

Appendix 1 – Housing PFI Financial Modelling Results Summary, December 2015

This paper summarises financial forecasts for the Council's Housing PFI Project. It sets out the baseline position under the revised contract and the anticipated outturn position following the proposed tenancy conversions.

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

Scenario 1 – Baseline position

The baseline position is that the number of properties let on Affordable Rent (AR) levels is the minimum number specified in the contract (72 1 bed units from April 2018 for the remainder of the contract term), with tenants paying Affordable Rents (80% of GLA median market rents, LHA caps applying but not subject to the four year 1% rent cut). LHA caps are projected to be below GLA median rent levels from 2018/19.

Year ending March	Base Revenue Figure £000	Rent to Council £000	Surplus/Deficit £000	Interest on negative balances £000	Cumulative Surplus/Deficit with interest £000	Cumulative Surplus/Deficit ex interest £000
2014/15					500	
2015/16	2,553	2,430	-123	0	377	377
2016/17	6,213	5,744	-469	0	-92	-92
2017/18	6,397	5,744	-654	-21	-766	-745
2018/19	6,464	5,399	-1,065	-65	-1,896	-1,810
2019/20	6,656	5,500	-1,155	-124	-3,175	-2,965
2020/21	6,853	5,468	-1,385	-193	-4,753	-4,350
2021/22	7,057	5,542	-1,515	-276	-6,543	-5,865
2022/23	7,267	5,617	-1,650	-368	-8,561	-7,514
2023/24	7,266	5,693	-1,574	-467	-10,602	-9,088
2024/25	7,482	5,883	-1,599	-570	-12,771	-10,687
2025/26	7,704	5,847	-1,857	-685	-15,313	-12,544
2026/27	7,933	5,925	-2,008	-816	-18,137	-14,552
2027/28	8,168	6,005	-2,164	-961	-21,262	-16,715
2028/29	5,642	4,015	-1,627	-1,104	-23,992	-18,342
Totals	93,654	74,812	-18,842	-5,650		

Scenario 2 – Discounted Market Rent

It is considered probable that PFI units will be exempt from the Rent Standard. Should this be the case the following scenario may be considered:

- From April 2016, 122 TA units are converted to Discounted Market Rent (DMR) units for the remaining contract period. DMR is set at 122 conversions to be 3 bed units.
- From April 2018, 72 1 bed TA units are converted to AR levels for 5 years.

- From April 2018, the remaining 170 TA units are converted to DMR for the remaining contract period.
- From April 2023 72 AR units are converted to DMR for the remaining contract period.

Assuming DMRs are let at rents based on 80% of GLA median rent figures, then the affordability position would be as follows:

Year ending March	Base Revenue Figure	Rent to Council	Surplus/ Deficit	Interest on negative balances	Cumulative Surplus/ Deficit with interest	Cumulative Surplus/ Deficit ex interest
	£000	£000	£000	£000	£000	£000
2014/15					500	
2015/16	2,553	2,430	-123	0	377	377
2016/17	6,213	5,572	-641	0	-264	-264
2017/18	6,397	5,632	-765	-32	-1,061	-1,028
2018/19	6,464	5,664	-800	-73	-1,933	-1,828
2019/20	6,656	5,920	-736	-115	-2,784	-2,563
2020/21	6,853	5,962	-891	-161	-3,837	-3,455
2021/22	7,057	6,121	-936	-215	-4,988	-4,391
2022/23	7,267	6,285	-982	-274	-6,243	-5,372
2023/24	7,266	6,631	-636	-328	-7,207	-6,008
2024/25	7,482	6,961	-521	-373	-8,101	-6,529
2025/26	7,704	7,035	-670	-422	-9,193	-7,198
2026/27	7,933	7,246	-687	-477	-10,357	-7,886
2027/28	8,168	7,463	-705	-535	-11,597	-8,591
2028/29	5,642	5,174	-468	-592	-12,657	-9,059
Totals	93,654	84,095	-9,559	-3,598		

Key assumptions

Key assumptions used in this modelling exercise, are as follows:

- The balance on rent cashflows at 31 October 2015 is assumed to be £500k.
- Affordable Rents are 80% of market rents. Market rents are taken from the GLA rent map data for November 2015, using median rent figures by postcode.
- Affordable Rents rise by CPI+1%.
- Properties let at discounted market rent (DMR) levels are based on 80% of median market rents as per GLA figures.
- DMR rents increase at RPI+0.5%.
- LHA capped rent levels are only applied where stated.
- No interest on any surplus balances is included.
- The difference between RPI and CPI is 1.0% a year (see note below).
- Rent collection will be 97% of the rent roll.
- The cumulative rent position reflects costs of financing deficits at 5% a year.

Inflation assumptions

Previous financial modelling has taken account of DWP guidance 'Rent setting for social housing tenancies' (Standard Note SN/SP/1090, dated 23 July 2013) which forecast the long term difference between RPI and CPI at between 0.7% and 1.4% a year. The most recent forecast of this difference is 1.0% a year, as set out in the Office for Budget Responsibility's report 'Economic and Financial Outlook: March 2015'.

Rent assumptions

GLA figures show rents at median, upper and lower quartile levels by first half of postcode (e.g., NW10). Council commissioned estimates of rent levels achievable for PFI properties (from DVS in August 2014 and uprated by 3% to December 2015) show figures broadly in line with GLA median rent (see Annex A).

DVS figures provided are also specific to the first half of postcode, thus any rent estimate will need to be tested against prevailing market conditions at the time letting takes places. For the purposes of this exercise GLA median rents as at November 2015 are used as the most up to date guide to market rents achievable.

		DVS less GLA UQ				DVS less GLA median			
		1 bed	2 bed	3 bed	4 bed	1 bed	2 bed	3 bed	4 bed
Perrin Road	HA0	-28.1	12.75	-20.5	-63.45	-5.1	35.75	-7.5	-62.45
Campbell House aka Harley Close	HA0	-28.1	12.75	-20.5	-48	-5.1	35.75	-7.5	-47
The Mall aka Ethelred Ct	HA3	6.9	41.75	-19.5	-52.45	23.9	58.75	15.5	-6.45
Empire Way aka Ada Lewis House	HA9	-16.1	-25	-63.8	-178.8	6.9	-2	-29.8	-132.8
Wealdstone Court aka Brook Ave	HA9	-16.1	-25	-63.8	-178.8	6.9	-2	-29.8	-132.8
Winchelsea Road	NW10	-1.6	-9.5	-65.5	-124.7	23.4	15.5	37.5	10.3
Fawood Avenue	NW10	-1.6	-9.5	-65.5	-114.4	23.4	15.5	37.5	20.6
Fawood (phase 2)	NW10	-1.6	-9.5	-65.5	-114.4	23.4	15.5	37.5	20.6
Melrose House	NW2	-26.45	-34.5	-24.5	-231.5	-1.45	-4.5	21.5	-86.5
167 Willesden Lane aka John Wilson	NW6	-41	-68.9	148.45	-664.4	-25	-28.9	-83.45	-314.4
9 Willesden Lane aka Brentholme	NW6	-41	-68.9	148.45	-664.4	-25	-28.9	-83.45	-314.4
191 Willesden Lane aka Homelea	NW6	-41	-68.9	148.45	-664.4	-25	-28.9	-83.45	-314.4
Barnhill Cottages	NW9	-35.1	-25	-35.65	-117.65	-16.1	9	-18.65	-81.65