

Appendix 2 - Housing PFI Project Agreement Revisions

Summary Financial Modelling Results

This paper summarises financial forecasts for the Council's Housing PFI Project. It sets out the baseline position under the current contract and the position under the proposed revisions to the contract.

The key modelling assumptions are provided at the end of the paper.

1. Baseline position

The baseline provides for the conversion of a specified number of units to Social Rented units at set intervals with the first conversion being of 72 units in December 2015.

The table below shows the current projected financial position.

Financial Year	Base Revenue Figure	Rent to Council	Surplus/ Deficit	Cumulative Surplus/ Deficit
	£000	£000	£000	£000
				750*
2014/15	5,859	5,672	-187	563
2015/16	6,033	5,579	-455	108
2016/17	6,213	5,400	-812	-704
2017/18	6,397	5,416	-981	-1,686
2018/19	6,464	5,647	-817	-2,502
2019/20	6,656	5,560	-1,096	-3,598
2020/21	6,853	5,560	-1,293	-4,891
2021/22	7,057	5,667	-1,390	-6,281
2022/23	7,267	5,777	-1,490	-7,771
2023/24	7,266	5,855	-1,411	-9,182
2024/25	7,482	6,014	-1,468	-10,650
2025/26	7,704	6,016	-1,688	-12,339
2026/27	7,933	6,133	-1,800	-14,138
2027/28	8,168	6,253	-1,915	-16,053
2028/29	5,642	4,291	-1,350	-17,404
Totals	102,994	84,841		

*Approximate starting balance based on current Rent Pool Surplus after meeting legal and related costs arising from the contract revision.

Note: The cumulative deficit of £17.4m does not include the interest costs of funding negative balances.

The project is in annual deficit throughout the remaining contract term and a cumulative deficit arises from 2016/17. By end 2019/20 a cumulative deficit of £3.6m is projected. At contract end this is projected to rise to £17.4m.

2. Revised Rent Collection Overage

The current PFI contract splits any rent collection overage 50/50 between the Council and BCE. Historic and current rent collection performance exceeds the target collection rate. If the Council takes 90% of the overage, the cumulative affordability position is as follows:

Financial Year	Base Revenue Figure	Rent to Council	Surplus/ Deficit	Cumulative Surplus/ Deficit
	£000	£000	£000	£000
				750
2014/15	5,859	5,744	-116	634
2015/16	6,033	5,647	-386	248
2016/17	6,213	5,464	-749	-501
2017/18	6,397	5,479	-918	-1,419
2018/19	6,464	5,713	-751	-2,170
2019/20	6,656	5,624	-1,031	-3,201
2020/21	6,853	5,624	-1,229	-4,431
2021/22	7,057	5,733	-1,324	-5,755
2022/23	7,267	5,843	-1,424	-7,179
2023/24	7,266	5,922	-1,345	-8,523
2024/25	7,482	6,082	-1,400	-9,924
2025/26	7,704	6,083	-1,621	-11,544
2026/27	7,933	6,202	-1,731	-13,275
2027/28	8,168	6,323	-1,845	-15,120
2028/29	5,642	4,339	-1,302	-16,422
Totals	102,994	85,822		

The impact of this revision is to be reduce the medium-term deficit to end 2019/20 by £0.4m and by the end of the contract by £1m to £16.4m.

The further projections below include the benefit of this revised rent collection overage provision.

3. No conversions during contract to affordable housing

If all properties remain as Temporary accommodation throughout the contract term the position is as follows:

Financial Year	Base Revenue Figure	Rent to Council	Surplus/ Deficit	Cumulative Surplus/ Deficit
	£000	£000	£000	£000
				750
2014/15	5,859	5,744	-116	634
2015/16	6,033	5,744	-290	344
2016/17	6,213	5,744	-469	-125
2017/18	6,397	5,744	-654	-778
2018/19	6,464	6,022	-442	-1,220
2019/20	6,656	5,936	-720	-1,940
2020/21	6,853	5,929	-925	-2,865

Financial Year	Base Revenue Figure	Rent to Council	Surplus/ Deficit	Cumulative Surplus/ Deficit
2021/22	7,057	6,035	-1,022	-3,886
2022/23	7,267	6,144	-1,123	-5,009
2023/24	7,266	6,255	-1,012	-6,021
2024/25	7,482	6,490	-992	-7,013
2025/26	7,704	6,482	-1,222	-8,235
2026/27	7,933	6,599	-1,334	-9,569
2027/28	8,168	6,717	-1,451	-11,020
2028/29	5,642	4,603	-1,039	-12,059
Totals	102,994	90,185		

The medium-term deficit to end 2019/20 is reduced from £3.2m under the current baseline to £1.9m. At contract end the deficit is reduced from £17.4m to £12m.

4. Conversion of properties to Discounted Market Rent Levels

This projection provides for the current Temporary Accommodation units to be let at Discounted Market Rent Levels – 80% of market rents – with the transition to these rents taking place gradually over 3 years from December 2015 to December 2018.

Financial Year	Base Revenue Figure	Rent to Council	Surplus/ Deficit	Cumulative Surplus/ Deficit
	£000	£000	£000	£000
				750
2014/15	5,859	5,744	-116	634
2015/16	6,033	5,744	-289	345
2016/17	6,213	5,815	-398	-53
2017/18	6,397	5,886	-511	-565
2018/19	6,464	6,055	-409	-973
2019/20	6,656	6,014	-641	-1,615
2020/21	6,853	6,078	-776	-2,390
2021/22	7,057	6,260	-797	-3,187
2022/23	7,267	6,448	-819	-4,005
2023/24	7,266	6,641	-625	-4,630
2024/25	7,482	6,972	-510	-5,140
2025/26	7,704	7,046	-658	-5,798
2026/27	7,933	7,257	-675	-6,474
2027/28	8,168	7,475	-693	-7,167
2028/29	5,642	5,182	-460	-7,626
Totals	102,994	94,618		

The medium-term cumulative deficit to end 2019/20 reduces marginally compared to the previous projection, falling by £0.3m. The impact to the end of the contract term is greater, reducing the cumulative deficit by a further £4.4m to £7.6m.

5. Initial conversion to Permanent accommodation

If 72 properties are converted to Affordable Rent in December 2015 and this number is maintained throughout the remainder of the contract, then the cumulative affordability deficit is:

Financial Year	Base Revenue Figure	Rent to Council	Surplus/ Deficit	Cumulative Surplus/ Deficit
	£000	£000	£000	£000
				750
2014/15	5,859	5,744	-116	634
2015/16	6,033	5,734	-299	335
2016/17	6,213	5,784	-428	-94
2017/18	6,397	5,853	-544	-637
2018/19	6,464	6,040	-424	-1,061
2019/20	6,656	6,006	-650	-1,711
2020/21	6,853	6,062	-791	-2,502
2021/22	7,057	6,238	-819	-3,321
2022/23	7,267	6,419	-847	-4,168
2023/24	7,266	6,602	-665	-4,833
2024/25	7,482	6,921	-561	-5,394
2025/26	7,704	6,981	-723	-6,117
2026/27	7,933	7,179	-754	-6,871
2027/28	8,168	7,383	-785	-7,656
2028/29	5,642	5,096	-546	-8,203
Totals	102,994	94,042		

The deficit is increased by this approach, compared with 4. above. At end 2019/20 the cumulative deficit rises to £1.7m and the final deficit increases to £8.2m.

6. Deficit Recovery

Provision is proposed for the Council to potentially recover up to £2m of any cumulative deficit at the end of the contract. This will reduce the final deficit to:

- £5.6m under the approach in 4. above
- £6.2m under the approach in 5. above

7. Key assumptions

The key assumptions in this modelling exercise are as follows:

- LHA rates for Temporary Accommodation are the 2011 TA Local Housing Allowance (LHA) rates until 2018 when they switch to the 30th percentile LHA rates.
- Subject to the point above, TA rates track LHA uprating at CPI.
- Affordable Rents are the lower of: LHA 30th percentile rents and the following percentages of Market Rents: 1-bed – 80%; 2 bed – 70%; 3 and 4 bed – 50%.

- Affordable Rents rise by $\text{CPI}+1\%$ until they reach LHA cap levels and then are constrained by CPI only increases.
- Discounted Market Rents are set at 80% of local market rents and are assumed to rise by $\text{RPI}+0.5\%$ - they are not constrained by LHA rates.
- The difference between RPI and CPI is 0.7% a year.