

## **Frequently Asked Questions**

### **Joint Venture between Brighton & Hove City Council and Hyde Housing Association**

#### **1. Why is the council entering into a Joint Venture?**

*The Joint Venture is an attractive opportunity for the Council to accelerate the delivery of lower cost homes for rent and sale for low income working households in Brighton & Hove whilst generating a return on our investment. This proposal supports Housing Strategy priorities around improving the supply of affordable homes and City Plan priorities around meeting the need for new housing in the City.*

*The Council has been looking at a range of funding and delivery mechanisms to meet our identified need for lower cost homes the city needs. Hyde Housing Association (Hyde), a long standing member of our Affordable Housing Delivery Partnership, has approached the Council with a proposal which could deliver 1,000 new lower cost rental and sale homes for low income working households in the city.*

*This is one of a number of options we are proposing to increase the supply of lower cost homes in the city, including;*

- *A wholly owned Council housing company, building upon Government funded Housing Market Intervention research agreed by Housing & New Homes in and Policy, Resources & Growth Committees November and December 2016;*
- *Continued work with our Affordable Housing Delivery Partnership including Registered Provider partners, the Council and the Homes & Communities Agency;*
- *Our New Homes for Neighbourhoods Programme, subject to current limitations of the Housing Revenue Account (HRA) borrowing cap;*
- *Making best use of existing stock through our Hidden Homes and conversions projects, supporting delivery of new homes as part of our HRA Asset Management Strategy;*
- *Joint work with Planning in support of delivering Planning Policy, Affordable Housing Requirements;*
- *Freedoms and flexibilities to accelerate housing delivery in the city sought from Government as part of Greater Brighton Devolution proposals.*
- *Purchase leasehold properties, previously disposed of through the Right to Buy scheme.*

*Hyde have developed a distinctive proposal with both types of homes tailored to the specific needs of local people within Brighton & Hove. The opportunity is attractive as it can be delivered quickly as it does not require a lengthy procurement and mobilisation process. It also has the advantage of being a partnership with a trusted partner who has similar aims to the Council and are the only developing Housing Association currently based within the city's boundaries. Hyde also have an excellent track record of delivering new build projects within the city and have delivered more new affordable homes than other Registered Providers and developers in recent years. Hyde also have a good history of bringing additional benefits such as employment, training and apprenticeship opportunities for local people. This makes the JV*

*an attractive opportunity for the Council to accelerate the delivery of lower cost homes for rent and sale for low income working households that the city so desperately needs whilst generating a return on our investment.*

## **2. Why is this report being presented to Housing and New Homes Committee?**

*Housing & New Homes and Policy, Resources & Growth Committees agreed to 'Support in principle the living wage joint venture' subject to a number of safeguards being put in place at their meetings in November and December 2016. Delegated authority was given to the Executive Director of Economy, Environment and Culture (following consultation with the Executive Lead Officer for Strategy, Governance & Law, the Executive Director of Finance & Resources, the Estate Regeneration Board and the Strategic Delivery Board) to negotiate the deal with Hyde and agree the associated legal documentation to establish the Joint Venture. It was also agreed that the final Business Plan would be brought back to committee for agreement and this is now reading to be considered by Committee following a period of due diligence checks by the council.*

## **3. What is the Living Wage Joint Venture?**

*The proposal is to establish an equal Joint Venture (JV) Limited Liability Partnership (LLP) between Brighton & Hove City Council and Hyde Housing Association. The partners would provide equal funding to build new homes for low working households in Brighton & Hove. The JV would aim to deliver 1,000 lower cost homes for rental and sale, including:*

- *500 lower cost homes at sub market prices which are affordable to rent for working Brighton & Hove residents earning the new National Living Wage (assumed delivery from 2019 onwards); and*
- *500 shared ownership homes affordable to buy for Brighton & Hove residents on average incomes.*

## **4. Why is the council looking at projects like this?**

*Brighton & Hove is a growing city with high housing prices, low incomes, an ageing population and a significant proportion of households with support needs. There are over 23,000 households on the joint housing register, 1,800 households in temporary accommodation and rising homelessness. Social housing makes up only a small proportion of the overall housing in the city with 9.8% of homes owned by the local authority and 5.1% by Registered Providers (RPs).*

*Housing demand, growth in the private rented sector and rising rents has an adverse effect on affordability of housing in the City. This has contributed to a decline in owner occupation as those seeking to buy their own home are increasingly unable to take advantage of housing for sale either through cost or as a result of sales of residential accommodation meeting demand from buy to let or other landlord investors rather than prospective home owners.*

*This increasing housing demand, reduced public subsidy for affordable homes (in particular no national funding for lower cost general needs rented homes) and a shift away from development of rented and family homes remain key challenges identified by the council's Housing Strategy and Budget. This has an adverse impact upon the council's ability to respond to the needs of a growing more diverse population and the council's capacity to*

*maintain mixed and balanced communities and retention of lower income working households and employment in the city.*

#### **5. How will you ensure the homes go to local households?**

*The primary purpose of this JV proposal is to provide lower cost rental and sale homes for low income working households in Brighton & Hove. There is no intention to provide access to households who do not live or work in the City.*

*Our Housing Strategy highlighted key themes including the availability of affordable family homes, in particular rented homes, and the economic impact of this lack of housing supply on our ability to retain lower income working households and employment in the City. In our Housing Strategy we are committed to work collaboratively with Adult Social Care, Children's Services and Health colleagues to meet our shared objectives including the availability of homes in the city to meet the needs of their workforce and those of other employers for whom the recruitment and retention of lower income workers in Brighton & Hove has increasingly become an issue. The proposed Living Wage Joint Venture would align to our strategic aim of contributing to addressing this issue.*

*The Living Wage proposal concords with the Council's Allocation Policy which has an income cap against size of accommodation needed so that those high earners who can resolve their housing in the private rented sector are no longer on the Housing Register whilst retaining those on lower incomes who would benefit from the Living Wage housing. The income caps have been set such that households who could expect to pay more than half of their income on average market rents would be retained on the Register whilst those who would expect to pay a lesser percentage would no longer be on the Register and hence would ensure they do not benefit from Living Wage homes. The Joint Venture will have an agreed Letting Strategy to prioritise low income working households.*

*With regard to lower cost homes for sale, the proposal does not including making use of Government funding which gives us greater flexibility to target homes to households who live and work in Brighton & Hove. Government shared and lower cost home ownership schemes are resourced to meet national housing strategy requirements and do not apply local connection criteria with regard to applicants for homes for low cost sale developed through Registered Providers in the City.*

#### **6. What are the wider benefits of the joint venture?**

*There are a number of potential wider benefits of the JV for the city, these include:*

- *700 opportunities for education, training and apprenticeships*
- *An average of over 400 FTE construction jobs supported each year for 5 years*
- *4,500 direct and indirect jobs supported*
- *After leakage and displacement, the joint venture produces over 2600 net new jobs*
- *Estimated Gross Value Added to the economy of £350M over 5 years*
- *New Council Tax revenues – see Finance section below(5 years)*
- *New Homes Bonus – see Finance section below*
- *£6M of direct investment into new civic and community infrastructure through S106, benefitting the wider city*

### **7. Could the JV deliver more than 1,000 homes?**

*The Council has looked at the potential for Joint Ventures to also deliver larger estate regeneration projects, but any such projects would be brought forward as separate proposals with their own bespoke financial model and funding proposal that would need to be agreed by the Housing & New Homes and Policy, Resources and Growth Committees.*

*We may also be approached in the future with other JV proposals. These would also have to be carefully considered to ensure compliance with our strategic, financial, procurement and governance requirements, including approval through Committee under existing procedures.*

*This JV could be expanded in scope to deliver more homes or other projects but this would require the approval of both investors (which for the Council would require new committee approvals).*

### **8. What are the benefits of working through a JV Partnership?**

*The Joint Venture means that the council is able to share investment and risk with Hyde to double the capacity available for building new homes by delivering them through a Joint Venture. Working in partnership with Hyde also means that we are able to benefit from their expertise, resources and volume buying power as they build an average of 1,500 new homes a year, providing efficiencies and economies of scale. This means that more than double the amount of homes can be built than if the Council progressed the project on its own.*

## **FINANCES**

### **9. How much would each partner invest in the Joint Venture?**

*It is estimated that each partner would need to invest £60M (a total of £120M) to deliver the 1,000 homes. Within this overarching financial model and business case, each proposed scheme would be subject to separate financial viability testing and approval process.*

### **10. Where will the council borrow the money from?**

*The Council will borrow from the Public Works Loan Board to fund the required equity. Any borrowing identified will have to meet the guidelines of the Prudential Code and assessed as affordable, prudent and sustainable. A review of the LLP's Business plan and individual scheme appraisals will ensure full consideration is given to the requirements of the Prudential Code. Any new borrowing for the project will be approved as part of the council's borrowing limit (i.e. the maximum the council is able to borrow) by Budget Council each year.*

### **11. What is the expected return on investment?**

*The Business Plan has estimated that the rate of return for the investment is in the region of 8%. This is considered a good rate of return for this type of investment in affordable housing.*

### **12. What is the expected Council Tax from the new homes?**

*It is estimated that the delivery of an additional 1,000 properties in the city would raise in the region of £0.845 million in council tax income per annum, this is an estimate based on a number of assumptions such as council bands, discounts applied and assumed council tax increases.*

**13. What is the expected New Homes Bonus from the new homes?**

*It is difficult to assess the additional revenue relating to the New Homes Bonus scheme as the Government has introduced a 0.4% threshold which has to be exceeded before any New Homes Bonus grant is received. Therefore, the council could receive a maximum of £1.2 million per annum over 4 years for delivery of 1,000 properties, if these were over and above the 0.4% threshold."*

**14. How will value for money be assured with the provision of works, goods and services to the Joint Venture?**

*Goods, works and services purchased by the JV (which will be a Limited Liability Partnership or LLP) will be subject to a procurement process (for example consultancy and construction services). The proposal is to use Hyde's competitively tendered Open Journal of the European Union (OJEU) compliant consultancy and construction frameworks. Each development delivered under the framework will have its own procurement process within the framework with mini-competitions between contractors providing further opportunities to test value for money, ensuring that economically advantageous price is achieved and reducing the risk of anti-competitive behaviour and/or supplier complacency.*

*Other organisations have joined the Hyde's frameworks so that they can access the services and reduce procurement timescales and complexity (including other Housing Associations Registered Providers and Local Authorities). Hyde generally charge for access to their frameworks, and it is worth noting that other local authorities and housing associations are paying Hyde considerable sums to use them. It has been negotiated and agreed that Hyde will not charge these access fees to the JV when the LLP is buying goods or services through the frameworks. The LLP will also benefit considerably from Hyde's volume buying power, providing efficiencies and economies of scale.*

**Project monitor**

*The joint appointment of an independent Project Monitor (Martin Arnold LTD) will provide an additional layer of assurance for both the Council and Hyde as they will provide a full value for money assessment of each contract that is delivered through the JV. Projects will not proceed without assurance that the individual project represents value for money. More details of this are contained within the Business Plan.*

**Mutual benefits and incentives**

*While the primary purpose of the joint venture is to provide lower cost housing for low income working households in Brighton & Hove, there is a commercial rate of return expected to be returned from the Council's investment. The proposed legal and financial structure of the JV ensures that both parties' interests are aligned through the investment returns. The only way either Hyde or the Council can earn a profit from the venture is through the investment return on its equity invested. Therefore for Hyde and the Council would be earning exactly the same return. In simple terms what's good for Hyde financially in the JV is good for the Council. The structure therefore gives assurance as it motivates the right*

*behaviours of the Council's JV partner, in this case Hyde, as it is in the mutual interests for both parties to minimise all costs to maximise the return on their investment. This helps to ensure value for money for both parties.*

**16. What are the costs of running the company and board?**

*The main costs for running the board will be officer and Member time and costs associated with arranging and holding board meetings. These will need to be covered by both parties in the JV and it is likely that council or Hyde building will be used to host board meetings. The cost of corporate and financial services has been costed and is included within the financial model. The council will provide these services and will need to ensure that costs are recovered.*

**17. What sensitivities have been tested?**

*The following sensitivities have been tested:*

- Construction costs increase by 10%
- Drop in sales by 10%
- Increase in land cost by 50%

*The three sensitivities were combined to show the impact of all three occurring simultaneously, the result still provided a positive return on the investment.*

**18. How are the figures for Market Sales calculated?**

*The assumptions come from Hyde's experience of having sold several hundred shared ownership homes locally and a market research exercise by Hyde. The final values would of course vary by site and actuals could be lower or higher than the average assumed but the figure used for the financial modelling is considered to be achievable under current market conditions.*

**19. How has the Financial Model been checked and validated ?**

*The Strategic Financial Model produced by Hyde is considered to be an industry standard form which uses prudent financial assumptions and forecasts to analyse the financial viability of major capital projects.*

*The model is an open excel file which has been reviewed and analysed by the Council's Finance team and is considered to be an adequate financial modelling tool. The Council's due diligence review of the model shows that the calculations and cashflow calculate correctly and the financial inputs and outputs of the model have been validated by the Council's Finance team.*

*Brighton & Hove City Council has developed its own excel viability modelling for its smaller developments in the New Homes for Neighbourhood programme, which has commenced the delivery of over 200 homes to date. Both financial models use a similar set of parameters and assumptions, except that Hyde's model is a more sophisticated modelling tool appropriate to the size and complexity of the proposed Joint Venture and therefore more appropriate to use for reviewing the JV business case proposal.*

*The Council has reviewed the model and its inputs, testing assumptions and assessing the validity of the outputs being produced. The Council's Finance officers, who are experienced in providing support for the New Homes for Neighbourhood programme and other major projects, have then updated and reproduced the excel financial model to test various scenarios and the sensitivity of the financial business case.*

*The model and assumptions have also been checked and validated by the independent Project Monitor.*

*In conclusion, the Council's Finance officers are satisfied with the validity of the financial information produced using the SFM.*

**20. What would happen if a number of issues happened at the same time e.g. house prices drop, construction costs increase, deflation and not being able to sell shared ownership properties?**

*The purpose of the Joint Venture is to deliver 1,000 lower cost rented and sale homes for low income working households. The financial modelling to support the business case for the JV proposal shows that in addition to providing 1,000 homes the JV is forecast to generate a significant long term financial return for the Council and Hyde.*

*Officers have tested different scenarios that could impact on these surpluses and the ability to fund repayment of general fund borrowing used to fund the Council's equity investment and is satisfied that the financial case is sound and robust. Although unlikely to all occur, the effect of these possible combination scenarios has been tested and although they could reduce the returns, the forecast return to the council would still be positive.*

**21. What happens if the JV is not able to sell the shared ownership properties?**

*The risk of selling shared ownership properties is considered to be low; the cost of buying a shared ownership property from the scheme is comparable or lower than the cost of privately renting in Brighton & Hove and is therefore an attractive option for local buyers who are unable to afford to buy 100% of a property. Whilst the strategic financial model shows 500 shared ownership properties being constructed, the reality is that these would be developed in phases over 5 years, so at no time would the Council be exposed to the risk of 500 shared ownership sales (this would be anticipated to be around 50 sales at any one time).*

*If homes were not selling or were selling at reduced prices, this would trigger a review of the business plan by the JV partners. Hyde has a strong track record of developing and selling shared ownership property and has evidence of sustained demand for property in the Brighton & Hove area. House prices could fall up to 44% before the Council and Hyde would face losses on the shared ownership properties being proposed. This is a much higher margin than for most speculative developers of even outright sale housing, who typically work on gross margins of between 15 – 25% subject to the risk of a given project. Therefore, whilst there is risk in developing and selling shared ownership housing, the risk is mitigated by the phased nature of the business plan and the margin.*

*It should be noted that as well as downside risks modelled and shown above, there is the possibility that returns to the investors could be higher as the economic situation could improve in a way that favours the financial model.*

**22. Why is this not being undertaken through the Housing Revenue Account?**

*The Housing Revenue Account (HRA) does not have financial capacity to deliver the significant amount of lower cost rented housing required in the City. This position means that the council needs to look at alternative funding and delivery mechanisms to deliver the new lower cost homes this city needs. The option being considered by the Council is to deliver new homes through a partnership through the General Fund.*

*If circumstances change that increase the financial resources of the HRA, options would be reviewed for increasing housing supply through the HRA. The Council could not fund its equity contribution to the proposed LLP from the HRA as the properties would then be required to be held within the HRA to do this, which they would not be as the properties would be owned by the LLP.*

*The Strategic Financial Viability Modelling supports the business case for the JV proposal. The forecast internal rates of return, total gross development value/cost ratio and sensitivity analysis provide financial reassurance that the JV business case proposals are sound and robust.*

**23. What are the risks for the General Fund?**

*The Strategic financial viability modelling supports the Business Plan for the JV. The forecast internal rates of return, total gross development value/cost ratio and sensitivity analysis provide financial reassurance that the JV Business Plan is sound and robust.*

*It was highlighted in the previous H&NH committee reports financial implications that the Council's General Fund would need to cover financing costs of borrowing during the construction stage.*

*The Council will look to mitigate this risk by utilising the capital receipts from the sale of its own property to fund the required equity investment, reducing the need to borrow in the first instance.*

*The use of reserves in the short term would be considered to fund any remaining shortfall during the construction phase. The reserves would be replenished over time from the surpluses generated by the LLP.*

*The Council's equity investment to the JV is incremental and is phased over 5 years; equity funding will only be committed to individual projects that pass agreed viability tests and in tranches based on the projects cashflow requirements. The investment will be secured by a floating charge over the property during construction and then will switch to a fixed charge once the project reaches completion.*

*The financial performance of the LLP against the Business Plan will be regularly monitored and reported to Members of the Board in accordance with the Heads of Terms and schedule of services.*

*The LLP will be operated according to sound commercial principles in the best interests of the LLP Members, if economic conditions change over the period, the Board would need to review the Business Plan in order to mitigate any adverse impacts of market changes and could decide to pause or stop the venture depending on the situation faced.*

**24. Are the maintenance costs in the financial model high enough?**

*The Strategic Financial Viability Model includes allowances for management, responsive maintenance and life cycle costs for ongoing stock investment (described as major works sinking fund in assumptions table). These costs are based on the actual costs incurred by Hyde and used across its development programme.*

*The life time costs allowance (sinking fund) would be held in the LLP reserves for future investment when required and no costs associated with the management, maintenance and repair of homes held in the LLP will fall to the General Fund or Hyde.*

*The Council's Finance department have reviewed the assumptions and costs compared to those used in BHCC New Homes for Neighbourhood (NHFN) viability modelling and consider them comparable and adequate to provide a good quality management and maintenance service, together with adequate allowance for stock investment into cyclical works for example to include replacement windows and roofs and so forth.*

**25. What if right to buy were to be extended, would this affect the general fund?**

*The primary purpose of the Joint Venture is to increase supply of lower cost rental and sale homes for low income working households in the city.*

*There is no indication that the Government intends to extend legislation to cover private corporate entities or partnerships such as LLPs, which are widely used in the private sector. If the Government was to legislate for LLPs to be subject to Right to Buy this would affect a significant number of private / commercial property investors. The risk of Right to Buy legislation being extended to cover these homes is therefore considered low.*

*If Right to Buy legislation were to be extended to cover these homes it is likely that the legislation would be like current proposals for Housing Associations, with the discount funded from public sector budgets. The financial impact on the Joint Venture would therefore be minimal and potentially financially beneficial. However, as outlined in answers above, a wide range of scenarios and combinations of scenarios have been tested which demonstrate the financial model is robust and could manage a range of negative financial impacts without putting additional strain on the General Fund.*

*The average cost to market value ratio between development costs and market value of the homes is 56% which demonstrates a paper margin of 44% in investment, this is a considerable buffer against the various risks of the JV.*

**26. How are rent increases calculated? Could they be 'pegged' to the National Living Wage**

*Rent increases will be in line with the Consumer Price Index (CPI). This will ensure that rents do not rise at a higher rate than the cost of living and should keep pace with wage increases. This is lower than usual rent increases for Housing Associations and Council's which are generally at CPI+1%.*

*It is not possible to 'peg' rents to the National Living Wage as these increases are politically controlled. It is not prudent or sensible to make a significant investment decision based on an unknown factor and would not be agreed by the financial advisors for either party in the Joint Venture.*

## **LEGAL ISSUES**

### **27. How would disputes between the JV partners be resolved?**

*There are a number of scenarios where dispute resolution could apply.*

*Firstly deadlock in the joint venture– i.e. no one is in breach of a contractual obligation but there is a lack of agreement between the investors on how to take the JV forward and given both parties have a 50% vote, nothing can progress. This risk is significantly mitigated through a clear Business Plan that is agreed upon and adopted at the outset and which forms part of the JV legal agreement. Therefore the risk is that things change and the business plan cannot be delivered and a disagreement arises on how to proceed. If such a dispute could not be resolved at LLP Board level it would be escalated within each organisation (likely up to the Chief Executives and potentially then Chairman to Council Leader) and non-binding mediation would be used if required. If agreement cannot be reached following mediation the parties would have the option of purchasing the other party's interest for at least fair value (bidding against each other for each other's shares). If this was not taken up by either party the parties would wind up the JV and liquidate the assets. This would be the 'nuclear' option for each investor and a very serious difference of opinion would need to arise for such a route to be taken due to the financial risks involved.*

*Secondly, a breach of contractual obligations in the joint venture – either in the LLP agreement or funding agreement. In this scenario, the other party could either (a) purchase the defaulting party's interest in the joint venture at 90% of the defaulting party's interest (the 10% reduction in value being a disincentive from defaulting) or (b) require the LLP to be wound up. There would also always remain, as with any contract, the risk that the other party could bring litigation. This is the same position as any contract with a third party and the Council will manage it by being clear on the obligations it is signing up to and ensuring it complies with them. If Hyde was in irremediable breach of contract and the Council took legal action, then the Council would also seek reimbursement of its costs together with any other losses incurred.*

*This is a standard approach to dispute resolution in Joint Ventures and LLPs.*

### **28. Is there a budget for dealing with legal disputes?**

*The Council would not set aside a separate budget line for potential legal disputes over the 60 years as it is not entering the JV with the intention of becoming embroiled in a dispute and litigating. However, if the Council believed there to be the potential for litigation in the future, then it could consider allowing for a risk provision in its future financial planning with the likely source of funding this provision from LLP returns. This is standard practice when reviewing and monitoring major projects.*

*If the Council had to litigate for breach of contract then in addition to its losses it would also seek an award for its costs against the defendant.*

**29. Could the Joint Venture be legally challenged for not using a traditional procurement route?**

*Our legal advisors have provided advice that the Council can enter into the JV without a procurement process for the following reasons:*

- *There is no public contract in place between the Council and Hyde – entering into the joint venture itself need not involve the awarding of a contract for goods, works or services;*
- *This is public sector co-operation that is permitted under the procurement rules – both parties are public bodies for procurement purposes and could make use of inter-public body exemptions;*
- *Public contracts that do exist can be awarded without a procurement process in light of what is known as the Teckal exemption – this allows entities controlled by and delivering activity for public bodies to be awarded contracts without a competitive procurement process.*

**30. What happens in the event of Hyde running into financial difficulties or ‘going out of business’?**

*Hyde going into administration / insolvency it would constitute an Event of Default under the LLP agreement meaning the Council would have first option to purchase Hyde's interest at 90% of its fair value.*

*Hyde has been in operation for 50 years and has a portfolio of 50,000 homes making it is one of the largest Housing Associations in the UK. Hyde is a stable and well run business which has consistently demonstrated the ability to trade through difficult financial circumstances, growing its profitability consistently year on year, whilst investing significantly in providing affordable homes for local people in housing need.*

*The response above to question 2 details checks on Hyde’s financial position that have been undertaken.*

*These are usual and customary provisions which would be expected to be incorporated into a Limited Liability Partnership Member’s Agreement.*

**GOVERNANCE**

**31. Will councillors be on the JV Board?**

*It is for the Council to determine who represents it on the JV Board and this could include elected member representation. Councillors have requested that they are the council’s representatives on the JV Board and members of the Estate Regeneration Member Board have suggested that they would be appropriate representatives (i.e. the Chair, Opposition Spokes and Group Spokes for the Greens of Housing & New Homes Committee). It has been confirmed by the council’s legal advisors that potential conflicts of interest could be managed for these members. Any appointments would need to be agreed by Political Groups and confirmed by Full Council or Policy, Resources & Growth Committee.*

**32. Who will chair JV Board meetings and will they have a casting vote?**

*The Chair will not have a casting vote. It is likely that the Chair would change annually with each investor taking it in turn to Chair.*

## **HYDE HOUSING ASSOCIATION**

### **33. Have financial checks of solvency been carried out on Hyde?**

*Yes - checks have been completed and Hyde has been assessed to have a sound financial standing to support this project.*

### **34. Why did the merger between Hyde and London & Quadrant and East Thames Housing Associations not go ahead?**

*Both Hyde and L&Q mutually agreed to end their merger discussions when it became apparent to the Shadow Board that the practical difficulties of merging two large and complex organisations meant that the operational efficiency savings envisaged would take longer than expected and therefore would not deliver sufficiently against the merger business case.*

*Hyde is financially sound and well governed, as indicated by its financial and regulatory ratings, and is proceeding with a programme of operational efficiencies to make savings from its core business in order to fund an expansion of its housebuilding programme. In short Hyde's board felt there was a stronger case for being able to deliver against its core objective of providing quality services to residents and additional investment into affordable house building on its own than was possible joining up with L&Q.*

## **DEVELOPMENT SITES**

### **35. How will the council ensure all sites have the correct valuation?**

*The sites will be valued by an independent valuer following a process that has been agreed by the council's Property & Design team and any disposal to the JV will be the subject to the agreement of Policy Resources and Growth Committee. This will be a transparent process which follows agreed principles and meets the requirements of Best Consideration legislation.*

*Entering into the JV does not change the Council's processes or statutory obligations in disposing of land for best consideration.*

### **36. Will the JV get all the council's best sites?**

*The Council and councillors will have full control over deciding on any sites to be transferred to the JV as all land transfers will need to be agreed by Policy, Resources and Growth Committee under existing arrangements. Consultation would be undertaken with ward councillors and other relevant members similar to for sites used in the New Homes for Neighbourhoods programme.*

*Any land to be transferred would need to be independently valued to allow the Council to meet its duty to obtain best consideration. This would be undertaken by an independent valuer following an agreed process and principles. The independent valuer would take into account the likely construction costs of developing a given site when calculating the residual*

land value, so lower construction costs would be reflected in a higher residual land value (i.e. land receipt to the Council) and vice versa.

**37. What is the lease length for council sites?**

*The lease length for council sites to be transferred to the Joint Venture has been agreed at 250 years. The 250 year lease will be passed on to those purchasing the Shared Ownership properties and Hyde's experience in this market is that a lease of at least this length makes the purchase of these properties more attractive and provides the purchasers with a wider range of borrowing options than available when a shorter lease length is offered.*

**SHARED OWNERSHIP**

**38. What is the management company model for Shared Ownership properties once properties are sold?**

*The shared ownership properties would be managed by either Hyde or the Council depending on who is appointed to provide the LLP with property and asset management services.*

*Management of shared ownership homes is principally leasehold management consisting of collecting rent and dealing with consents and so forth under the lease. Consents would incur a charge and are therefore self-funding. As for dealing with arrears of rent, this would incur reasonable administration fees which are recovered along with arrears. As there is generally a mortgagee with a charge over the property then arrears of rent and service charge can be passed through to the mortgagee if the leaseholder (the mortgagor) fails to make payments due under the lease.*

*The lease for shared ownership properties passes the obligation for interior maintenance on to the leaseholder, with an obligation to pay a fair and reasonable proportion for exterior and structural repairs. The service charge includes allowances for the management costs of providing the services (approximately 15%).*

**39. How would the sale and re-sale of the shared ownership homes be managed?**

*Unlike some Housing Associations Hyde have a preference for selling shared ownership homes on as shared ownership products rather than on the open market. This means that the affordable home is not lost if the owner decides to sell. This will be applied to shared ownership homes managed by the JV where possible.*

**40. What is included in the Shared Ownership Service Charge?**

*The service charge for Shared Ownership properties includes contributions to the management services, as well as the running, cleaning and maintenance of communal areas. The Service charge also includes a contribution to a sinking fund that will reduce the costs of any relevant future maintenance works to individual leaseholders.*

## Rented Homes

### 41. What will the rents be?

Living Wage housing in this context is defined as a homes provided at a cost which is at 37.5% of gross pay to a household earning the new national Living Wage. The table below shows the rents assumed in the JV Financial Model which are significantly lower than those charged for Affordable Rent tenancies in the City.

	<b>Living Wage Rent</b> per week	<b>Basis of calculation</b>	<b>Local Housing Allowance 2017/18</b> per week
Studio	£118.13	Studio: £9 p/h x 35 hrs per week x37.5%	£153.02
1 bed	£147.66	1 bed: ((£9 p/h x 35 hrs per week) x 1.25)x37.5%	£153.02
2 bed	£177.19 per week	2 bed: ((£9 p/h x 35 hrs per week) x 1.5)x37.5%	£192.48
3 bed	£206.72 per week	3 bed: ((£9 p/h x 35 hrs per week) x 1.75)x37.5%	£230.28

Rent increases will be in line with the Consumer Price Index (CPI). This will ensure that rents do not rise at a higher rate than the cost of living and should keep pace with wage increases. This is lower than usual rent increases for Housing Associations and Council's which are generally at CPI+1%.

### 42. Could there be differential rent levels i.e. adjusted downwards or upwards in relation to household income?

This is not part of the Letting Strategy and would require significant ongoing means testing and could therefore be complex to manage and administer.