staff and is modelled that it will be financially viable in its own right. If the financial viability of the company was brought into question at a future point its assets could be sold at market value to recover costs.

4. Background

4.1 At its meeting on the 29th February 2016 the Executive Committee approved:

- that a Housing Company be formed.
- governance and constitutional arrangements for the company
- in principle to make funding available from the General Fund to finance the company
- detailed business plan for the company be progressed.

4.2 One of the Council's four key longstanding objectives is to increase the supply of affordable housing in the City. The HRA is already scheduled to deliver 100% affordable housing in delivering £26m investment in 250 new homes i.e. it would be legitimate not to deliver any affordable homes in the Company workstream and for the General Fund to make a 'modest' ongoing return on its investment.

4.3 There are though 2,000 separate applications for housing on the Council's waiting list. Around 600 applicants are fortunate enough to get a property from that waiting list each year. Most of the rest continue to live in unsatisfactory accommodation. Each year around 600 new applicants join the waiting list and many more choose not to on the basis of their being in low priority i.e. unlikely to ever reach the top of the list.

4.4 25% of the total housing stock in the City is now in the private rented sector (PRS). Although there are some very good landlords, overall standards are low. Our own in-house private sector housing team estimate over 36% of the PRS stock is non decent (lacking one or more basic modern amenities) and up to 21% have a category one hazard under the national Health and Housing Rating System (HHRS) meaning that it is dangerous or potentially injurious to health to live there.

4.5 Development of new housing in the Housing Revenue Account is limited by the Government imposed debt cap and our new housing development plans take the Council near to that limit i.e. this is one of the main reasons why we need to look at alternative mechanisms to deliver new homes.

4.6 Research data in the formation of the new Central Lincolnshire Local Plan evidences a chronic shortage of housing across all tenures in the City. The position is mirrored to varying degrees in most parts of the Country.

4.7 The company will be like any other private company in that it will need to be financially viable, operate in line with an agreed business plan and meet all its statutory obligations.

4.8 It was agreed at the February 2016 Executive meeting that the Housing Company will develop property which will primarily operate as market rented accommodation. This will enable the company, and in turn the Council, help a section of the community respond to the many challenges they face in the current housing market in the City. It will also help in widening the tenure mix in the City and acting as an exemplar in the private rented sector.

4.9 To be wholly owned the company will be fully financed by the Council through a combination of loan and equity funding. However, the overriding principle of the financial modelling is that there will be no overall cost, over the life of the business plan, to the Council of setting up and financing the Housing Company. The consequence though of this principle is that affordable housing cannot be delivered through the Company mechanism, the principle being that affordable housing needs subsidy.

4.10 Members should note that the housing ‘offer’ from the company will be separate and different to that of the Council. In particular, the tenancy arrangement will be different to that of the secure tenancies provided by the Council. The company will essentially offer responsibly managed private rented accommodation and properties for market sale,

4.11 As a company wholly owned by the Council it is imperative that an appropriate governance structure is put in place to ensure the sound and robust management of the company alongside protection of the Council’s financial and reputational investment in the company. However, the governance must not hinder the company operation and must allow it to act swiftly and pro-actively as a separate legal entity. The report of 29th February 2016 agreed the governance structure to achieve this. As sole shareholder, the Council would appoint the directors to the company and approve the business plan and other key decisions (known as reserved matters - these are listed at appendix 2). The directors would have responsibility for the operation and management of the company. The directors would be accountable to the Council (Members) for the company's performance through the Council's role as the sole shareholder of the Company.

4.12 The Council has taken both legal and financial advice from specialist consultants to ensure that it has the powers and capability to create and fund the company in line with relevant legislation.

4.13 The narrative of the Company business plan attached at appendix 1 has been modelled on developing 53 properties during the first few years of operation. Subject to a range of factors, the Housing Company will have the potential to significantly increase its portfolio over time. This first plan is essentially about getting the company started.

4.14 The Executive report of 29th February 2016 raised the prospect that the Company, as well as providing property, could also potentially make a return for the General Fund in the shorter as well as longer term. This remains the case and is estimated at circa £34k p.a.

5. A wholly owned Housing Company

5.1 <u>The proposal and company objectives</u>

5.1.1 The Key objectives of the Housing Company will be: -

- To act as an "exemplar" private sector landlord in the City offering high quality accommodation.
- To remain financially viable and operate efficiently to ensure it receives sufficient rental income to meet all of its costs including financing, housing management, property maintenance and administration.
- To provide an efficient housing management service to its tenants which will need to be clearly differentiated from that provided for the Council’s own stock.

- To maintain property to a suitable standard to meet tenants' reasonable expectations and to protect and enhance the Council's financial investment in the properties

5.1.2 To achieve the financial viability of the Housing Company properties will need to be let at full market rent to ensure the company is viable and can cover its costs/liabilities and without a cost to the General Fund.

5.1.3 In establishing the business case officers have taken specialist advice from Trowers & Hamlins LLP in respect of legal and governance matters, the David Tolson Partnership and Housing financial adviser, SD Smith Consultancy, in respect of the detailed business plan and Cushman Wakefield in respect of projected income and build costs. The detailed financial assumptions in the business case have also undergone a due diligence analysis by Capita.

5.1.4 For the avoidance of any doubt the Company will not employ any staff at its point of creation and for the foreseeable future. It will utilise the Council's housing management, legal and financial services and will pay the Council for the use of such services.

5.2 <u>Company structure and Governance Arrangements</u>

5.2.1 Trowers & Hamlins have previously advised and the Council has agreed that a company limited by shares (CLS) is the appropriate form of vehicle for the Housing Company for a number of reasons, including:

- a CLS is the most common corporate vehicle used in England for profit distributing bodies and is a very tried and tested model;
- the Council may look to receive a return (dividends) out of the profits of the Housing Company and the CLS model is a typical form of commercial vehicle established with a view to making a profit;
- the ability for the Council to invest in the company by way of share equity as well as loan debt;
- The general power of competence, being used for a commercial purpose as is intended here, does not allow for local authorities to participate directly in a limited liability partnership, which would be the other most obvious corporate form for a body established with a view to profit.

5.2.2 The company will be set up in accordance with the Companies Act 2006, including the appointment to the Board of the company. The Memorandum and Articles of Association and any other relevant document for the setting up of such a company will be in a form now drafted by the City Solicitor.

5.2.3 The Council will hold 100% of the shares in the Housing Company and as such will have full ownership. This has the advantage of allowing the Council to retain ultimate control of the Company and therefore the allocations, selection of properties, the rents and future strategy.

5.2.4 The Council and Housing Company will need to ensure that appropriate governance arrangements are put in place so that the Council, as the sole shareholder of the company, can set and oversee the strategic direction of the company whilst allowing the directors of the company discretion to carry out the operational management effectively, efficiently and with clear targets and milestones. A decision making framework to ensure the Council as Shareholder make the appropriate decisions reserved for them and give sufficient authority to the Directors to make decisions in relation to the day to day activities of the company was previously agreed.

5.2.5 Governance arrangements must ensure accountability whilst not hindering operational activity.

5.2.6 The Board structure of Council officers and two independent members was previously agreed. Options were proposed in the previous report without a firm outcome being agreed in the relation to the membership of the Council's controlling shareholder committee. It is now proposed that this be a sub-Committee of the Executive committee as the strategic decision-making needs of the company will be minimal especially in the early years, i.e. the attached business plan will determine its direction. It is though proposed that the Housing Portfolio Holder not be part of the sub-Committee to ensure that in any potential conflict of interest regarding the needs of the Company, as opposed to those of the HRA, he can retain an unfettered HRA position.

5.2.7 The establishment of a Shareholders' Agreement (between the shareholders and the Housing Company) will set out the parameters the company must operate within and ultimately it provides the Council with complete control over the company.

5.2.8 This structure avoids any potential conflict of interest for Members between their role as an elected Member of the Council and the day to day operational management of the Housing Company. However, Members still control the company at a strategic level with officers tasked with managing the Housing Company within a framework and through delegated authority provided by Members.

5.2.9 It was previously agreed that council officers to be appointed as a company directors and they should not be remunerated (although it may be appropriate for Non-Executive Directors to receive modest remuneration) and that the Council's Chief Finance Officer and Monitoring Officer not be appointed as Directors to ensure a clear separation of their roles in their advice to the Council. Officers were to be the Council's Housing lead, together with the Council's Property lead and a senior financial officer. They will need to be mindful to avoid circumstances where a conflict might arise in their role of company Director and the giving of advice to members in their role as Council decision makers.

5.3 Documentation required to establish the Housing Company

5.3.1 The following documentation has now been drafted to complete the establishment of the Housing Company and associated governance arrangements:

- Memorandum of Association and Articles – this will be the governing document for the Housing Company.

- Shareholder Agreement – this will regulate, amongst other matters, how the Housing Company is to be governed. This will be a key document as it will capture how the Council/Shareholders will exercise its control over the Housing Company.

- Terms of Reference for shareholder committee

- Loan Agreements – these set out the details of the funding arrangements between the Council and the Housing Company.

5.3.2 In addition, the Housing Company will be governed via a series of operational documents, which will be controlled by the Council via the Shareholder Agreement.

5.3.3 The attached Business Plan will be reviewed and agreed annually and covers the following: -

a) Company objectives (as established in the Shareholder Agreement)
b) Governance arrangements
c) Operational plans
d) Financial model and assumptions
e) Rents, sales and development assumptions
f) Fees, on costs and tax
g) Funding profile and sensitivity analysis

5.3.4 Operational Policies relating to matters below will be developed if this report is agreed and submitted to the shareholder committee for approval: -

a) Rent setting
b) Letting policy
c) Rent arrears and debt recovery
d) Other general policies e.g. Health and Safety, data protection

6. FINANCIAL IMPLICATIONS

6.1 The detailed Company Business plan has now been prepared. The narrative for the proposed plan is now attached at appendix 1 and the financial estimates have undergone a due diligence process undertaken by the Council's finance officers and Capita.

6.2 The full extent and final detail of the financial implications for the Council's General Fund will not be known until the extent, type, level and terms of borrowing have been finalised. Therefore at this stage only a high level summary of the implications can be provided, based on the following key assumptions:

- That the assumptions in the business plan materialise and the Council's actual borrowing costs of the loan investment are met in full annually by principal and interest payments made to the Council by the Company.

- That the Company will make sufficient surpluses to enable them to fulfil the assumptions in the business plan to annually pay the Council a premium margin on its actual cost of borrowing and make dividend payments. It is assumed that the first call on these resources will be the servicing and repayment of the borrowing the General Fund would undertake to purchase an equity share in the Company.

- That the premium charged to the Company on top of the Council's actual borrowing rates comply with State Aid rules.

6.3 The current detailed Business plan estimates currently assume the following investment by the Council:

Investment Type	Share of investment	Council's Investment in Company	Funded by:
Loan - market sale		1,750,000	short term borrowing (1yr) – Base Rate plus 5%
Loan - market rents		2,9005,000	Long term borrowing (40yrs) **– Base rate plus 5%**
TOTAL LOAN	**75%**	**4,655,000**	
Equity part 1		1,000,000	capital receipts
Equity part 2		467,815	long term borrowing (20yrs)
TOTAL EQUITY	**25%**	**1,467,815**	
TOTAL	**100%**	**6,122,815**	

The above total of £6,122,815 is greater than the actual development cost of £5,871,262 on account of a number of factors. Firstly, the equity investment of £1,467,815 is equal to 25% of the development cost only. In order to ensure that the scheme is fully financed the Company will have to actually borrow a greater value than the remaining 75%, equal to £4,403,447. The additional borrowing of £251,553 is cover two things:

- The interest costs during development and the delays to receipts from the market sale properties
- Debt repayment elements of the annuity loan during development

For the total investment of £5.871m the business plan assumes that 53 housing units will be delivered, as summarised below:

Housing units	No. units	%
Market sale	11	21%
Market Rent	42	79%
Total	**53**	**100%**

In terms of the Council's return on investment the company business plan currently assumes the following:

- The £4.655m loan financing will be repaid in-line with the Council's debt servicing costs and profile over 40 years.

- The £0.467m borrowing that the Council will take out to fund it's equity investment will be repaid in year 22 from the premium the company pays on it's loan financing and also through dividends paid by the company.

- The £1m capital receipts invested in the company will start to be repaid in year 2 and are expected to be fully repaid in year 33. (Note this is repayment at current values and doesn't reflect the NPV of the £1m in year 33)

- The focus for the company in the first 33 years of operation is to repay the loan and equity investments made by the Council, therefore returns on investment are limited during that time, with the average return on the land investment being 1.15% over 35 years with variations between years (max net return £85k in year 32, min return £14k in year 22, average return £34kp.a.).

- From year 32 the Council has been repaid all of it's equity loan finance and capital receipts and the Company is expected to generate annual surpluses payable to the Council through dividend payments of c£34k p.a. (note this is not a discounted average)

- The company will pay VAT on all eligible costs (most of which will be irrecoverable) and is subject to Corporation Tax. The average annual Corporation Tax payment is £41k p.a., with a total of £1.9m payable over the 50 year business plan period. Stamp Duty Land Tax (SDLT) would normally be payable on land and property purchases but as this transaction is between the Council and a company 100% owned by the Council then it is likely that 'Group Relief' will apply and no SDLT will be payable.

6.4 Initial sensitivity testing has been undertaken on the business plan (covering years 1-35) as referenced in section 7. The impact of changes in interest rates or inflation are summarised below:

	Base position	**Interest rates +0.5%**	**Inflation +0.5%**	**Inflation -0.5%**
Full repayment of equity investment	Year 33	Year 38	Year 30	Year 39
Average return on land investment years 1-10	3.2% / £32k p.a.	2.7% / £27k p.a.	4.2% / £42k p.a.	2.8% / £28k p.a.
Average return on land investment years 1-35	3.3% / £33k p.a.	2.7% / £27k p.a.	5.0% / £50k p.a.	2.8% / £28k p.a.
Average annual return once equity repaid	c£34k p.a.	c£32k p.a.	c£69k p.a.	£-
No. years income doesn't cover equity debt costs	-	-	-	-

6.5 The land investment in the Company will be done through a sale to the Company of the relevant Council land holdings at full market value. This will generate a capital receipt which is available for reinvestment in the Company. The investment in company equity will be classed as capital expenditure in the General Fund Investment Programme to be funded through the capital receipts generated from sales and the balance through borrowing. The repayment of the Council's borrowing for its equity holding and the return of the capital receipts invested relies on the realisation of expected returns from the company to enable dividends and the margins on Council borrowing rates. These will be revenue income within the General Fund that will be used to fund the costs of borrowing undertaken (including statutory annual repayment of principal borrowed (MRP) and also to reimburse the capital receipts invested. This is summarised in the table at appendix A.

7. Strategic Priorities

7.1 Growing the local economy

7.1.1 The construction sector claims that for every £1 invested the sector delivers £2.85 in actual spending. Investing in infrastructure projects is the one of the best ways to stimulate the economy. By following Council procurement rules we will keep spend local as much as possible.

7.2 Protecting the poorest people in Lincoln

7.2.1 Although the rented property in the company will be at market rents the properties will still provide a more attractive alternative to many than the rest of the private rented sector and first call for allocation would be offered to those on the Council's waiting list.

7.2.2 The company model is proposed to work alongside the HRA in providing homes for social rent and housing associations providing homes at affordable rents.

7.2.3 The company will generate income for the General Fund helping it to maintain other critical services.

7.3 Increasing the supply of affordable housing

7.3.1 It is anticipated that all properties delivered through the company will help in reducing the Council's waiting list for accommodation and assist in driving up standards across the wider private rented sector.

8. Organisational Impacts

8.1 Finance (including whole life costs where applicable)
The financial implications are throughout the report and specifically in section 6 above.

8.2 Legal Implications including Procurement Rules
Included throughout the report. Whilst the wholly owned company is viewed as a separate legal entity it will still be required to follow Public Contract Regulations 2015 when undertaking any procurement activity.

8.3 Equality, Diversity & Human Rights (including the outcome of the EA attached, if required)
No report required at this time.

8.4 Significant Community Impact
This report relates specifically relates to improving the range of Housing options in the community.

9. Risk Implications

9.1 (i) Options Explored
Other options explored in the formation of the company related to whether and how it could deliver new build property at sub-market rent.

9.2 (ii) Key risks associated with the preferred approach
Significant on-loan funding by the General Fund is required to make the company model work although the projection overall is, at least, that there is no overall cost to the Council in the term of the model.

10. Recommendation

10.1 That the narrative of the business case and the detailed financial estimates of the Company business plan, as attached at appendix 1, be approved.

10.2 That a wholly owned Council company be formed on the terms proposed in this report and the Executive's meeting on the 29th February 2016. .

Is this a key decision?	Yes *<u>All key decisions require 28 days' public notice. If in doubt, please check with Democratic Services.</u>*
Do the exempt information categories apply?	No
Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?	No
How many appendices does the report contain?	2
List of Background Papers:	None
Lead Officer:	Bob Ledger Director of Housing and Regeneration Telephone (01522) 873200

Appendix 1 Summary General Fund Position

(NB assumes Company makes required annual interest and principle repayment on non-equity loans to the Council)

Annual repayment of equity loan interest &

Net annual return to

Year		Dividend Income	Interest Premium	Total Income From Company	Loan Interest	Loan Repayments	Net Position	Cumulative Net Position	Land Equity	Net Land Position	Net Surpluses
1	2017.18	£0	£0	£0	£0	£0	**£0**	**£0**	£1,000,000	**£1,000,000**	**£0**
2	2018.19	£0	£29,341	£29,341	-£6,924	£0	**£22,417**	**£22,417**	£1,000,000	**£977,583**	**£0**
3	2019.20	£0	£98,761	£98,761	-£13,719	-£17,442	**£67,600**	**£90,017**	£1,000,000	**£909,983**	**£0**
4	2020.21	£0	£68,125	£68,125	-£13,199	-£17,962	**£36,963**	**£126,980**	£1,000,000	**£873,020**	**£0**
5	2021.22	£16,516	£57,698	£74,214	-£12,663	-£18,498	**£43,053**	**£170,033**	£1,000,000	**£829,967**	**£0**
6	2022.23	£16,022	£57,222	£73,244	-£12,112	-£19,049	**£42,083**	**£212,116**	£1,000,000	**£787,884**	**£0**
7	2023.24	£10,000	£56,719	£66,719	-£11,544	-£19,617	**£35,558**	**£247,674**	£1,000,000	**£752,326**	**£0**
8	2024.25	£0	£56,188	£56,188	-£10,959	-£20,202	**£25,027**	**£272,701**	£1,000,000	**£727,299**	**£0**
9	2025.26	£0	£55,628	£55,628	-£10,356	-£20,805	**£24,466**	**£297,167**	£1,000,000	**£702,833**	**£0**
10	2026.27	£0	£55,036	£55,036	-£9,736	-£21,425	**£23,875**	**£321,042**	£1,000,000	**£678,958**	**£0**
11	2027.28	£0	£54,411	£54,411	-£9,097	-£22,064	**£23,250**	**£344,291**	£1,000,000	**£655,709**	**£0**
12	2028.29	£0	£53,751	£53,751	-£8,439	-£22,722	**£22,590**	**£366,881**	£1,000,000	**£633,119**	**£0**
13	2029.30	£0	£53,055	£53,055	-£7,762	-£23,400	**£21,894**	**£388,775**	£1,000,000	**£611,225**	**£0**
14	2030.31	£0	£52,320	£52,320	-£7,064	-£24,097	**£21,158**	**£409,933**	£1,000,000	**£590,067**	**£0**
15	2031.32	£0	£51,543	£51,543	-£6,345	-£24,816	**£20,382**	**£430,315**	£1,000,000	**£569,685**	**£0**
16	2032.33	£0	£50,724	£50,724	-£5,605	-£25,556	**£19,562**	**£449,878**	£1,000,000	**£550,122**	**£0**
17	2033.34	£0	£49,859	£49,859	-£4,843	-£26,318	**£18,697**	**£468,575**	£1,000,000	**£531,425**	**£0**
18	2034.35	£0	£48,945	£48,945	-£4,059	-£27,103	**£17,784**	**£486,359**	£1,000,000	**£513,641**	**£0**
19	2035.36	£0	£47,981	£47,981	-£3,250	-£27,911	**£16,819**	**£503,178**	£1,000,000	**£496,822**	**£0**
20	2036.37	£0	£46,962	£46,962	-£2,418	-£28,743	**£15,801**	**£518,979**	£1,000,000	**£481,021**	**£0**
21	2037.38	£0	£45,887	£45,887	-£1,561	-£29,600	**£14,726**	**£533,705**	£1,000,000	**£466,295**	**£0**
22	2038.39	£0	£44,753	£44,753	-£470	-£30,483	**£13,800**	**£547,505**	£1,000,000	**£452,495**	**£0**
23	2039.40	£0	£43,554	£43,554	£0	£0	**£43,554**	**£591,060**	£1,000,000	**£408,940**	**£0**
24	2040.41	£0	£42,289	£42,289	£0	£0	**£42,289**	**£633,349**	£1,000,000	**£366,651**	**£0**
25	2041.42	£0	£40,954	£40,954	£0	£0	**£40,954**	**£674,303**	£1,000,000	**£325,697**	**£0**
26	2042.43	£0	£39,544	£39,544	£0	£0	**£39,544**	**£713,847**	£1,000,000	**£286,153**	**£0**
27	2043.44	£0	£38,055	£38,055	£0	£0	**£38,055**	**£751,902**	£1,000,000	**£248,098**	**£0**
28	2044.45	£0	£36,484	£36,484	£0	£0	**£36,484**	**£788,386**	£1,000,000	**£211,614**	**£0**
29	2045.46	£0	£34,825	£34,825	£0	£0	**£34,825**	**£823,211**	£1,000,000	**£176,789**	**£0**
30	2046.47	£0	£33,073	£33,073	£0	£0	**£33,073**	**£856,283**	£1,000,000	**£143,717**	**£0**
31	2047.48	£0	£31,223	£31,223	£0	£0	**£31,223**	**£887,507**	£1,000,000	**£112,493**	**£0**
32	2048.49	£55,902	£29,271	£85,173	£0	£0	**£85,173**	**£972,680**	£1,000,000	**£27,320**	**£0**
33	2049.50	£34,007	£27,209	£61,216	£0	£0	**£61,216**	**£1,033,896**	£1,000,000	**£0**	**£33,896**
34	2050.51	£34,007	£25,033	£59,040	£0	£0	**£59,040**	**£1,092,936**	£1,000,000	**£0**	**£92,936**
35	2051.52	£34,007	£22,735	£56,742	£0	£0	**£56,742**	**£1,149,679**	£1,000,000	**£0**	**£149,679**

Equity loan

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Appendix 1

Lincoln Quality Homes

Draft Business Plan

A City of Lincoln Council Company

Version 3.1: RL

October 2017

Executive summary

The City of Lincoln Council decided at its meeting on the 29th February 2016 to establish a wholly owned company to deliver new quality homes at private rent levels and for low cost home ownership.

The rationale for entering into this new area of work were several fold:

- The Council has almost exhausted its new build capacity in its more usual delivery mechanism, the Housing Revenue Account.
- A quarter of the total housing stock in the City is in the private rented sector and the overall quality is low with high levels of non-decency and category 1 hazards. By setting new quality standards in the sector the Council seeks to raise the overall standard and make it more difficult for bad landlords to find tenants.
- Through the local plan process it has been evidenced that there is a severe shortage of all tenures of housing in the City and the Council wants to do all it can, not just to facilitate others to build, but to directly intervene in the market when it doesn't deliver what the community needs.
- Additionally (not mentioned in the initial report) a company allows the opportunity to respond to other housing opportunities that would not be available within the HRA mechanism. Examples of this include becoming a letting agent of privately owned accommodation and to undertake a wider role in the Sincil Bank regeneration project.

At the time of making the decision to progress the wholly owned company option the governance and basic financing structures were agreed. The Company would be run operationally by a board of five, predominantly senior Council officers, but to include private sector expertise in relevant areas if it could be sourced at reasonable cost. A number of 'reserved' matters relating to policy and direction would need to be considered by an overseeing councillor committee. The only issue of policy requiring further agreement by the Executive following its February 2016 decision was a detailed financial plan now contained within this company Business Plan.

The initial target given by the Council was for the Company to build in the region of 150-200 units of quality accommodation for letting at private rent levels or for low cost for sale within 5 years. However given further discussions a phased approach was recommended and therefore this business plan now proposes the building of 53 homes as a first phase. These would be funded through borrowing in the General Fund and then on-lending to the company. The company, once established, would need to react to opportunities to build more and potentially different types of housing and therefore it is envisaged that plans would need to be flexible and open to change.

Properties owned by the Company will be managed and maintained by the Council through its comprehensive housing delivery function although a front of house initial lettings arrangement will be used to attract initial tenants in the first years of operation until the public is used to the Council operating a Company arrangement.

A key part of this plan is the detailed financial projections at section 7 and Appendix 1. Initially, the company is projected to be managing 42 new, quality homes and have sold 11 homes by 2021.

In summary, the Company would:

- Increase the supply of homes within the City of Lincoln and meet wider housing demand
- Create realisable capital assets for the Council
- Enable the Council to control the housing mix and standards (where viable) through the design process
- Enable the Council to retain full control of the development and construction process, including the marketing of homes for rent and sale
- Generate long-term revenue for the Council
- Generate the potential for New Homes Bonus and actual additional Council Tax

1. The case for new quality homes for rent at both market and affordable levels

From the current Council tax roll we know that the number of homes within the City Boundaries is 45,201 and that 80% of these are in council tax bands A and B. This is markedly higher than the East Midlands average for those bands and reveals that the City's housing stock is lower in value than comparable areas. It is also a strong indicator of smaller and poorer quality housing.

In addition, the 2014 City wide stock condition study stated that of the 42,956 homes at that time, 23% or 9,632 were in the private rented sector (PRS). Again comparing this to the East Midlands average of 15%, and putting it alongside the overall low value of homes, reveals the unique housing tenure and value mix in Lincoln. The ready explanation of this characteristic is that the Lincoln figures are skewed by the no of students in the City and the demand is therefore for short term housing hence the large role of the PRS. This is certainly true but comparing the Lincoln percentage of 23% homes as PRS properties to the nearby cities of Sheffield (16%) and Nottingham (22%), both with two larger Universities, reinforces the point about the unique mix here. Private sector rented housing plays a much larger role in our housing mix than anywhere else within our region.

The private sector housing team, through the private sector stock condition survey of 2014, also estimate that of the 9,632 properties at least 36% of them don't meet the Government's Decent Homes standard of 2004 (as later amended) which means they lack one or more basic modern facilities. More worrying and of greater concern though is that the team also estimate that 21% of the properties in the PRS have category 1 hazards as defined under the Government's Housing Health and Safety

Rating System of 2006 which means they have a hazard that is potentially injurious to health such as dangerous wiring, significant dampness, etc.

The Council would like to see property standards across the private rented sector improve but there is little it can do with its own funds under the current financial constraints applying for local government. Traditional remedies of the past such as declaring a housing renewal initiative or a housing action area in specific parts of the City don't mean very much without funding to support and implement them i.e. significant funds are needed for property improvement and/or selective demolition.

The Council is committed to restricting the growth of Houses in Multiple Occupation (HMO) by its 2016 Article 4 directive which means planning permission is needed for each proposed new HMO.

One option open to the Council is to make investment in alternative private rented housing at a significantly higher quality threshold than that which currently blights the 'lower end' of the market. The increase in supply and effect of this may mean that landlords have to work harder to attract and retain the good tenants in the future.

The Strategic Housing Market Assessment (SHMA) prepared in 2015 for the Central Lincolnshire local plan process indicates that the City itself has an acute shortage of housing and that 374 new homes are needed each year across the tenures. The reality is that actual delivery flags significantly behind supply meaning that the shortage becomes more problematic for the City year on year. It's against this background that the Council has decided to do all it can to work alongside the market and directly intervene to provide new housing as well as facilitate development by others. Consequently, alongside this new build company initiative the council is also committed to developing 250 units for social and affordable rent in its Housing Revenue Account and supporting Housing Associations to deliver at least 150 new units in the same 5 year timeframe.

Other than at very low levels there is no current development activity around private homes for rent in the City. The Council's company model therefore is adding something new to overall provision. The background to this is that building homes in the local market is generally more expensive than buying and refurbishing existing homes. The private sector money invested in the PRS can therefore offer greater yields from existing housing rather than new. Private sector money is invested on the merits of each individual property and not in any strategic sense in relation to the shortfall in the overall property mix. Only the Council is willing to invest based on the wider strategic context.

The properties that this Company will build will not be at the expense of properties that could be built in the HRA as the capacity of the HRA to build beyond its current programme is very limited i.e. HRA new build resources are projected to be exhausted in that programme.

All of the rented homes in the Company will be let on assured shorthold tenancies or full assured tenancy agreements thus helping to meet different housing needs. The provision of a longer-term private rental offer will give households increased stability. At this stage neither tenancy would attract the ability for the tenant to exercise the right to buy. A nomination/management agreement will be agreed between the Council and the Company.

There is certainly no question with regard to demand for affordable properties with over 1,800 separate applications for housing on the Council's waiting list with 600 applicants able to secure a property per year. This is against the backdrop of the HRA losing properties through the reinvigorated right to buy policy.

The addition of new homes through Council intervention in the market will assist with delivery of local plan targets. In 2016/17 188 homes of all tenures were delivered in the City against a local plan target of 374.

Rent levels have been carefully modelled to ensure that the market rents assumed are reasonable and will achieve quick letting times for a high standard of home. Market rents levels have been forecast to increase marginally above inflation (CPI).

2. Properties for market sale

In order for the company to be viable in providing market rent homes with a high percentage of borrowing and the requirement to make a return to the Council to cover their cost of equity a form of 'subsidy' is required.

This will come through the profits that can be made from building and selling-on at market values 21% of the properties built.

Research and analysis has been carried out by Messrs Cushman & Wakefield with advice on tenure mix for each site leading to the assumptions used for market sale numbers.

Recent announcements by the Government indicate their intention is to focus on increasing the supply and availability of homes for owner-occupation. Part of this will be achieved by the extension of right to buy to registered provider tenants.

3. Lincoln Homes – a quality standard

The Company will initially commit to building 53 quality homes with 42 at private sector rent levels and 11 for sale at market values. Borrowing to fund the rented units will need to be over 40 years as per the financial details later in this plan.

The homes themselves will be a mixture of 1 and 2 bed flats and 2 to 4 bedroom houses built as a mix of semi- detached and town house units.

The property mix for the Company has been informed by the current stock profile of the City and by specific research by specialists, Cushman & Wakefield, that evidences there is a strong market for the above portfolio mix of company products.

The company has been profiled and financially planned against these initial ambitions. However, the Company is also very much about a new, more flexible approach to development and opportunities that are likely to arise and be taken up that mean the property mix and consequent financial modelling will change.

The company will build utilising modern construction techniques and to a high-energy efficiency levels (at least an energy efficient SAP rating of 89 – the Lincoln Private rented sector average is 58 as per a 2017 assessment). It will explore off site system build solutions and will utilise them if financially advantageous to do so. The build rates provided allow for similar build standard to that of registered providers (housing associations).

During construction, the Company will use external support with appropriate experience (known as employers agents) to manage the sites during development. They will liaise with the Housing Board directly.

The company will be responsible for obtaining planning consent, engaging with the contractors to build the properties and then managing the operation of the homes.

In order to progress each development, the following process is proposed:

1. Following identification of site opportunities, the Council will approve the principle of development on the land by the Company. This enables the Company to start incurring expenditure.
2. The Company approves designs and submission of a planning application together with seeking tenders for construction.
3. At this stage both the Company Board and the Council consider the final scheme proposal including construction cost estimates and funding arrangements. The proposal will then go forward to the Council's Company sub-Committee for final approval to draw down the land transfer and funding agreements.
4. Regular meetings will occur during and post the construction of the scheme and are undertaken by the directors of the company. They are designed to make sure that the scheme progresses as planned.
5. At any point, should a significant change occur this will be considered by both the Company Board and the sub-Committee to approve any variations.

The formation of this Company assists with meeting the Council's priorities in that;

- This company will enable the Council to access finance to increase the supply of good quality, value for money housing in the City, meeting the Housing Strategy. By increasing the supply of quality accommodation within the Council's control, this will widen the Council's options in discharging its statutory homelessness duties and secure accommodation for some of the most vulnerable residents in the City.
- The Company will provide access to good quality, stable housing which is a key aspect of a person's health and wellbeing.
- By using long-term finance the Council removes concerns over refinancing or having to sell properties. Furthermore, it will ensure properties are maintained at a good standard.

- By increasing the supply of quality homes that the Council can access within the City this will increase opportunities for local residents to access employment and education.
- The development activity will provide direct employment, jobs through the supply chain and the opportunity to grow local skills especially through apprenticeships.

4. Managing and maintaining the rented Housing stock

As construction is completed, the Company will use a mix of specialist advice and existing Council staff to organise the lettings and sale of the homes.

For the market sale properties it is envisaged that a local estate agent will be used, appointed through a procurement exercise. This is to ensure that the correct level of marketing and sales expertise is used to ensure quick sales. Conveyancing will be provided by the Council's legal team, who have the knowledge and experience through right to buy sales. Costs for these services have been provided for within the plan.

The management and letting of both the affordable and market rental properties will be provided by Council staff through a service level agreement. The Council's Housing department is the largest and most experienced comprehensive housing management and maintenance service in the area. The Company will employ the department to undertake all management and maintenance functions on its behalf.

Planned maintenance will be procured through the existing arrangements that work within the HRA and future investment programmes will be on a joint public procurement basis.

The initial marketing of the market rented housing will include using a third party for the first two years of operation whilst awareness is raised that the Council offers market housing products alongside its more usual submarket rent housing.

The Company will subsequently call upon other Council departments, such as legal services, finance and procurement for support as and when necessary and service level agreements will be put in place and have been factored for.

At this stage, it is not considered that any additional management or operational staff will be required to deal with the Company's requirements. Therefore, the above arrangements should lead to efficiency savings within the HRA, or assist with offsetting loss of income from right to buy sales. The General Fund may marginally benefit from this too.

Performance will be monitored by the Company Board, using key performance indicators in line with those presently gathered by the Housing department.

Core functions such as external audit and support to the Council's finance team will be directly procured. The Company will be required to produce accounts that follow the requirements of the Companies Act and will be consolidated with those of the

Council. There is also the requirement to perform corporation tax computations. Currently there is no knowledge or skills available with the Council's finance team to perform these so they will form part of the service that will procured.

5. Developing and growing the Company

Initially the Company will not have directly employed staff. At initial low stock numbers such staff would be a relatively high cost burden. In its early stages the Company will be operated by Council staff working on the basis of recharging through service level agreements their time employed to the company. This may well be the long-term arrangement as well, but the option does exist to employ direct staff if this becomes more financially advantageous. The financial modelling, once beyond the initial set up phase, has been done on the basis of mirroring standard management and maintenance allowances as applied in the housing association sector i.e. standard average amounts for these functions based upon experience.

Formal decision making will be through a Company board of five. There will be three Council staff designated as board members from different professional disciplines namely, the Director of Housing and Regeneration, the Head of Finance and the Corporate Property Manager. There will be two members from the private sector on the Board, one with a financial background, preferably related to housing, and one with a private sector housing management or estate agency background. The three Council staff will receive no additional remuneration from the Company and the two private sector Board members will be paid an allowance based on attendance at Board meetings, policy and training days not to exceed 12 per year. These costs have been provided for.

A number of policy and governance matters will be reserved to a sub-Committee of the Council and these are listed as an appendix to this plan.

The company will act flexibly to maximise new build opportunities and to increase the overall quality of the housing stock within the city of Lincoln.

Through its experience of managing market rented properties the Company could look to expand into managing other private landlord properties within the City, therefore providing an additional income stream.

In the future, the Company could look to expand into regeneration and development of brownfield sites with the option of the purchase of existing properties and could seek to provide housing for:

- Essential key workers – discounted market rent, rent to buy, shared equity and starter homes
- Supported accommodation for those with special needs
- Retirement, extra care and sheltered accommodation
- Temporary accommodation for homeless households
- Student accommodation

The operation of a Company could also potentially 'solve' the issue of the HRA having to sell voids in order to fund the High Value Void policy which formed part of the 2016 Housing and Planning Act. Initial thoughts are that a number of properties per year could be purchased by the Company with the potential to retain them within the affordable housing sector within the City.

6. Financial modelling

Full details of the financial modelling undertaken can be found in Appendix 1.

The modelling has taken into account the very latest assessment of the Searby Road site that is ready to progress through design and planning.

In total 53 new homes have been modelled to deliver the following;

- 11 Properties for Market Sale
- 42 Properties for Rent at Market Levels

Extensive research has been commissioned and Messrs Cushman and Wakefield have identified valuations and rental levels for properties at the site. In addition, they have provided build rates for each property type which are in line with expected benchmarks. Additional on-costs have been modelled to allow for design, planning, abnormalities and management of scheme delivery.

The financing of the development costs for the schemes will be provided through the following;

75% Borrowing	25% Equity
The Company will borrow via the Council's General Fund through a mixture of short and 40 year loans. The short-term loans will be repayable at maturity whilst the long-term loans will be on an annuity basis. The loans will be split between those providing finance for the market sale and market rented properties. The loans for market sale and market rented will be on a 'base rate plus a margin' basis (to which the Council will benefit) equivalent to market rates available for long-term development/acquisition loans to avoid state aid claims.	The Council will inject an initial 25% cash injection to the company as part of its shareholding. The Council will fund this via net land receipts and a mixture of short and long-term borrowing. The long-term borrowing is on an annuity basis and is for a maximum of 20 years in line with Government requirements. This demonstrates that there is a risk to the Council in that any loan premiums or dividends payable by the Company do not meet the cost of the loan financing therefore mitigating against any state aid claims.

Additional short-term borrowing will be required by the Company to cover the interest costs and cash flow whilst the first schemes are developed out.

The modelling undertaken has been based on a series of assumptions (provided in Appendix 1 in more detail) agreed by officers and external advice and is summarised below:

Input	**Commentary**
Sites	Searby Road site to be developed as a Company site.
Tenure Mix	A mix of 21% for market sale and 79% for rent at market levels.
Construction Programme	The site will take an estimated 12 months to build
Land Cost	An open market value has been attributed to the site
Construction Costs	These are based on external advice and in line with expected benchmarks with additional provision for on-costs by officers
Sales Profile	Sales occur 6 months after the site completion as a contingency
Sales Values	These are derived from external advice with allowances for discount and marketing and conveyancing costs
Rental Income	Market levels are derived from external advice
Management Costs	An allowance has been made for management, service costs, repairs and investment in the stock at appropriate levels
Bad Debts & Void Losses	Allowances have been made for these based on current HRA performance
Operating Costs	Allowances have been made for Board, external audit and accountancy services.
Inflation Factors	A full range of factors have been assumed in addition to a base CPI of 2% throughout
Interest Rates	A market rate has been determined based on ‘base rate plus a margin’.. These rates are consistent with bank rate offerings for development and acquisitions

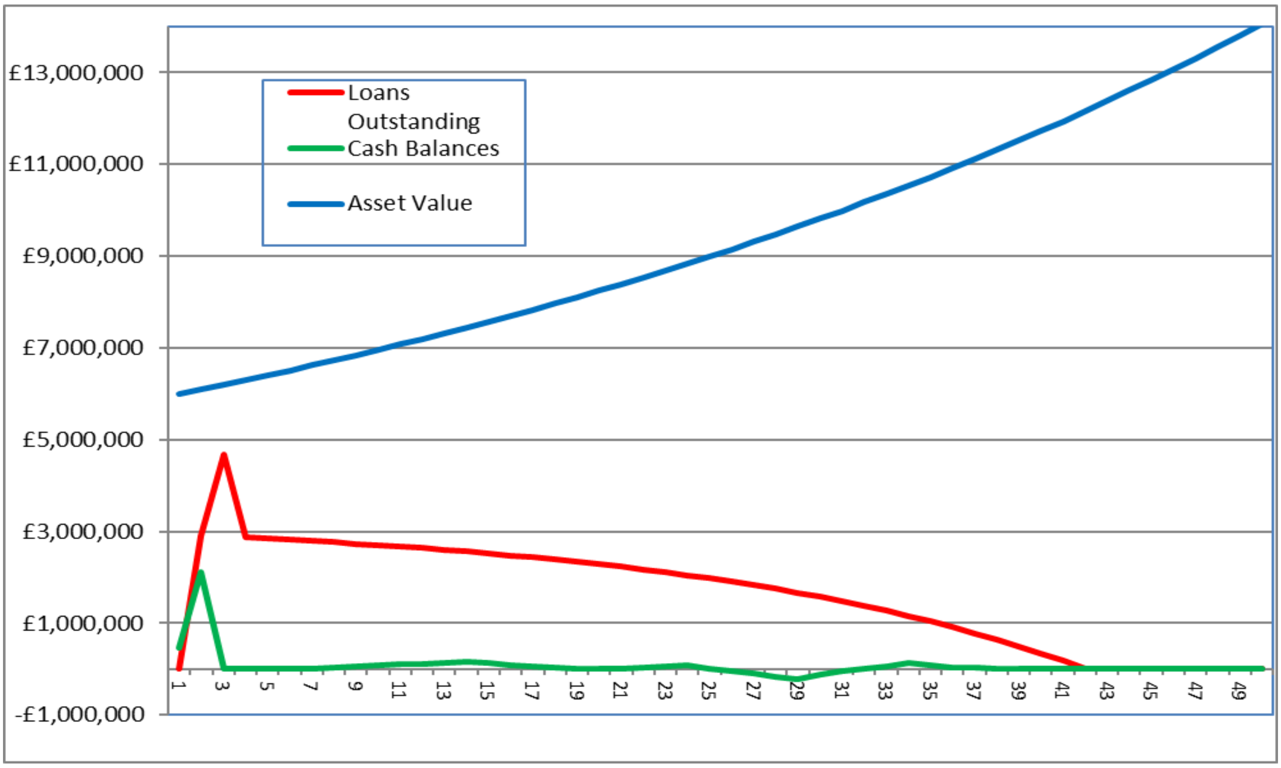
The key test for assessing viability is that:

- The Company can afford to meet its operational responsibilities in managing, maintaining and covering its financing costs for the loans provided by the Council. In addition, it should be able to create surpluses for redistribution through dividends to the Council as its sole shareholder.

- In-turn the dividend payments the Council receives and the premiums included within the loan interest payments the Company makes should be sufficient to cover the financing costs the Council incurs for providing the initial equity

The latest detailed modelling shows that the company can make dividends for the majority of years and that the Council will be always in a positive cumulative position in terms of the premiums and income it receives against its financing costs.

The graph below shows the projected borrowing that the Company would have in its own right, the cash balances and the projected net assets i.e. the market rented properties.

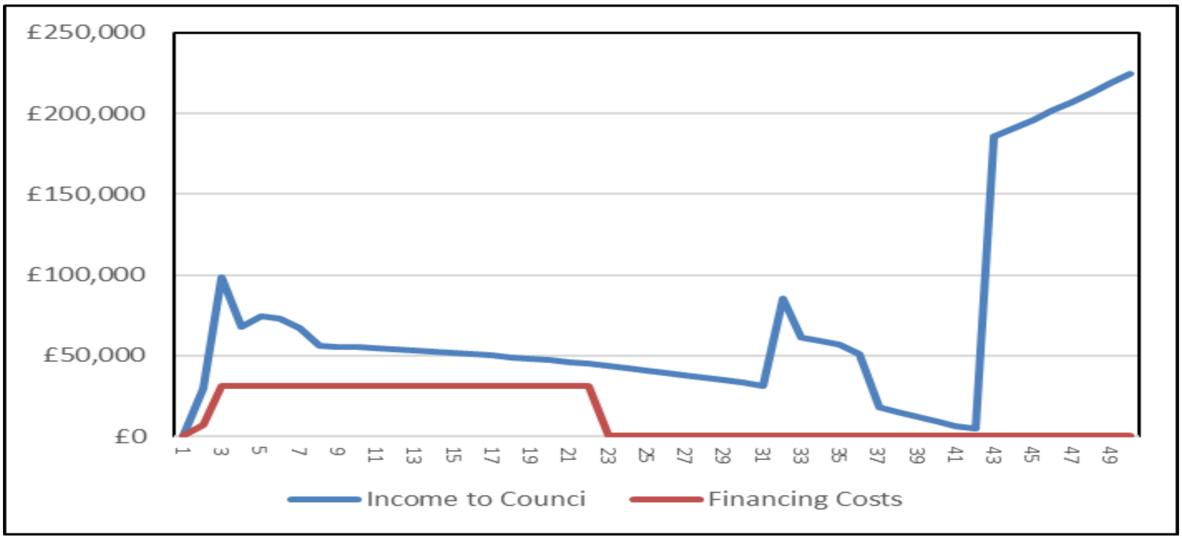


The above projections allow for the interest payments that the Company will make to the Council, but also dividend payments where possible. The premium element of the loan interest payments and dividends will cover the financing cost of the borrowing the Council undertakes to finance its equity injection.

Between years 25 and 32 the projected cash balances are below zero and the company may have to undertake an additional loan in order to cover this shortfall but the plan demonstrates that this can be financed.

As part of its long-term investment the Council will continue to receive dividend payments from a company that would be debt free and assets worth well in excess of the initial development costs.

The following graph shows the position for the Council in terms of the financing cost for the equity loans versus the net income it will receive from the Company by way of premiums on the loans charged and dividends received.



The above graph demonstrates that there are no years where the Council's cost of financing its equity loans is greater than the income from the company through loan premiums and dividends.

The Council hold the option to sell at anytime the market rental properties on the open market and the above graph for the Company demonstrates that the net value of properties remains significantly higher than the loan balances.

The intention is that the Company will be an investment company for tax purposes. However, to the extent that it will sell properties it could be regarded as a property trading company and the accounts will reflect this with differing treatment of tax for sales and for operating income.

The Business Plan modelling has been presented to the Council's General Fund financial advisors to provide an opinion with regards to best value and to the Council's treasury advisers to assess the borrowing requirements of the Company and impact to the General Fund. Comments made have been incorporated, where appropriate, in the Company's business planning process.

7. Risks

The table below identifies the key risks specifically associated with the Company. These risks will only emerge once the Company commences trading and development starts. Up until this point the only risk associated with the Company is the costs of set up and work to date.

Risk	Likelihood	Measures & Mitigation
The financial assumptions used to model the outputs prove to be materially different in practice	Low	The assumptions have been discussed internally and with external advice and are comparable with other similar products. Variations would be appraised by the Company Board for it to instigate compensatory changes elsewhere in the plan or to monitor the situation if considered marginal.
The site identified does not achieve planning permission	Low	The site selected is a prime development area. Alternative sites could be sought.
Land abnormalities are found on site	Low	Given the local knowledge of the area it is unlikely that anything will be found to prevent development. There is the outside possibility that the development could face delays through investigation or discoveries of archaeological interest.
Higher than anticipated build costs	Medium	This will be monitored and has a significant impact to the viability of the Company. Contracts could be let on the basis of risk transfer to the builders.
Rising Interest Rates	Low	Assumed increases have already been built into the model and further increases tested in the sensitivity section. In periods of higher inflation and interest rises market rents would expect to increase.
Ensuring that tax implications are minimised	Low	The model assumes full payment of corporation tax and non-recoverable VAT. Advice will be sought as part of the set up process to minimise future implications.
A Legal Challenge is made with regards to State Aid	Low	Expert opinion has been sought and informs the terms and interest rates offered on the loans by the Council. Rates modelled are equivalent to LIBOR rates plus uplifts to reflect market levels available to developers. The Council's equity investment at 25% has been used in similar scenarios and does not demonstrate a financial risk to the Council in terms of recovering its financing costs.
Properties prove difficult to sell	Medium	Research has shown that there is demand for homes for sale within the areas of development. Certain loans would have to be refinanced and properties let for short

		periods as market or affordable rent and then sold.
Properties prove difficult to let	Low	Research and known demand through the waiting list shows that this should not be problematic. Properties could be sold to mitigate this.
Demand for Certain Tenures Change	Low	The Company can seek to change market rented properties to affordable for a short or medium term though the impact to the business plan would be need to be assessed. The Company could seek to purchase homes on the open market if they prove viable.
Impact on staffing if the Company is wound up or does not progress	Low	The Company will not employ anyone directly and any services that cannot be provided by the Council internally will be outsourced. Any support from the Council will be using existing resources so there are no risks to current staff.
Perception and Reputation	Low	The Council's role as a housebuilder and operator in the private letting sector will need to be considered in the context of ensuring correct branding and marketing strategy.
Government Intervention	Medium	The creation of such a company is relatively new but over 50 local authorities have instigated or set up such organisations. Where local authorities are seeking to innovate there is always the risk through legal challenge and/or Government intervention.

The ultimate risk relates to the Company being at the mid-point in its development plans, having built some properties and committed to others, when one or more of the key financial assumptions change significantly to make the Company no longer viable, even with attempted compensatory changes elsewhere. In these circumstances the Company may need to be wound up and the assets would revert to the Council. It would then be up to the Council whether it wished to buy the assets and settle the liabilities or to sell the properties on the open market in order to pay off the debt. Much would depend on the financial market circumstances at the time and relative health of the HRA and General Fund.

If any loans for both the Company and Council were repaid in these circumstances, then a financial penalty for early redemption would apply.

8. Exit Strategies

There may come a point in the future when the Council no longer wishes to continue investing in the Company (e.g. if the target number of housing units has been delivered), or if the private sector is now building units at a sufficient rate. There may also come a point in the future when the Council doesn't wish to be the sole shareholder. In order to mitigate this a number of exit strategies would be available to the Company as follows:

- Secure alternative sources of finance from other lenders.
- Diversify into other areas of housing management or sell its services to others.
- Work in partnership with other organisations.
- Sell the Company as a 'going concern'.
- Dispose of the assets and wind up the company.

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Appendix 1 – Financial Information

1 Introduction

1.1 This appendix provides greater detail behind the data and assumptions that have informed this business plan for Lincoln Homes (the Company) and the business case.

1.2 The key objective for the business plan is to show the following:

- That the Company can meet its financial obligations in terms of meeting both interest and repayment of the loans equivalent to 75% of the total development costs over a 40-year period

- That the Company returns to the Council should be sufficient to repay the initial 25% equity investment into the Company and the annual payments should cumulatively be sufficient to meet the costs of interest and repayment for the Council on the net borrowing it needs to undertake.

1.3 The modelling has been undertaken using a comprehensive model, including a set of financial statements.

2 Stock Profile

2.1 The table below identifies the key development information by each site.

	Searby Road				
Development Start	January 2019				
Market Land Value	£1million				
Total Development Cost	£5.871million				
	1Bed Flat	2Bed Flat	2Bed House	3Bed House	4Bed House
No. Market Sale		6	2	2	1
No. Market Rent	2	27	7	5	1
TOTAL	**2**	**33**	**9**	**7**	**2**
Market Values	£100k	£125k	£150k	£225k	£250k
Market Rent (Week)	£109.62	£114.23	£126.92	£138.46	£167.31
Size (Sq Mtr)	55.6	57.3	75.0	84.6(ave)	99
Build Cost (Sq Mtr)	£1,304	£1,304	£1,304	£1,304	£1,304

2.2 The above market values and rental levels are at this current time. There are directly derived from an independent commission by Cushman and Wakefield who have assessed the Lincoln area and each site to arrive at these assumptions. The build rates were also separately commissioned by the same firm and are within expected benchmarks.

2.3 It is important to note that the Company will be purchasing the land in its own right from the Council and therefore the land values have been reflected at market rates and at this stage are at an assumed level and require independent valuations. Stamp Duty Land Tax (SDLT) is unlikely to be payable due to the 'Group Status' of the transaction (i.e. the Council owning 100% shareholding of the Company).

2.4 Development costs have been spread equally of a build time estimated at 12 months per site.

3 Key Assumptions

3.1 In table 2.1 the core assumptions have been stated. In addition to this future inflationary increases need to applied as well as day to day operating costs, future investment needs and financing costs (as discussed in the next section).

3.2 Set-Up and On-Costs

3.2.1 For the initial set-up costs legal costs of £10,990 have been included and a further £30,180 for financial and other advice support. In addition, £10,000 has been added as a contingency to cover operating costs whilst the scheme is in development.

3.2.2 In addition to the direct build costs which are calculated based on size multiplied by price per square metre and land there are further direct on-costs to be added.

3.2.3 For each site values have been added for feasibility costs, architect services, employers agent and planning fees.

3.2.4 To cover any additional planning obligations, a CIL payment has been included at £2,500 per property for each made available for market sale or rental at market rates.

3.3 Operating and Management Costs

3.3.1 As the Company will be a separate legal entity to the Council there are some unavoidable operating costs. In summary, these cover the cost of external audit of the accounts, Board expenses and external accountancy support. The total of these is estimated at £21,000 per annum and are charged to each scheme on a per rented unit basis.

3.3.2 The day to day management of the rental properties will be operated by the Council's Housing team through a recharge that will benefit the HRA. This is estimated at £225 per property per annum. In addition, the Council will recharge some costs for financial and legal services and the procurement team. These are likely to cover the additional costs that the Council will incur so there is little gain for the General Fund. The Council costs are estimated at £13,750 and charged on a per rented unit basis to each scheme. Furthermore we have allowed for service costs of £8,600 per annum for services to communal areas.

3.4 Revenue Repairs & Future Investment

3.4.1 To ensure that all rental properties are maintained at an appropriate standard in terms of boiler servicing, day to day repairs and minor void repairs the following annual net allowances per property have been made within the modelling:

	Year 1	**Year 2**	**Years 3-10**	**Years 11+**
Market Rent	£68	£386	£504	£655

3.4.2 The market rent properties have marginal premium attached to them to reflect the higher rental charges and ensure to ensure that sufficient investment is made to enable quick re-letting times.

3.4.3 In terms of future investment and improvements to the rental properties the following net allowances have been provided for on a per unit per annum basis:

	Years 6-10	**Years 11-15**	**Years 16-20**	**Years 21-25**	**Years 26-30**	**Years 31+**
Market Rent	£199	£1,260	£807	£1,900	£379	£1,718

3.4.4 The costs are based on anticipated life-cycle replacement costs for items such as kitchens, bathrooms, boilers etc. Again, a premium has been attached to market rent properties, with replacements having a shorter life-cycle.

3.5 Sale Assumptions

3.5.1 There are a total of 11 properties assumed to be sold. The market values have been derived from the external commission by Cushman & Wakefield based on their research for the area and sites.

3.5.2 The values quoted are based on realistic expectations and the report quotes that housebuilders will quote a premium of up to 10% on their initial asking prices to then allow for discounts or incentives. Their report allows for the anticipated expected sale price and 2% discount for sale incentives.

3.5.3 To facilitate the sale the modelling allows for an additional 2% of market value to cover marketing and associated sale costs.

3.5.4 To provide a further contingency the modelling assumes that sales income does not materialise until up to six months from the completion of the scheme.

3.6 <u>Voids & Bad Debts</u>

3.6.1 The modelling has to make provisions for the loss of rental income for when a property is void in between lettings. Obviously with demand being high in Lincoln for quality market rented properties the void period would expect to be on the low side.

3.6.2 Therefore void loss as percentage of gross rents has been modelled at 2.25% for the market rented properties. This level is greater than current HRA performance for its stock (albeit older properties) and a higher provision is due to the higher rent levels.

3.6.3 A provision has been made of 1% of annual gross rent income to place in a bad debt reserve in case of the need to write-off bad debts. This is line with current HRA performance.

3.7 <u>Taxation</u>

3.7.1 As this will be a company set up as a separate legal entity from the Council it will not be able to benefit from the exemptions of certain taxes that the Council currently does.

3.7.2 Firstly the Company will need to register for VAT given that its turnover is greater than £82,500 per annum. However, rental income is currently not (and unlikely to be in the future) vatable. Therefore, all costs incurred by the Company will have unrecoverable VAT expenditure, i.e. it has to pay VAT.

3.7.3 The VAT rate assumed throughout the model is at 20%. The initial build costs will be exempt from VAT but all other costs including management, repairs, improvement, sale costs and development on-costs identified have had VAT added.

3.7.4 Corporation tax also needs to be factored in and is payable on the surpluses the Company makes in its profit and loss statement after the inclusion of interest charges. If the Company makes a loss in one year this is carried over to the next but this is not expected to occur apart from the first year of the company due to set-up costs and interest charges without any form of income during the development phases.

3.7.5 A corporation tax rate of 19% has been assumed, reducing to 17% from 2020.21 in line with current policy, but could be subject to change.

3.7.6 Recent advice suggests that the Council can use its group status on this transaction to avoid any Stamp Duty and Land Taxes (SDLT) due on the purchase of the land by the Company as it is being sold by the Council (only shareholder). If land or property is purchased in the future from other sellers then SDLT would be payable..

3.8 <u>Inflation Assumptions</u>

3.8.1 All the income and expenditure levels detailed above are at current levels. Inflation obviously has to be applied to both income and expenditure throughout. As the modelling commences in 2017.18 inflation (based on CPI) it is prudent to apply some inflation, given the latest forecasts following the result of the European ballot.

3.8.2 Therefore, the following CPI rates will be applied to all income and expenditure with additions or reductions to these for certain revenue streams identified further on in this appendix.

- April 2018 and each year thereafter: 2%

3.8.3 Market rents have been assumed to increase at 0.25% above CPI within the plan with the following exceptions:

- April 2018: 0.75%
- April 2019: 0.75%

The reason for higher than 0.25% increases is based on the expected impact from interest rates rises discussed further on in this appendix.

3.8.4 Both the revenue repairs and future improvements have an uplift of 0.5% above CPI in years 2 to 5 of the modelling.

4 Financing of the Company

4.1 The total development costs are £5.781million. However, with inflation applied at the various increments this increases to £5.871million. Therefore, the company will seek to finance 75% of these costs via loans provided via the Council. The remaining 25% will be in the form of a direct equity cash injection by the Council as discussed in section 6 below.

4.2 The modelling is set up for loans to be drawn down based on the overall cash flow. Therefore, there is the opportunity that once the plan is finalised and closer to the time of development an overarching position could be sought with the Council's treasury advisors, potentially saving on the interest costs projected within the model.

4.3 The total amount of initial loan drawdowns total £4.655million which is higher than 75% of the £5.871million. This is due to the loans being drawn upon commencement and therefore the interest charges effectively have to be covered during the period of development. Depending on actual cash flow there may need to be an additional facility for short-term lending within the development and in the mid-term of the overall plan.

4.4 The loans are a mixture of short-term (to be repaid when sales materialise) and longer-term to in effect cover the balance for market rent and for sale properties. A 40-year repayment period has been set within the model on an annuity basis using fixed interest payments. Therefore, the payments are on a fixed basis with the majority of the payment covering interest initially and then reducing during the term as the capital repayment element increases.

4.5 To avoid any state aid issues loans will be based upon market rates of 'Base plus' which equates to market lending rates. A rate of 5.00% above base is therefore charged to the company on the loans that the Council will actually take out to on-lend to the company.

4.6 Given recent developments post the European ballot with inflation forecast to rise it is inevitable that interest rates will rise from the low historical rates that are currently enjoyed. Therefore, the modelling contains uplifts to current interest rates from the Public Works and Loan Board (PWLB) to take account of this.

4.7 In summary the model assumes that rates will increase by:

- 0.25% for loans drawn in 2017.18
- Additional 0.25% for loans drawn in 2018.19
- Additional 0.25% for loans drawn in 2019.20

4.8 Within section 7 of this appendix the impact of further increases to interest rates is tested.

4.9 The loan portfolio used within the model is as follows:

Scheme	Loan Type		2018.19		2019.20	
	For	Period	Amount	Rate	Amount	Rate
Searby Road	Market Sale	1 Yr Maturity			£1.75m	4.5%
	Market Rent	40 Yr Annuity	£2.905m	5.5%		

4.10 The projected loan balances at the end of each year are demonstrated in a chart in section 5.

5 The Company's Projected Financial Position

5.1 The company financial forecasts are shown in the tables below. They demonstrate the first five years individually and then in 5 year bands.

5.2 Income & Expenditure (Profit & Loss) Forecast Statement

Income & Expenditure	2017.18 Yr 1	2018.19 Yr 2	2019.20 Yr 3	2020.21 Yr 4	2021.22 Yr 5	2026.27 Yrs 6-10	2031.32 Yrs 11-15	2036.37 Yrs 16-20	2041.42 Yrs 21-25	2046.47 Yrs 26-30	2051.52 Yrs 31-35	2056.57 Yrs 36-40	2061.62 Yrs 41-45
Rental Income	0	0	69,330	283,561	289,941	1,550,545	1,733,009	1,936,946	2,164,881	2,419,639	2,704,377	3,022,622	3,378,317
Void Loss	0	0	-1,560	-6,380	-6,524	-34,887	-38,993	-43,581	-48,710	-54,442	-60,848	-68,009	-76,012
Bad Debt Provision	0	0	-693	-2,836	-2,899	-15,505	-17,330	-19,369	-21,649	-24,196	-27,044	-30,226	-33,783
Total Income	0	0	67,077	274,345	280,518	1,500,152	1,676,686	1,873,995	2,094,522	2,341,001	2,616,485	2,924,387	3,268,522
Management Costs	0	0	-8,542	-34,850	-35,547	-188,688	-208,327	-230,010	-253,949	-280,381	-309,563	-341,782	-377,355
Revenue Repairs	0	0	-905	-8,046	-23,231	-149,577	-214,622	-236,960	-261,623	-288,853	-318,918	-352,111	-388,759
Improvements	0	0	0	0	0	-12,284	-137,518	-421,745	-413,142	-698,379	-320,140	-923,552	-1,019,676
Operating Costs	0	0	-4,058	-16,555	-16,886	-89,633	-98,962	-109,262	-120,634	-133,189	-147,052	-162,357	-179,255
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditure	0	0	-13,504	-59,451	-75,664	-440,181	-659,429	-997,977	-1,049,349	-1,400,803	-1,095,672	-1,779,802	-1,965,045
Surplus on Sales	0	0	0	522,349	0	0	0	0	0	0	0	0	0
Interest Receivable	0	3,227	5,301	224	92	1,772	6,665	3,031	2,599	0	4,090	2,976	4,714
Interest Payable	0	-79,888	-238,988	-178,016	-157,100	-764,535	-721,753	-665,637	-592,034	-495,491	-368,860	-202,765	-21,487
Corporation Tax	0	0	0	-51,455	-8,134	-52,405	-72,409	-100,807	-140,686	-182,452	-245,509	-301,919	-374,750
Surplus	0	-76,660	-180,114	507,997	39,713	244,803	229,760	112,604	315,052	262,255	910,534	642,877	911,953
Dividends Payable	0	0	0	0	-16,516	-26,022	0	0	0	0	-157,923	-30,267	-576,794
Retained Surpluses	0	-76,660	-256,775	251,222	274,419	493,200	722,961	835,565	1,150,617	1,412,873	2,165,483	2,778,093	3,113,252

5.3 This presents the forecast surpluses for the Company. After the first five years, the income and expenditure has been presented in 5-year segments for presentational purposes. A key point to note is that this statement does not show the debt repayment as this does not form part of the profit and loss statement, particularly for calculating corporation tax due.

5.4 This explains the retained surpluses balance increasing through the plan but does not necessarily match the cash balances as demonstrated in the Cash Flow statement below.

5.5 The dividend line shows the payments that the Company will make to the Council and the use of these is explained further on this appendix. The dividend payments have been maximised but on condition that the bank balances are not over drawn to prevent any further borrowing requirement.

5.6 There are two years where the company will make a loss on the basis that interest charges and operating costs are higher than the income for the year. This is to be expected in the early stages of the plan.

5.7 In the latter stages of the plan the interest payable reduces. However, there is no interest received on balances as these are fully utilised in the payment of dividends.

5.8 Balance Sheet Forecast Statement

Balance Sheet	2017.18 Yr 1	2018.19 Yr 2	2019.20 Yr 3	2020.21 Yr 4	2021.22 Yr 5	2026.27 Yrs 6-10	2031.32 Yrs 11-15	2036.37 Yrs 16-20	2041.42 Yrs 21-25	2046.47 Yrs 26-30	2051.52 Yrs 31-35	2056.57 Yrs 36-40	2061.62 Yrs 41-45
Rented Properties (at Cost)	1,000,000	1,861,195	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067
Properties for Sale (at Cost)	0	317,782	1,290,194	0	0	0	0	0	0	0	0	0	0
Equity Input	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
	-467,815	711,161	4,403,446	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252
Cash at Bank	467,815	2,117,178	8,528	66	0	81,505	131,207	7,637	12,910	-131,156	88,503	2,067	0
Surplus on Valuation	6,467,815	5,408,839	1,838,954	3,253,996	3,381,341	4,057,304	4,803,621	5,627,615	6,537,372	7,541,816	8,650,805	9,875,217	11,227,067
Rented Properties (at OM/EUV)	6,000,000	5,802,218	6,242,400	6,367,248	6,494,593	7,170,555	7,916,873	8,740,867	9,650,623	10,655,068	11,764,056	12,988,469	14,340,319
TOTAL ASSETS	6,467,815	7,919,396	6,250,928	6,367,314	6,494,593	7,252,060	8,048,079	8,748,504	9,663,534	10,523,912	11,852,559	12,990,535	14,340,319
Loans Outstanding	0	2,905,000	4,668,748	2,862,095	2,838,832	2,701,557	2,521,499	2,285,325	1,975,547	1,569,225	1,036,273	337,225	0
Reserves:													
Revenue Reserve	0	-394,442	-256,774	251,223	274,420	493,200	722,959	835,563	1,150,615	1,412,871	2,165,482	2,778,093	3,113,251
Revaluation Reserve	6,467,815	5,408,839	1,838,954	3,253,996	3,381,341	4,057,304	4,803,621	5,627,615	6,537,372	7,541,816	8,650,805	9,875,217	11,227,067
LOANS, CAPITAL & RESERVES	6,467,815	7,919,396	6,250,928	6,367,314	6,494,593	7,252,060	8,048,079	8,748,504	9,663,534	10,523,912	11,852,559	12,990,535	14,340,319

5.9 Again the first five years are presented on an annual basis and then in five year stages (the last of the five years being the figure presented).

5.10 The loan balances initially increase as the scheme is fully developed and then gradually reduce as per annuity payments are made.

5.11 The initial cost of building the properties is shown on the balance sheet in the first line. The balance between this and the Open Market (OM) or Existing Use Valuation (EUV) is shown as a surplus on valuation.

5.12 The Market Rented properties are valued at 100% of market value.

5.13 The modelling has also assumed that depreciation does not have to be accounted for as the properties are considered investments.

5.14 The Equity input from the Council is not officially repaid and is shown as an investment set against the property values. This is discussed further in section 6.

5.15 Market Values are forecast to increase by CPI only (2% long-term) with the properties potentially being worth £14.34million in 45 years' time.

5.16 As before cash balances are projected to be zero in order to maximise the dividend payments.

5.17 <u>Cash Flow Forecast Statement</u>

Cash Flow Statement	2017.18 Yr 1	2018.19 Yr 2	2019.20 Yr 3	2020.21 Yr 4	2021.22 Yr 5	2026.27 Yrs 6-10	2031.32 Yrs 11-15	2036.37 Yrs 16-20	2041.42 Yrs 21-25	2046.47 Yrs 26-30	2051.52 Yrs 31-35	2056.57 Yrs 36-40	2061.62 Yrs 41-45
Net Cash Inflow from Operating Activities	0	0	53,573	214,894	204,854	1,059,971	1,017,258	876,018	1,045,173	940,198	1,520,813	1,144,585	1,303,476
Interest Received	0	3,227	5,301	224	92	1,772	6,665	3,031	2,599	0	4,090	2,976	4,714
Interest Paid	0	-79,888	-238,988	-178,016	-157,100	-764,535	-721,753	-665,637	-592,034	-495,491	-368,860	-202,765	-21,487
Net Cash inflow(outflow) from above activities	0	-76,660	-180,114	37,103	47,847	297,208	302,169	213,411	455,739	444,708	1,156,042	944,796	1,286,703
Construction/Acquisition of Properties	-1,000,000	-1,178,977	-3,692,285	0	0	0	0	0	0	0	0	0	0
Sale Receipts	0	0	0	1,812,543	0	0	0	0	0	0	0	0	0
Equity / Grants Received	1,467,815	0	0	0	0	0	0	0	0	0	0	0	0
Equity / Grants Repaid	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash inflow(outflow) from investing activities	467,815	-1,178,977	-3,692,285	1,812,543	0	0	0	0	0	0	0	0	0
Net Cash inflow(outflow) before financing	467,815	-1,255,637	-3,872,399	1,849,646	47,847	297,208	302,169	213,411	455,739	444,708	1,156,042	944,796	1,286,703
Loans Drawndown	0	2,905,000	1,784,619	0	0	0	0	0	0	0	0	0	0
Loans Repaid	0	0	-20,870	-1,806,653	-23,263	-137,276	-180,059	-236,175	-309,779	-406,321	-532,952	-699,046	-337,226
Net Cash inflow(outflow) from financing	0	2,905,000	1,763,749	-1,806,653	-23,263	-137,276	-180,059	-236,175	-309,779	-406,321	-532,952	-699,046	-337,226
Corporation Tax Paid	0	0	0	-51,455	-8,134	-52,405	-72,409	-100,807	-140,686	-182,452	-245,509	-301,919	-374,750
Dividends Paid	0	0	0	0	-16,516	-26,022	0	0	0	0	-157,923	-30,267	-576,794
Increase/(Decrease) in Cash	467,815	1,649,363	-2,108,650	-8,462	-66	81,505	49,702	-123,570	5,274	-144,066	219,659	-86,436	-2,067
Opening Cash Balance	0	467,815	2,117,178	8,528	66	0	81,505	131,207	7,637	12,910	-131,156	88,503	2,067
In-Year Movement	467,815	1,649,363	-2,108,650	-8,462	-66	81,505	49,702	-123,570	5,274	-144,066	219,659	-86,436	-2,067
Closing Cash Balance	467,815	2,117,178	8,528	66	0	81,505	131,207	7,637	12,910	-131,156	88,503	2,067	0

5.18 In similar format to the above statement the Cash Flow is shown in five-year segments with the first 5 years individually.

5.19 The statement shows the actual cash flows of the Company. It demonstrates that there is never a shortfall in cash balances on account of the initial loans to fund the development costs and initial interest costs, with the exception of years 26 to 30 due to the demands of capital investment in the stock. This can be alleviated by short-term borrowing and plan demonstrates that this can be easily financed and repaid in the following years.

6 The Council's Equity Investment

6.1 In order to avoid any state aid issues but also to assist viability for the Company the proposal is that the Council inputs an initial equity investment of 25%. This is in line with the approaches other Councils have taken in respect to setting up such companies.

6.2 The equity investments are shown in the above balance sheet and cash flow statements, totalling £1,467,815 initially in 2017.18.

6.3 The Council has three options in terms of it can finance the equity of £1,467,815;

- Borrowing 100% or
- Using the receipts from the land sale
- A mixture of the two

6.4 The land receipts available from Searby Road are anticipated to be £1million.

6.5 DCLG regulations state that any borrowing undertaken by a Council for the purposes of purchasing equity within a company has to be repaid within a 20-year period.

6.6 Modelling has been undertaken to test the first option of borrowing 100% of the £1,467,815 but has conclusively shown that the Company will not be able to provide returns sufficient to cover this level of borrowing.

6.7 Therefore the mixed approach of using £1million of land receipts and £467,815 of borrowing, repaid over a 20-year period (from the time of drawdown) is the only viable approach.

6.12 The borrowing is proposed in the following phases to match the start of the scheme:

Year	**20-Year Annuity Loan**
2018.19	£467,815 (2.96%)

6.13 The interest rates are based on current PWLB rates with an allowance for increases as per paragraph 4.7.

6.14 Whilst the equity within the above accounts will not be repaid, though the option is possible in the latter years of the plan, it must be demonstrated that the Council's General Fund is in no worse a position from taking out this borrowing in terms of cash.

6.15 The table below demonstrates the anticipated dividend payments it will receive from the Company, as per the above financial statements, but also the c2% premium it will effectively make from the loans that the Council has provided to the Company. These are the first three columns to the left.

6.16 The next two columns show both the interest and repayments for the combined loans the Council has taken out to fund the equity.

6.17 The next position when taking into account the income the Council will receive from the Company and what it needs to pay on the equity loans is shown on both an annual and cumulative position.

Year		Dividend Income	Interest Premium	Total Income From Company	Loan Interest	Loan Repayments	Net Position	Cumulative Net Position	Land Equity	Net Land Position	Net Surpluses
1	2017.18	£0	£0	£0	£0	£0	£0	£0	£1,000,000	£1,000,000	£0
2	2018.19	£0	£29,341	£29,341	-£6,924	£0	£22,417	£22,417	£1,000,000	£977,583	£0
3	2019.20	£0	£98,761	£98,761	-£13,719	-£17,442	£67,600	£90,017	£1,000,000	£909,983	£0
4	2020.21	£0	£68,125	£68,125	-£13,199	-£17,962	£36,963	£126,980	£1,000,000	£873,020	£0
5	2021.22	£16,516	£57,698	£74,214	-£12,663	-£18,498	£43,053	£170,033	£1,000,000	£829,967	£0
6	2022.23	£16,022	£57,222	£73,244	-£12,112	-£19,049	£42,083	£212,116	£1,000,000	£787,884	£0
7	2023.24	£10,000	£56,719	£66,719	-£11,544	-£19,617	£35,558	£247,674	£1,000,000	£752,326	£0
8	2024.25	£0	£56,188	£56,188	-£10,959	-£20,202	£25,027	£272,701	£1,000,000	£727,299	£0
9	2025.26	£0	£55,628	£55,628	-£10,356	-£20,805	£24,466	£297,167	£1,000,000	£702,833	£0
10	2026.27	£0	£55,036	£55,036	-£9,736	-£21,425	£23,875	£321,042	£1,000,000	£678,958	£0
11	2027.28	£0	£54,411	£54,411	-£9,097	-£22,064	£23,250	£344,291	£1,000,000	£655,709	£0
12	2028.29	£0	£53,751	£53,751	-£8,439	-£22,722	£22,590	£366,881	£1,000,000	£633,119	£0
13	2029.30	£0	£53,055	£53,055	-£7,762	-£23,400	£21,894	£388,775	£1,000,000	£611,225	£0
14	2030.31	£0	£52,320	£52,320	-£7,064	-£24,097	£21,158	£409,933	£1,000,000	£590,067	£0
15	2031.32	£0	£51,543	£51,543	-£6,345	-£24,816	£20,382	£430,315	£1,000,000	£569,685	£0
16	2032.33	£0	£50,724	£50,724	-£5,605	-£25,556	£19,562	£449,878	£1,000,000	£550,122	£0
17	2033.34	£0	£49,859	£49,859	-£4,843	-£26,318	£18,697	£468,575	£1,000,000	£531,425	£0
18	2034.35	£0	£48,945	£48,945	-£4,059	-£27,103	£17,784	£486,359	£1,000,000	£513,641	£0
19	2035.36	£0	£47,981	£47,981	-£3,250	-£27,911	£16,819	£503,178	£1,000,000	£496,822	£0
20	2036.37	£0	£46,962	£46,962	-£2,418	-£28,743	£15,801	£518,979	£1,000,000	£481,021	£0
21	2037.38	£0	£45,887	£45,887	-£1,561	-£29,600	£14,726	£533,705	£1,000,000	£466,295	£0
22	2038.39	£0	£44,753	£44,753	-£470	-£30,483	£13,800	£547,505	£1,000,000	£452,495	£0
23	2039.40	£0	£43,554	£43,554	£0	£0	£43,554	£591,060	£1,000,000	£408,940	£0
24	2040.41	£0	£42,289	£42,289	£0	£0	£42,289	£633,349	£1,000,000	£366,651	£0
25	2041.42	£0	£40,954	£40,954	£0	£0	£40,954	£674,303	£1,000,000	£325,697	£0
26	2042.43	£0	£39,544	£39,544	£0	£0	£39,544	£713,847	£1,000,000	£286,153	£0
27	2043.44	£0	£38,055	£38,055	£0	£0	£38,055	£751,902	£1,000,000	£248,098	£0
28	2044.45	£0	£36,484	£36,484	£0	£0	£36,484	£788,386	£1,000,000	£211,614	£0
29	2045.46	£0	£34,825	£34,825	£0	£0	£34,825	£823,211	£1,000,000	£176,789	£0
30	2046.47	£0	£33,073	£33,073	£0	£0	£33,073	£856,283	£1,000,000	£143,717	£0
31	2047.48	£0	£31,223	£31,223	£0	£0	£31,223	£887,507	£1,000,000	£112,493	£0
32	2048.49	£55,902	£29,271	£85,173	£0	£0	£85,173	£972,680	£1,000,000	£27,320	£0
33	2049.50	£34,007	£27,209	£61,216	£0	£0	£61,216	£1,033,896	£1,000,000	£0	£33,896
34	2050.51	£34,007	£25,033	£59,040	£0	£0	£59,040	£1,092,936	£1,000,000	£0	£92,936
35	2051.52	£34,007	£22,735	£56,742	£0	£0	£56,742	£1,149,679	£1,000,000	£0	£149,679

6.18 There are no years in which the Council's equity borrowing annual cost is greater than combined income from the Company.

6.19 The dividend and interest premiums from the Company are not considered repayments of equity in accounting terms. The table above just shows the cash inflows to the Council to ensure it is not is a worse position.

6.20 The above table also goes on to the cash position in terms of potentially the Council recovering the net land receipts of £1million that were used to fund the equity. The table shows that over a 33-year cumulative basis, the Council would have received sufficient returns from the Company for the equity loans to be repaid and land receipts recovered.

6.21 Furthermore the Council remains the 100% shareholder for the Company with a net balance sheet worth of in excess of £9.97million after allowing for the Company loans outstanding and equity investment in year 33, though tax due is estimated at £0.995million would be due if the properties were sold.

6.22 The Council can benefit from continued premiums from the Company loans (albeit on a reducing basis) and dividend income.

7 Key Financial Indicators & Sensitivity Analysis

7.1 The table below shows the key indicators for the business plan for the Company, with explanations for each of the measures.

7.2 Furthermore the table shows the impact if interest rates were to increase by 0.5% over and above those assumed and if CPI inflation long-term was at 2.5% instead of 2%.

	Note	Base				Interest Rates +0.5%				Inflation +0.5%			
Development Cost	1	£5.871m				£5.871m				£5.913m			
NPV	2	-£0.561m or -£13.4k per rent unit				-£0.823m -£19.6k per unit (4.5%)				-£0.246m -£5.9k per unit			
NPV (with OM/EUV)	3	£2.144m or £51k per unit				£1.410m £33.6k per unit (4.5%)				£3.028m or £72k per unit			
IRR (with OM/EUV)	4	5.8%				5.8%				6.33%			
Total Costs	5	£10.358m				£10.857m				£m			
Position at Year		**10**	**20**	**30**	**40**	**10**	**20**	**30**	**40**	**10**	**20**	**30**	**40**
Company Debt £m	6	2.702	2.285	1.569	0.337	2.723	2.333	1.629	0.357	2.702	2.285	1.569	0.337
Asset Cover	7	2.11	3.18	5.85	34.16	2.09	3.12	5.64	32.22	2.23	3.55	6.88	42.22
Gearing	8	1.39	1.32	1.90	5.64	1.26	1.19	1.68	491	1.43	1.43	2.17	6.76
Corporation Tax	9	£112k	£173k	£323k	£547k	£88k	£147k	£300k	£532k	£122k	£203k	£389k	£666k
Net Gain to Council £m	10	0.321	0.481	0.856	1.884	0.286	0.458	0.804	1.683	0.425	0.615	1.034	2.572

Note 1 This is the total development cost excluding financing costs for the scheme.

Note 2 This is the Net Present Value of the scheme. This effectively takes the costs (including development and excluding interest and equity input) and income over the 40-year period discounted at an interest (discount) rate of 4%.

Note 3 This is the NPV as before but takes into account the Open Market Value at 40 years.

Note 4 This shows the internal rate of return when allowing for the Open Market Value in 40 years

Note 5 This is the total scheme costs including interest but excluding the sale receipts for market sale properties.

Note 6 This shows the debt owed by the Company at each of the 10 year stages

Note 7 This shows the net asset worth (OM/EUV Values less the equity input) divided by the Company Loans outstanding – demonstrating the ability for the Company to cover its debts. I.e. a ratio above 1 means that it is able to do so.

Note 8 In this ratio it looks at the at the net income before interest as a percentage of the interest payable – also considered interest rate cover. I.e. a ratio above 1 means that it is able to do so.

Note 9 This is the amount of corporation tax payable for each 10-year period.

Note 10 This is represented as the net cash gain to the Council derived from the table in section 6. So is effectively the cumulative cash position after the dividend income and loan premiums on the Company borrowing set against the Council's equity borrowing. These values exclude the £1million net land receipts.

7.3 If interest rates were to increase above those allowed for in paragraph 4.7 this would have a significant impact to both the Council and the Company. Whilst it still shows that the Company is viable, it extends the payback position.

7.4 An increase in inflation has a positive impact for the Company and likewise for the Council albeit at the extra cost of corporation tax.

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Appendix 2

City of Lincoln Council

Housing Company – Decision Making Matrix

Issue	Officers of Housing Co[1]	Board of Housing Co	Council (acting as shareholder of Housing Co) (decisions taken via shareholder committee)
1 **Customer issues**			
1.1 Make any amendments to the Lettings Policy and Sales Policy;			✓
1.2 Implement the Rent Policy;	✓		
1.3 Implement the Debt Recovery Policy;	✓		
2 **Business issues**			
2.1 Approve any business other than as contemplated by the Business Plan;			✓
2.2 Engage in business contemplated by the		✓	

[1] Will be Council employees seconded to Housing Co at least in short term

Issue		Officers of Housing Co[1]	Board of Housing Co	Council (acting as shareholder of Housing Co) (decisions taken via shareholder committee)
	Business Plan (including acquisition of property that fits with the Financial Model);			
2.3	Approve any contract with a value in excess of £[tba];			✓
2.4	Approve any arrangement, contract or transaction outside the normal course of its business or otherwise than on arm's length terms.			✓
2.5	Close down any business operation, or dispose of any material asset unless in each case such closure or disposal is expressly contemplated by the Business Plan;			✓

Issue	Officers of Housing Co[1]	Board of Housing Co	Council (acting as shareholder of Housing Co) (decisions taken via shareholder committee)
2.6 Acquire any land with a value in excess of £[X];			✓
2.7 Approve acquisition of any land or property outside of the Council's administrative area			✓
2.8 Make any amendments to the Financial Model;			✓
2.9 Adopt or amend Housing Co's Remuneration Policy;			✓
2.10 Adopt or amend Housing Co's annual Business Plan.			✓

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Item No. 4

SUBJECT:	**EXCLUSION OF THE PRESS & PUBLIC**
DIRECTORATE:	**CHIEF EXECUTIVE & TOWN CLERK**
REPORT AUTHOR:	**CAROLYN WHEATER, MONITORING OFFICER**

1. Purpose of Report

1.1 To advise members that any agenda items following this report are considered to contain exempt or confidential information for the reasons specified on the front page of the agenda for this meeting.

2. Recommendation

2.1 It is recommended that the press and public be excluded from the meeting at this point as it is likely that if members of the press or public were present there would be disclosure to them of exempt or confidential information.

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