

		Recommendation	Draft Response	Owner	Status/Target Date
D1	Basis of Assumptions Setting of the base rental value and property purchase price	Purchase Prices - The 'Historic Acquisition List' tab contains within it an additional set of scaling factors, which are based on off of full average price, rather than being pegged to the Brent price. These are in cells AN182:AN184. These should be used as the scaling factors which are brought through into the 'Key Operational Inputs' tab, cells L99:L101, rather than the scaling factors used at present.	Agreed	Olga Bennet	This will be implemented early in 2019/20 financial year
D2	Basis of Assumptions Setting of the base rental value and property purchase price	At present the model overstates rental income. There are two potential ways to remediate this issue: 1). The calculation for the average rent should exclude those properties from Home Counties – Medium and then the 20% uplift becomes a stated assumption. 2). A scaling factor should be calculated for all properties based off on the actual empirical experience, as per the proposed solution for the Purchase Price.	Agreed	Olga Bennet	This will be implemented early in 2019/20 financial year
D3	Property Related Inflation Rental growth and house price inflation	From discussions, PwC note that Rental Inflation has been set in line with the LHA assumption at 1.5%. PwC also note that there is a view that HPI would be around 1%, although this hasn't been built into the model. Were this to have been built in though, it would lead to increasing yields over time, as rental growth exceed property growth. This assumption of increasing yields is difficult to justify, as taken to ad infinitum it would lead to rental income exceeding the property value. Additionally, 1% HPI is low compared to market experience. Whilst it is true that there is uncertainty in the market at present, in particular as a result of Brexit, a 1%pa flat growth rate is unlikely to persist over the next 30 years. This is demonstrated with reference to the Nationwide House Price Index, which sets annual house price growth a c2%, despite the current economic uncertainty. As the model forecasts out over 30 years, it is likely that HPI will fluctuate around this point noting that the average HPI over the past 5 years has been c8%pa in London, and c5%pa going back 10 years which includes the 2008 recession that led to significant falls in the housing market. Given this, we have presented sensitivities under various scenario's of HPI and rental growth over the next set of slides. These are done in two ways. The first table for each metric is based on Rental Growth being set to a specific percentage across the whole portfolio, i.e. rental growth equals 4% for all properties. The second table presents a blended rental growth, factoring in the LHA rates. LHA rates cover three quarters of the portfolio, so in this instance, where rental growth is stated as 4%, that is 4% on a quarter of portfolio and 1.5% on the remaining three quarters. This is therefore a blended assumption of 2.125%. The HPI assumptions used in both tables are consistent, as the values of the house will be set by market conditions rather than being influenced by the LHA rates.	House price inflation will be built into the model. Given the current economic climate, the i4B Board has agreed a prudent 1% house price inflation assumption and an average 1% LHA rate increase.	Olga Bennet	House price inflation will be implemented early in 2019/20 financial year.
D4	Potential Errors	Incorrect formulae (logic or design), inconsistent use of assumptions, etc. These should be reviewed as a priority and changed accordingly, otherwise they may lead to financial impacts on the model, especially should assumption change going forwards. These should be resolved.	Any comments in this category will be implemented in the next model refresh.	Olga Bennet	This will be implemented early in 2019/20 financial year

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D5	Design issues	Areas of the model which are not consistent with documentation, or may lead to potential errors. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed early in 2019/20 financial year
D6	Best Practice	Best Practice. Model design which is not consistent with our interpretation of best practice. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed early in 2019/20 financial year
D7	Cosmetic	Cosmetic. Typos and inconsistent references used within the model. These should be resolved.	Any comments in this category will be reviewed in the next model refresh.	Olga Bennet	This will be reviewed early in 2019/20 financial year