CABINET

15 October 2019

Title: Reside – Business Plan and update on governance, including the establishment of a wholly-owned Registered Provider	
Report of the Cabinet Member for Regeneration and Social Housing	
Open Report	**For decision**
Wards Affected: All	**Key Decision:** Yes
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Summary

At its meeting on 22 January 2019, Cabinet approved a number of recommendations relating to the reinvigoration of Reside, the Council's municipal housing company. These related to its governance, and the potential of establishing a new company to sit in the Reside structure which could become a Registered Provider of Social Housing.

This report updates Cabinet on progress in these areas, and seeks a number of approvals relating to the Shareholder Agreement and the establishment of the Registered Provider. It also seeks Cabinet approval for the rent and tenancy approach that will be adopted by Reside.

The report also introduces Reside's first Business Plan under the new governance arrangements. The Business Plan sets out the activities Reside will carry out ahead of its expansion over the coming years, as well as the financial return Reside is forecast to make to the Council between 2021/22 and 2024/25.

Recommendation(s)

The Cabinet is recommended to:

(i) Approve the Reside Business Plan attached at Appendix A to the report;

(ii) Note the options appraisal and business case for Barking and Dagenham Homes Ltd to become a Registered Provider of Social Housing as set out in section 3, and agree that this company should proceed to become a Registered Provider of Social Housing;

(iii) Delegate authority to the Director of Law and Governance to prepare and execute any relevant articles of association, partnership agreements, loans or and any other relevant legal documents on behalf of the Council to register Barking and Dagenham Homes Ltd as a Registered Provider;

(iv)	Delegate authority to the Director of Law and Governance to authorise/execute any leases or other agreements required so that 41 units at Becontree Heath can be transferred to the Registered Provider at the appropriate time;
(v)	Approve the rent and tenancy policy framework for Reside that will govern Reside's approach in these areas as outlined in section 4; and
(vi)	Approve the revised Shareholder Agreement between the Council and Barking and Dagenham Reside Regeneration Limited, as set out at Appendix 2 of Appendix A to the report.

Reason(s)

The rationale for these proposals is in line with the Council's ambitions to improve access to affordable housing and encourage strong and resilient communities. The London Borough of Barking and Dagenham has great regeneration potential particularly in relation to housing provision. Through the Investment and Acquisition Strategy the Council will be enabling the creation of significant numbers of new affordable homes to meet local housing need as well as providing a sustainable portfolio of assets. Reside is a key vehicle for the management and marketing of the Council's non-HRA properties.

The Registered Provider will primarily hold homes that have been funded through Affordable Housing Grant and let at London Affordable Rents to households on the Council's housing register.

1. Introduction and Background

1.1 In January 2018 the Cabinet agreed an approach to reinvigorate the Reside brand in order to develop the strategic management of the Reside stock, and to ensure that the required investment returns were delivered.

1.2 Cabinet received a further report on the reinvigoration of Reside at its meeting in January 2019. This updated Cabinet on the new independent Chair of Reside overseeing a board of four non-executive directors, as well as plans to appoint a new Managing Director, who started in April 2019.

1.3 In January 2019 Cabinet also approved a Shareholder Agreement between the Council and Reside, and approved in principle the creation of a new company within the Reside structure which could become a Registered Provider of Social Housing (RP). This decision was subject to a more detailed options appraisal/business case being prepared. This work has been completed and is summarised in section 3.

2. Reside Business Plan

2.1 The initial Reside Business Plan for 2019/20 (Appendix 1) recognises that this is a transitional year for Reside, with a focus on activities that prepare for its expansion over the coming year following the appointment of a new Board and Managing Director. The priorities, therefore, are:

- setting up the organisation, creating a clear vision and business plan for its delivery that reflects Shareholder requirements,
- effectively managing the performance of the existing stock
- preparing for the new homes that are currently being developed on behalf of the Council by Be First

<u>Activities over the next 12 months</u>

2.2 A detailed action plan for the priorities over the next 12 months is set out in the Business Plan. The key set of deliverables to implement the vision the Council has for Reside include:

- Set up of the organisation including the development of:
    - Reside's mission, vision and values to reflect the Council's vision in the commissioning mandate
    - Establishing Reside's approach to delivering its vision
    - A Governance Manual
    - Policies and procedures
    - Residents handbook
    - Resident communications and engagement strategy and actions for its delivery
    - Developing and embedding a strong brand identity as the main provider of high quality new rented homes in the borough
    - Developing marketing and communications that reflect the brand identity, including Reside's web site and social media presence and digital functionality
    - Providing input into the development process run by Be First to influence the specification and design of the homes that are built for Reside and helping to shape the wider development programme, including plans for improved market analysis
    - Developing modelling to support decision-making and business planning, including financial modelling
    - Developing a Reside commissioning framework and approach for housing services and procurement plans, based on a robust assessment of needs, options and an effectively commissioned and procured service delivery model
    - Recommissioning service delivery to ensure Reside residents are provided with good quality housing management service throughout their tenancies
    - Establishing benchmark performance and developing a refreshed set of key performance indicators which will be aligned with tenant expectations and sector good practice
    - Establishing a Reside Team and support services to deliver the Reside Business Plan and that reflect Reside's commissioning approach
    - Building up intelligence of the local rental and sales market and consumer insights to shape its offer and to influence Council's

housing investment / new build strategy
    - Involvement in financial health check and any simplification of the Reside structure that delivers benefits to Reside and the council

- Performance managing existing Reside stock and service providers including:
    - Ensuring that a clear “offer” for Reside residents is put in place and that the improvement plan from the current service provider, MyPlace, is delivered
    - Providing Reside residents with at least the same services and functionality as LBBD council tenants, including digital services and, in future business plans, building upon this to deliver continuously improving professionally managed services
    - Engaging residents, including establishing a resident communications and engagement strategy and establishing effective engagement mechanisms
    - Developing and reporting on a refreshed, comprehensive set of KPI’s, benchmarked against good practice
    - Measuring and improving resident satisfaction
    - Developing a clear, planned approach to future management, including re-commissioning service delivery

- Working with the Council to develop a mechanism to effectively fund planned maintenance, to either allow sites to offset returns for future planned work or set aside funds for this work.

- Work with Be First to develop a detailed planned programme for the pipeline sites to refine the medium-term forecast returns from Reside

- Developing an approach to portfolio management by working with the Council to develop a mechanism to allow for sites that require cross subsidy when split into individual Reside vehicles.

- Financial health check and review of vehicles specifically to consider if it is still appropriate to retain Abbey Roding LLP and if advantageous recommending to the Council the transfer of these homes into one of the other Reside vehicles.

<u>Reside’s financial return to the Council</u>

2.3 In addition to Reside’s purpose to deliver quality affordable housing to local people, it is also expected to deliver a financial return to the council to support the delivery of wider council objectives.

2.4 The financial return to be delivered to the Council in 2019/20 is £886k before the deduction of a £258k for Reside operating costs (i.e. £628k net) and Reside will make a significant contribution to the Council’s Medium-Term Financial Strategy (MTFS) for 2020/21 to 2022/23, as set out below.

2.5 The financial plan contained in the Business Plan is underpinned by a number of economic assumptions. These assumptions have been fed into the Council's overall review of economic assumptions for investment planning purposes.

The 5-year financial plan

2.6 The expected return to the Council in future years is set out in the table below, along with returns from first tranche shared ownership sales and possible staircasing receipts. The returns have been risk rated as:

- Green: returns from sites currently in management
- Amber: returns from sites that are passed gateway three

Year	**20/21 £'000**	**21/22 £'000**	**22/23 £'000**	**23/24 £'000**	**24/25 £'000**
Green rated returns	1,817	1,978	2,184	2,290	1,347
Amber rated returns	26	361	1,048	966	1,172
Total forecast return excluding first tranche sales, staircasing and loan principal repayments	**1,842**	**2,339**	**3,232**	**3,255**	**2,518**
Total loan principal repayments made to the Council		**-10**	**-73**	**-629**	**-1,918**
Return after using loan repayments as a proxy for MRP	**1,842**	**2,330**	**3,159**	**2,626**	**600**
Interest deducted from the above paid to the Council (Council currently makes a margin on this)	**1,752**	**3,541**	**5,591**	**5,911**	**5,880**
Regen LLP pipeline: first tranche sales	**10**	**-924**	**-734**	**0**	**0**
Regen LLP staircasing surplus	**0**	**0**	**0**	**9**	**98**
Regen LLP Grant amortisation	**17**	**30**	**88**	**88**	**87**

2.7 These forecast returns are based on the projected growth in Reside's stock in the manner explained in paragraphs 2.9 to 2.16 below.

2.8 The losses in years 2022 and 2023 represent losses on the sale of first tranches of shared ownership homes at less than the initial build cost, partly as a result of current market conditions. This will become a capital cost to the Council that will result in additional council interest and Minimum Revenue Provision (MRP) costs (estimated £18k interest per annum) however RPI+1/2% rent on the equity retained by Reside / the council results in longer term surpluses from these homes and the additional interest and MRP costs are covered by Reside from these rents in the forecast.

2.9 Appendix 10 of the Business Plan shows these returns by Limited Liability Partnership / Company.

Pipeline and forecast stock numbers

2.10 There is a significant pipeline of new homes being developed by Be First which will be ultimately held and managed by Reside, and as such is expected to more than double in size over the course of the next three years.

2.11 For the purposes of the Reside business plan only sites that have passed gateway three, based on Be First's 30 June 2019 quarter end figures, are included in the financial forecast. That is sites where Be First have "*approved the project is optimal in terms of costs, benefits and risks and approve submission of a planning application*".

2.12 Sites that have not yet reached gateway 3 are not in the financial forecast. A programme of modelling the impact on Reside for all sites which have passed gateway 2 but not yet reached gateway 3 is underway, based on Be First's existing appraisals, to identify if there are any issues that need to be addressed when the sites are split into the various Reside vehicles. Reside will then systematically review and update this on a quarterly basis to ensure any issues are flagged up promptly to the shareholder.

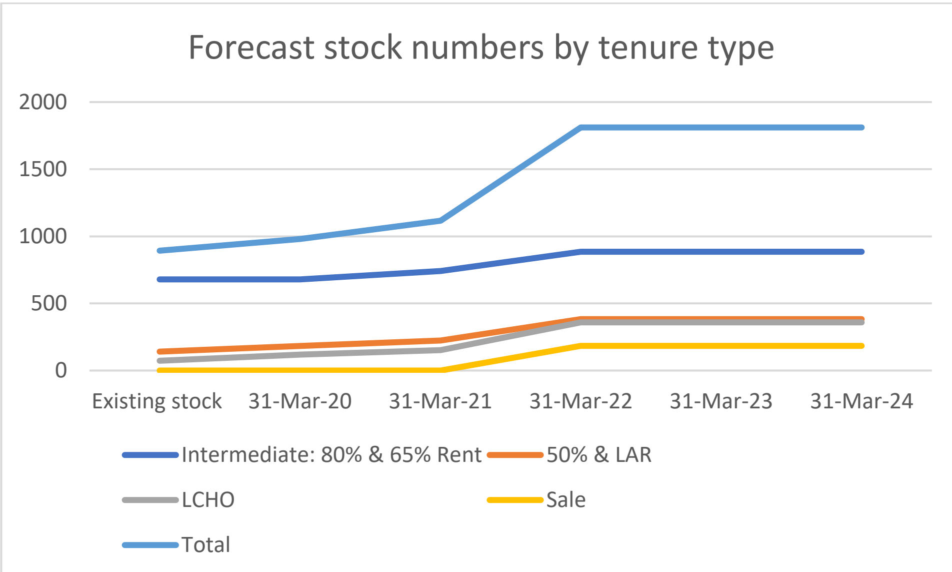
2.13 Reside will also undertake this work when the Reside Managing Director provides advice to the council on new development proposals coming forward, as part of the gateway governance process. This will ensure that there is full visibility throughout the Council's development process of the impact on the various Reside vehicles.

2.14 There remains a risk that sites under development at and beyond gateway 3 may not proceed or may deliver very materially different returns to those currently being forecast. Therefore the financial forecast in 2.6 above distinguishes between the forecast return from those sites already in management (green rated) and those not yet completed (amber rated)

2.15 The table below summarises the sites that have passed the gateway three stage. Note that Reside's purpose is focused on housing and it has generally been assumed that commercial and community space does not transfer to Reside, the exception being House for Artists where build costs per home are high as a result of the substantial ground floor community space that forms part of this innovative project.

Pipeline sites	**Forecast practical completion**	**Average forecast Reside purchase cost per unit**	**RTB 141 funding**	**GLA and other grant**	**Total no. of homes**
		£'000	**£'m**	**£'m**	
Contract Awarded and under construction:					
Beacontree Heath: London Affordable rent	Feb-20	258	£0	£5.85	41
Beacontree Heath: Shared Ownership	Feb-20	277			46
Tendered and being value engineered by Be First					
Crown House	Dec-21	351	£10.50	£1.57	169
Sites through Gateway 3, not yet at Gateway 4 as of July 19					
House for Artists	Sep-20	534	£1.93	£0.50	12
Sacred Heart	Jan-21	379	£2.00	N/A	29
Gascoigne East Phase 2 Block C	Sep-21	302	£4.56	£0.17	52
Gascoigne Phase 2 Block E1 & E2	Sep-21	311	£9.58	£2.58	268
Gascoigne Phase 2 Parcel F	Sep-21	330	£5.72	£1.48	206
Sebastian Court	Feb-21	252	£4.20	£1.25	95
Total including all sites through Gateway 3			**£38.49**	**£13.40**	**918**

2.16 The graph below sets out Reside's forecast stock numbers by tenure type, assuming all the above sites progress as set out above.



2.17 Appendix 9 of the Business Plan lists the sites that have progressed beyond gateway 2. This shows a further 688 homes are currently expected to go into Reside by December 2023 but work on these sites has not yet reached enough certainty to be included in the core financial forecast. Currently the 688 homes are made up of 235 at 80% rent, 225 at LAR, 26 at target rent,48 shared ownership and 154 market rent.

3. Registered Provider

3.1 At its meeting in January 2019, Cabinet approved in principle the establishment of a new company within the Reside structure that could become a Registered Provider of Social Housing (an RP). This was subject to the preparation of an options appraisal and business case. This work has now been done, and the key findings are summarised in this section.

Options for a Registered Provider: What is the Council looking to achieve?

3.2 The key criteria for a new Council-owned RP are:

- An RP that can use the recent GLA grant allocations for affordable rented homes. This will need to be ready to take ownership of its first homes by March 2020.
- The RP must be a wholly owned subsidiary.
- The RP needs to support the wider aim of Reside to create an income stream that provides a long-term return to the Council.
- The RP needs to be able to partner with third party developers so that it can acquire affordable rented units that are built as part of section 106 requirements

Options for a Registered Provider: the options

3.3 There are three types of Registered Provider (RP) for social housing:

- Profit making
- Non-profit making
- Local Authorities (within their Housing Revenue Account)

3.4 The Council is already therefore a registered provider in terms of its Housing Revenue Account stock. Both profit making and nonprofit making RP's must register with the Regulator for Social Housing.

3.5 There are a number of benefits to registration:

- An RP can access grant from the GLA to finance social housing. Homes built with this type of grant must be owned by an RP. The current Reside vehicles cannot access this grant for affordable rented housing.
- RPs are also able to gain and exemption from Stamp Duty Land Tax (SDLT) on the purchase of land which is funded with certain forms of public subsidy.
- Although currently of less relevance to an RP that might form part of the Reside structure, there's an established lending market in the UK to RPs. These lenders have considered regulation by the Regulator for Social Housing (and its predecessor regulators, the Homes and Communities Agency, the Housing Corporation and Tenant Services Authority) as reducing a borrower's credit risk, and so have historically been willing to price funding accordingly

3.6 RP's have to comply with the Economic and Consumer standards set by the Regulator as well as submitting routine data returns to the regulator. The standards the RP must comply with are:

Economic Standards:

- Governance and Financial Viability
- Value for Money
- Rent

Consumer Standards

- Home
- Tenancy
- Neighbourhood & Community
- Tenant Involvement & Empowerment

3.7 As a local authority RP (ie pertaining to the stock held in the Housing Revenue Account) the Council must comply with the Consumer Standards, but the Economic Standards do not apply in this context. A new wholly-owned RP would need to comply with both sets of standards.

Options for a Registered Provider: appraisal

3.8 Within the context set out above, the following options were considered by the Council:

a) Setting up a For Profit Registered Provider
c) Setting up a Not for Profit Registered Provider
d) Not setting up a Registered Provider

a) Setting up a For-Profit Registered Provider

3.9 This was considered as in principle a for-profit registered provider would support the Council's aims identified in 3.2 above. However, recent changes in regulations mean that it is difficult to establish a for-profit RP that is controlled by the Council. These regulations resulted from the Government's desire to achieve the reclassification of RPs by the Office of National Statistics as private sector bodies, so that the borrowing of RPs could be removed from the public balance sheet. These regulations apply to all RPs, *except any not for profit RPs that are wholly owned by local authorities*.

3.10 The effect of the 2017 Regulations include limitations on the amount of control a local authority can have over an RP, including board membership and voting rights. This includes any voting rights held by a local authority subsidiary (for example if Reside held voting rights on behalf of LBBD). In short, then, the regulations prevent a local authority from holding/exercising voting rights for any RP, other than a not-for-profit RP which it wholly owns.

b) Setting up a wholly owned not for Profit Registered Provider as part of the Reside structure

3.11 This option is achievable, as a not for profit RP wholly owned by the Council would be able to comply with all the Regulator's requirements.

3.12 This option would still enable the Council to generate an income stream from the Registered provider through the terms of any loans between the Council and the RP, as well as payments relating to the leases. The RP's board would need to satisfy itself that any such charges are reasonable and in keeping with the regulatory framework.

3.13 The RSH requires all RP's to have "appropriate" independence. The mechanisms and policies which govern independence will require careful consideration as part of the application process; that said there is nothing which will prevent the RP being wholly owned by LBBD. There are examples of other local authorities who have established wholly-owned not-for profit RPs.

3.14 Such an RP will be eligible to receive GLA grant (subject to the usual eligibility criteria for schemes). The Council is in correspondence with the GLA about its proposals and any amendments that may be required to agreements between the Council and the GLA.

c) Not setting up a Registered Provider

3.15 This option was discounted as this would not allow the new homes built using GLA grant to be within Reside.

Options for a Registered Provider: conclusion

3.16 A not-for-profit Registered Provider that is wholly owned by the Council is the option which best meets the Council's aims. For the reasons set out above, a for-profit RP would not meet the aims the Council has for a wholly-owned RP managed within the Reside structure.

Registered Provider: next steps

3.17 In line with the authorisations given by Cabinet in January 2019, officers have progressed with the initial work needed to establish the RP.

3.18 A new company – Barking and Dagenham Homes Ltd – has been established with the intention of this registering as a not-for-profit RP. Registration is a two-stage process, and the first stage application has been prepared. This first stage required information about the company, key housing policies it will follow and set out an intention to take the 41 affordable rented homes currently being built at Becontree Heath into the RP.

3.19 Once approval of the first stage application has been received from the Regulator for Social Housing the second stage or 'detailed application process' will need to be submitted. This application should give the regulator evidence that enables them to determine the new RP will meet the registration criteria. The registration criteria are set by the Regulator and currently are that the applicant:

- meets the Governance and Financial Viability Standard at the point of registration and demonstrates that it can sustain its financial viability on an ongoing basis, and
- has in place management arrangements that enable it to demonstrate the capacity to meet the other Regulatory standards.

3.20 For an applicant seeking registration as a non-profit provider, there are additional criteria relating to its constitution. For all applicants, the second stage also includes an assessment that the applicant continues to meet the eligibility requirements assessed as part of the first stage application.

4. Tenancy and Rent Policy Framework

4.1 The intention is that Reside is given day to day operational freedom to manage its portfolio, but within a framework set by the Council. Much of the current policy framework still dates from Cabinet decisions taken in 2012, and as such needs to be refreshed. Reside will produce its own tenancy and rent policy consistent with this framework.

Tenancies

4.2 A key aim of Reside is that it gives much more security of tenure than the regular private rented sector. But this needs to be balanced by the requirement that Reside is able to effectively manage the blocks it manages so that they remain good places to live. Also, Reside is primarily a provider of sub-market rental homes which are let in accordance with eligibility rules around incomes. The demand for affordable housing in the borough – and in particular family-sized accommodation, means that tenancy policy needs to support the aim that Reside homes are allocated to those who most need them.

4.3 The way this will be achieved is by Reside being clear in its Tenancy Policy that it will take swift enforcement action against households who cause anti-social behaviour, or who otherwise do not comply with their tenancy terms and conditions. This may include eviction action as a last resort.

4.4 Reside will carry out tenancy reviews with tenants every three years (though there will be regular tenancy checks at least annually). The aim of these reviews is to have a conversation with the tenant to understand how their housing needs or aspirations have changed, and if these could be better supported through a different offer within the Reside portfolio.

4.5 For example, tenants of an 80% market rent property may be interested in Shared Ownership, and Reside can provide guidance and information to inform a decision about whether the tenant could afford this. There may also be occasions where a household needs a larger property to meet their needs, and Reside may be able to help them find a larger property within its expanding portfolio. If a tenant no longer meets the eligibility criteria for their sub-market rent home (for example if they now have a household income above the Reside eligibility threshold) they will be supported to explore alternative tenures which they afford and meets their needs, including alternative tenures offered by Reside. If there have been no significant changes, the tenancy would continue as before until the next three year review. Outside of this three year review, Reside will only take action which could lead to the end of a tenancy for the reasons expressly identified in its tenancy policy, ie non-compliance with the tenancy agreement (causing ASB, significant rent arrears etc).

4.6 The tenancy policy approach for the Registered Provider will follow the above as much as is possible, but there may be slight differences to tenancy terms and condition to ensure compliance with the Regulatory Framework.

Rent and service charge setting

4.7 The majority of the homes held by Reside will be subject to limitations around the rent levels that are set, either because they are built as affordable housing or receive external grant. The Council wants to retain the Reside affordable portfolio as affordable in perpetuity. There may be occasions where Reside wants to change the rent level of an affordable property at re-let within the intermediate rent tier. For example, a home at 80% of market rent could be reduced to 65% of market rent if this better meets housing needs in that particular context.

4.8 Reside will have operational freedom to make these changes, though these will need to be contained within the parameters of its Business Plan at the time, including its expected financial return. Any other changes – such as changing a property from sub-market rent to Shared Ownership – will need Council approval following consideration of any such change on the Business Plan.

4.9 The annual uprating of rents and service charges will be proposed by Reside and approved by the Council as shareholder.

5. Shareholder Agreement

5.1 A further review of the shareholder agreement has been undertaken in conjunction with the new Reside Board to ensure it clearly sets out the Council's expectations of the Board. The revised shareholder agreement is included as Appendix 1 in the attached Reside Business Plan (Appendix A). The principal changes to the agreement are:

- To delegate to Reside Board the management of the Limited Liability Partnerships which form part of the Reside structure subject to the matters reserved to the Council under schedule one of the shareholder agreement

- To provide further clarification on the business of the company and the business planning process (section 2 of the shareholder agreement). This is now defined as:

  (a) A social purpose landlord for rented, shared ownership homes and homes for sale to ensure local accountability, develop capacity within the community and to maximise the long-term return to the Council and community, by balancing financial returns and provision of additional affordable homes.

  (b) To work with the Council and Be First to enable them to maximise the proportion of social rent homes and affordable tenures in new developments, helping to ensure speed and certainty of delivery; sustainability; and inputting into the development process at an early stage to help the maximisation of long term returns.

  (c) To deliver the strategic outcomes that the Council, as the sole shareholder, wishes to achieve and, within this, to have operational policy and delivery responsibility for the way that these outcomes are achieved across the portfolio and business operations

  (d) to assist the Shareholder in achieving its regeneration and place-making objectives;

  (e) to operate a company and deliver the maximum achievable maintainable profit available for distribution to the Shareholder; to operate and effectively manage the business of the LLPs and the housing stock held by in accordance with: -

i. The Shareholder's regeneration objectives and the overall business of the Company as set out in this Agreement and having regard to the Commissioning Mandate;

ii. The Business Plan and having regard to the Commissioning Mandate;

iii. The governance requirements of LLPs as set out in the Limited Liability Partnership Act 2000 and the decision-making protocols in the relevant partnership agreement for the specific LLP;

6. Financial implications

Implications completed by: David Dickinson, Investment Fund Manager

6.1 The Reside Business plan includes, in 7.14 a 5-year financial plan. This includes the forecast returns based on existing homes and sites being developed by the Council / Be First which are expected to go into Reside. This income will form part of, but not all, of the Council's Investment and Acquisitions Strategy (IAS) income target of £5.125m by 2020/21. It is expected that the £5.125m will also include net treasury returns and commercial income that is not received from Reside. The Reside contribution to the IAS is the net of:

- the forecast Reside return (the expected profit in the Reside accounts) and
- the loan principal repayments that start two years after a site has handed over (5 years for Gascoigne phase one) and act as a proxy for the minimum revenue contribution required in the Council's accounts.

This gives a net contribution to the MTFS, excluding the margin the Council currently makes on interest recharged to Reside[1], of:

Year		**20/21 £'000**	**21/22 £'000**	**22/23 £'000**	**23/24 £'000**	**24/25 £'000**
Total forecast return excluding first tranche sales, staircasing and loan principal repayments		1,842	2,339	3,232	3,255	2,518
Total loan principal repayments made to the Council			-10	-73	-629	-1,918
MTFS return excluding staircasing receipts		**1,842**	**2,330**	**3,159**	**2,626**	**600**

The MTFS surplus decreases considerably in 24/25 when loan principal repayments / MRP is required for all the pipeline sites. In practice, subject to viability, it is likely that the sites that are currently between gateway 2 and 3 will have completed and will also contribute to the investment income target.

[1] Reside forecast interest payments to the Council are £4.7m by 24/25

6.2 The Reside business plan (section 7) sets out several financial risks that could potentially impact the return forecast. Only sites where the submission of a planning application has been approved by Be First / the council have been included. These numbers are subject to several assumptions and risks including:

- That Be First can build the pipeline sites at the cost and to the deadlines assumed in their June 2019 quarter end scheme viability assessments. As with any building project there is a risk that costs and / or timescales will change, especially given the additional safety requirements emerging following the Hackitt review. If costs are higher or development takes longer than forecast, then Reside will not be able to deliver the returns shown below.

- Financial allowances for planned and cyclical repairs for the pipeline sites are currently in included on a straight-line basis based on Be First assumptions, i.e. an assumed annual charge of £1,440.00 starting five years after handover. There is a risk this is insufficient, and returns will be lower than forecast. The average cost per property for planned and cyclical work in the stock condition survey carried out by Bailey Garner for Weavers existing homes is £2.6k per year per home (including VAT). This is higher than the Be First assumptions for the pipeline. Further work is needed to develop planned repair assumptions by architype for homes in the existing development pipeline to enable more accurate modelling of returns as well as to develop a detailed planned and cyclical repair programme for all Reside homes to manage returns. This may reduce the longer term (5+ years) returns).

- The financial return is sensitive to changes to rent assumptions, if rent increases or the market rents used as a basis for the affordable rented homes are lower than assumed then the return will be lower than forecast. Specifically:

  - Rent increases for Reside Ltd have been assumed at RPI+1/2%[1] for the life of the business plan. For Weavers LLP and Abbey Roding LLP increases have been assumed at CPI+1% until 26/27 at which point a CPI rent increase has been assumed. There is a risk that market rents may not move in line with this assumption, especially given the uncertainty around Brexit, and that therefore these increases will not be able to be applied, especially to the 80% rents.

  - Be First current assumptions have been used for the rent for the pipeline sites for homes let at 80% of market rent indexed as above, the actual charge will depend on the local rent market at the point of handover. Reside is jointly commissioning with Be First regular updated rental valuations for these sites on a six monthly basis going forward to ensure any issues with income are highlighted promptly, the first report is expected this autumn.

  - The numbers are sensitive to changes in sales values for shared ownership homes. Sales values are affected by the housing market in London and other macro-economic factors. Any reduction in sales values both reduces the initial surplus / increases the loss made on the initial shared ownership sale and the amount of rent charged on the retained equity (shared ownership rent is assumed to be 2.75%[2] of the value of retained equity so a lower sale price means less rent).

- Specifically market factors have impacted on both sales values[3] and speed of sales on Gascoigne Phase one. Given current market conditions Reside are working with Be First and the Council on alternative tenure options including market rent for phase two and no surplus from outright sales has been included in the numbers.

- The financial returns have been modelled based on the existing management costs charged to Reside by MyPlace and BDMS. There's a risk real costs maybe lower or higher than these recharges and an accurate understanding of the real cost of delivering these services in the future to Reside is required to ensure the Council fully understands and maximises returns[4].

- Reside is currently unable to reclaim its VAT, the forecast return assumes this continues to be the place, Advice has been commissioned to see if efficiencies can be found especially on the cost of planned and cyclical works where the VAT costs are significant.

7. Legal Implications

7.1 The "general power of competence" under Section 1 of the Localism Act 2011, gives the local authority the power "…to do anything that individuals generally may do" would enable the creation and operation of companies such as Reside or a new Registered Provider. The power is not limited either by the need to evidence a benefit accruing to the local authority's area, or in geographical scope. However, existing and future restrictions contained in the legislation continue to apply.

7.2 The Housing and Regeneration Act 2008 (HRA 2008) established the regulator of social housing and the statutory framework which enables the regulator to register and regulate providers of social housing, known as registered providers. There are various types of registered provider including for profit, non-profit or charitable entities. Registration is voluntary for new entrants to the social housing sector. However, it is compulsory for those entities which have access to financial assistance from Homes England or the GLA. Section 31 of the HRA 2008 requires that when Homes England and GLA provide financial grants they must impose conditions that a registered provider is the landlord of the accommodation when it is let. Hence, in so far as any of the schemes delivered by the Council benefit from such financial assistance, the accommodation needs to be let/managed through the HRA or a registered provider.

7.3 The registration requirements under Section 112, HRA 2008 and the regulatory standards set out the requirements the new registered provider will need to comply with. These include requirements around financial viability, governance, management and (for non-profit entities) having as an object the provision of social housing.

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[2] This is the percentage rent used on the recent shared ownership sales at Gascoigne Phase one and Kingsbridge

[3] The revised values are reflected in the financial forecast in this business plan

7.4 The proposals for a registered provider are also impacted by the Regulation of Social Housing (Influence of Local Authorities) (England) Regs 2017, which are designed to limit the level of local authority influence over private registered providers such that their board membership does not exceed 24% of local authority nominated officers. The only exception to application of the Regulations is for entities which are wholly owned/controlled by the local authority and a non-profit organisation as defined by the Housing and Regeneration Act 2008.

7.5 Furthermore, it should be noted that whilst a range of powers including the Local Government Act 2003 enable the Council to provide financial assistance to Reside and development projects, this is subject to the Reside group being compliant with Treasury guidance and State Aid rules.

Public Background Papers Used in the Preparation of the Report: None.

List of appendices:

- Appendix A – Reside Business Plan 2019/20