



<b>Title of meeting:</b>	Cabinet/Full Council
<b>Date of meeting:</b>	Cabinet Meeting 28 <sup>th</sup> November 2023 Full Council Meeting 12 <sup>th</sup> December 2023
<b>Subject:</b>	Housing Revenue Account Residential Stock Portfolio Acquisition
<b>Report by:</b>	James Hill - Director for Housing, Neighbourhood and Building Services Chris Ward - Director of Finance and Resources
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<b>Wards affected:</b>	All
<b>Key decision:</b>	Yes
<b>Full Council decision:</b>	Yes

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## **1. Purpose of Report**

- 1.1** To inform Cabinet and Full Council of the intention for Clarion Housing Group (Clarion) to transfer housing stock to a new registered social provider, being Portsmouth City Council, in line with Clarion's long-term asset and footprint strategy; and
- 1.2** To outline details of the opportunity for Portsmouth City Council (PCC), as a Registered Provider of Social Housing to acquire from Clarion Housing Group the transferring housing stock, referred to as Lot 1a. The acquisition has been known as Project Wren; and
- 1.3** To note that the proposed acquisition, like many commercially sensitive transactions, is subject to a Non-Disclosure Agreement (NDA) between the parties. Consequently, limited financial information is presented in this public report; the financial information prepared to support this proposal is an exempt paper and has been made available and presented to all Members separately.

## **2. Recommendations**

- 2.1** Cabinet endorses the contents of this report.



**2.2** Full Council Recommendations:

- 2.2.1** Subject to the approval of the recommendations below, delegate authority to the Director for Housing, Neighbourhood and Building Services; Director of Finance & Resources and Section 151 Officer, taking advice from the Council's externally appointed legal advisors, and in consultation with the Leader of the City Council and Cabinet Member for Housing and Tackling Homelessness, to acquire Lot 1a; and
- 2.2.2** To approve that the 'Residential Stock Portfolio Acquisition' scheme be added to the Housing Revenue Account (HRA) section of the Council's Capital Programme with a budget set out in Appendix One to cover the purchase of the housing portfolio, associated fees and planned refurbishment works, and financed by borrowing, subject to the satisfactory completion of:
- i. The outstanding due diligence; and
  - ii. A financial appraisal, approved by the Director of Finance & Resources and S.151 Officer that demonstrates (based on the completed due diligence) that the financial impact and risks are affordable and manageable by the Council; and
- 2.2.3** To approve the following amendments to the Treasury Management Limits, to facilitate the additional capital expenditure for this acquisition:
- i. To increase the authorised limit for external borrowing to £1,176m; and
  - ii. To increase the operational boundary to £1,143m; and
- 2.2.4** That in order that advance treasury management preparations can be made for the transaction should the acquisition proceed:
- i. The sector limit for investments in money market funds is temporarily increased to £105m.
- 2.2.5** Note that in approving the temporary changes to the treasury management limits, no obligation to acquire the housing portfolio Lot 1a has been entered into and no long-term financial liabilities have been incurred. The changes simply enable the Council to accumulate the necessary funding in a risk managed and cost-efficient manner and have funds available should the transaction be completed; the risks are considered negligible; and
- 2.2.6** Note that the acquisition is subject to Clarion completing a successful formal stock transfer consultation of Clarion residents and Clarion Housing Group Board approval.

### 3. Acquisition Opportunity

#### 3.1 Background

3.1.1 Commercial terms have been agreed between Clarion and the City Council to acquire housing portfolio Lot 1a and will be formalised in the contract for sale, which will be signed in readiness for exchange of contract. The exchange of contract and payment of the deposit will occur upon confirmation that the required approvals for both parties have been granted, as outlined in 2.2 above.

#### 3.2 Geographic spread

3.2.1 Lot 1a comprises a total of 818 residential units across 5 local authorities. A map showing the geographic locations of the units can be found at Appendix Two. The breakdown per area is as follows:

Area	Number of residential units
Portsmouth	468
Havant	178
Gosport	69
Fareham	71
Winchester	32
<b>Total</b>	<b>818</b>

3.2.2 The geographic spread of property being acquired will be managed by the City Council's existing Housing Office network, service providers and supply chain.

3.2.3 There is one block of 24 residential units located in Winchester, these properties are the furthest distance from Portsmouth but are within a 36-minute drive of the Paulsgrove area office. The remaining Winchester units, whilst within the authority of Winchester City Council, are situated in Denmead and Waterlooville and can be easily serviced by the Leigh Park Housing office.

3.2.4 No additional area offices will be required to support the acquired units. The properties have been allocated to the following existing area offices:

Area	Number of residential units
Buckland	56
Landport	58
Leigh Park	116
Paulsgrove	190
Portsea	37
Somerstown	110
Supported Housing	87*
Leasehold Services	164**
<b>Total</b>	<b>818</b>

\*Managed by third parties

\*\* Not a fully managed service provision

### 3.3 Tenancy Types

3.3.1 The acquired properties will provide the Council with a range of tenancy types, see Appendix Three for definitions, which can be broken down into the following:

Tenancy Type	Number of residential units
General Needs	301
Affordable Rent	177
Shared Ownership	110
Retirement	45
Supported	37
Intermediate Rent	2
Freehold	87**
Leasehold	54
Non-residential	5*
<b>Total</b>	<b>818</b>

\* Sleep in/office rooms within managed accommodation

\*\*No legal interest in the property, but a maintenance & services obligation to the land

3.3.2 Apart from Shared Ownership, all tenancy types are currently provided and managed by the City Council. Therefore, all transferring tenancy types are within the HRA's existing capabilities.

3.3.3 The addition of 110 Shared Ownership units across 13 sites, 10 blocks will be a new tenancy type for the HRA to operate, but there is existing knowledge and expertise within current teams to meet the need and it is comparable to that of the Leasehold Management Services. Shared Ownership will provide the City Council and the HRA an opportunity to gain insight and knowledge of Shared Ownership so that it may seek to

include this provision within future acquisition and development opportunities as an income generating asset.

- 3.3.4** On transfer of the portfolio, the Council will be required to offer tenants protection of the Terms and Conditions of their existing tenancies offered by Clarion. Whilst the Terms and Conditions for the tenancies will be protected, the security of tenure will be enhanced, and tenants will benefit from secure tenancies, as provided for within the 1985 Housing Act.
- 3.3.5** Tenants will on transfer, receive the Right to Buy. However, whilst the Right to Buy will exist, PCC's investment in the stock is protected by The Housing (Right to Buy) (Cost Floor) (England) Determination 1999. Provision is made for the protection of the investment for a 15-year period and specific mention is made to the protection of acquisition costs and costs for those works initially required following the acquisition of the dwelling by the landlord to put it into good repair, or to deal with any defect. This means that PCC's investment in these assets is protected for the initial 15-year period.
- 3.3.6** The existing Clarion portfolio currently has 33 empty properties, equating to 5.7% empty property rate for the portfolio. Whilst this figure will be subject to change until completion the intention will be to let these properties swiftly. The Council has an average empty property rate of 1.1% across its existing portfolio which it will seek to achieve with this stock.
- 3.4 Stock Condition**
- 3.4.1** The City Council's opportunity to acquire a stock portfolio within these geographic areas provides a rare opportunity to increase and improve the average age of its housing stock. It is highly unlikely given the scale of remaining portfolios held locally by other registered social providers that another opportunity of this scale or nature would become available in the short to medium term.
- 3.4.2** The average cost per unit, see Appendix One, is 36% less than the cost the City Council could on average acquire the assets for individually on the secondary market.
- 3.4.3** The seller's agent provided a 14% sample survey of the portfolio. Additionally, PCC's appointed agent Savills have undertaken a 7% survey of properties with repairing liability and 22 accommodation blocks. All survey data and life cycle cost assessments have been reviewed, validated, and considered as part of the overall purchase bid and financial appraisal. The stock condition surveys were apportioned across all age profiles.

- 3.4.4** The age profile of the stock will generally be newer than the HRA's existing stock with 67% of the stock being built after 1980 and 46% constructed post 2000. This is in contrast with the existing HRA portfolio where 93% of its existing stock is built pre-1980. The age profile is broken down below:

<b>Age Built Band</b>	<b>Lot 1a # Units</b>	<b>Lot 1a %</b>	<b>Existing HRA Stock Profile %</b>
1900 - 1919	73	9%	2%
1920 - 1939	1	0%	6%
1940 - 1959	38	5%	39%
1960 - 1979	154	19%	47%
1980 - 1999	174	21%	4%
2000 - 2019	377	46%	2%
Unknown	1	0%	N/A
<b>Total</b>	<b>818</b>		

- 3.4.5** The acquisition will generate additional revenue for the City Council and enable the HRA to distribute operating costs across a larger number of properties providing financial efficiencies over the medium to long term. Furthermore, this acquisition supports the housing revenue account 30-year Business Plan. Appendix One sets out the impact of this transaction on the Housing Revenue Account.
- 3.4.6** The majority of the portfolio is low rise blocks of flats with pitched roofs between 2-4 storeys in height. The asset type and newer build age of the stock supports a lower maintenance profile for key building components. This will have positive impact on future maintenance requirements. It will reduce the average capital funding per property and help address the financial depreciation of the HRA housing stock.
- 3.4.7** Savills have recommended and PCC officers have validated, with the data available at the time, that the stock condition survey data and assumptions are representative of the overall portfolio. A letter of reliance for the stock condition surveys will be provided upon completion to the City Council from the seller's agent Jones Lang LaSalle.
- 3.4.8** Additionally, PCC officers have undertaken inspections of a sample of empty properties in Portsmouth and Winchester locations. A detailed inspection has been undertaken of Priory View, the only high-rise block of accommodation within the portfolio.
- 3.4.9** Savills and PCC have undertaken a detailed assessment of the compliance data available before exchange and have had opportunity to raise enquiries and verify certification in place. It is satisfied that the properties within the portfolio have a good level of compliance. Further reporting and documentation relating to compliance will continue to be shared post-exchange and related clauses with financial considerations

are being included within the contract for sale to protect the City Council's position.

- 3.4.10** Savills and PCC have undertaken a review of existing damp and mould cases, complaints, anti-social behaviour cases, insurance cases and disrepair cases amongst other sample data sets provided. Whilst specific details cannot be shared until post-exchange, PCC is satisfied, based on the data available at the time, that the number of cases is low and does not detrimentally increase the City Council's risk or exposure and can be adequately managed in accordance with its existing policies and procedures. Furthermore, specific requirements and indemnities, where required, are being included within the contract for sale.
- 3.4.11** Priory View, Portsmouth is a nine-storey building containing 71 residential apartments, including shared ownership. The building is required to be registered under the Building Safety Act as a high-rise building, which has been completed by Clarion.
- 3.4.12** The building has been subject to several Capital Projects that have sought to resolve known fire safety issues and building defects relating to roof works, cladding, fire stopping, fire doors, balconies, and fire strategy. Whilst the building works associated with each contract have completed, one of the awarded contracts will be novated to the City Council to maintain the contractual obligations of the contractor and others will have collateral warranties provided to benefit PCC.
- 3.4.13** Some aspects of the work have been funded via the Building Safety Fund, and all other contract sums have been funded directly by Clarion and will contractually remain the liability of Clarion.
- 3.4.14** PCC via its lawyers have requested full contractual and construction legal enquiries for all works contracts relating to Priory View. A significant number of documents have been provided but given the nature, complexity and stage of the contracts, the review of contract documentation will be ongoing until the date of completion. The City Council has therefore, secured a set of contractual conditions to be included in the contract of sale for the provision of a list of documentation required for completion. In the event documentation listed in the conditions in the contract for sale is not or cannot be provided by the required completion date, a financial settlement, see Appendix One, will be applied to the final purchase price.
- 3.4.15** It is a further condition of sale that, prior to completion PCC is able to appoint its preferred consultant to undertake a review of fire safety documentation related to Priory View and undertake a Type 3, non-destructive Fire Risk Assessment of the common parts and apartments to validate the contract works have achieved the outcome of a Stay Put fire evacuation policy. Any remedial actions identified as an output of the

report will be financially assessed by a mutually appointed third party with a view to claiming funding from Clarion, where they exceed a commercially agreed value, see Appendix One.

- 3.4.16** In consideration of maintenance and property issues that PCC officers have identified at Priory View, a cost contribution has been agreed from Clarion, as detailed in Appendix One as a deduction from the purchase price. The cost contribution will be allocated to immediate capital works required at the property post-completion.
- 3.4.17** PCC officers are satisfied that based on the information available at this point in time, that the financial considerations together with the contractually obligated condition precedent secured against the contract for sale will provide adequate mitigation to any risks identified thus far with Priory View.

### **3.5 The Bidding Process**

- 3.5.1** In February 2023, the Council, received a letter from Clarion to formally notify them of their intention to dispose of some of their social housing stock across the southern regions to another registered social provider(s). On 22 February 2023, the City Council subsequently submitted a formal expression of interest to Clarion to acquire Lot 1a and entered into a formal Non-Disclosure Agreement (NDA), Appendix Four, with the parties as a condition of ongoing participation and Cabinet were informally briefed.
- 3.5.2** In March 2023, the City Council was granted access to the data room and tender bid process and formally invited to prepare a tender. Multiple lots were being marketed across the South and bids could be grouped if a bidder wanted to acquire multiple lots.
- 3.5.3** The PCC officer team (supported by Savills) had a clear brief to assess the opportunity from a financial perspective and to only bid if there was sufficient financial benefit to the HRA in doing so and that a quality driven service could be delivered to match or exceed the service provided by Clarion.
- 3.5.4** A formal conditional bid and quality questionnaire was submitted to JLL and Clarion on 4<sup>th</sup> May 2023. The prepared bid was supported by Savills providing marketing and pricing advice and Trowers and Hamblins LLP providing legal advice and had the support of the Director of Finance & Resources and S151 Officer and the Director of Housing, Neighbourhood and Building Services. The Leader and Cabinet Member for Housing and Tackling Homelessness were informally updated on progress.
- 3.5.5** Portsmouth City Council were invited to the second stage of the tender process on 15<sup>th</sup> May 2023 which included an interview and presentation



that week with Clarion tenant's and Clarion's housing and management staff. The Leader and Cabinet Member for Housing and Tackling Homelessness were again informally updated on progress.

**3.5.6** On 26<sup>th</sup> May 2023, Portsmouth City Council received notification that it had been unsuccessful in its bid to acquire Lot 1a. Clarion had chosen to proceed with a bidder who wished to buy multiple lots, thus reducing the administration of the sale of multiple lots. Positive feedback was received from Clarion residents and management about the Council's overall bid submission. The Leader and Cabinet Member for Housing and Tackling Homelessness were notified of the outcome.

**3.5.7** In July 2023, the City Council were approached by the seller's agent to confirm if there was still an interest in the City Council acquiring Lot 1a. The project team, in consultation with Savills and Trowers and Hamlins LLP reviewed the financial assumptions and conditions of its original bid and reassessed the financial viability and purchase price. A revised bid was submitted and subsequently accepted on 14<sup>th</sup> August 2023.

**3.5.8** Since the bid acceptance the project team and governance structure, Appendix Five, has been established to form an acquisition and implementation team. Additionally, external support from Trowers and Hamlins LLP, Savills and specific IT partners have been formally appointed to support the purchase process. Pre-purchase enquiries and due diligence has been continuous and on-going.

### **3.6 Timeline to decision**

**3.6.1** A notice was published to amend the Forward Plan on 30<sup>th</sup> October 2023 and Group Leaders and Housing portfolio members were informally notified.

**3.6.2** Following a long period of informal consultation, Clarion commenced formal consultation with residents on 20<sup>th</sup> November 2023, where Clarion shared details of the intended transfer proposed to PCC. The notification was timed to precede the publication of this report and briefings with all members and the Housing Service Residents Consortium during the afternoon/early evening of the 20<sup>th</sup> November 2023. The notification accorded with the principle that Clarions customers are informed by Clarion of the proposed transfer to PCC before this report was published and in the public domain.

**3.6.3** The timetable going forward to completion is as follows:

- 20<sup>th</sup> November 2023 Partial release of NDA
- 20<sup>th</sup> November 2023 Formal Clarion consultation with residents commences (7 weeks to 8<sup>th</sup> January)
- 28<sup>th</sup> November 2023 Consideration at Cabinet meeting
- 12<sup>th</sup> December 2023 Key Decision at Full Council meeting

- 12<sup>th</sup> December 2023 Clarion to seek approval from the Clarion Housing Association Board to exchange contract, conditional upon satisfactory consultation with residents.
- 14<sup>th</sup> December 2023 Resident 'Meet the Landlord' event Clarion & PCC
- 15<sup>th</sup> December 2023 Exchange of contracts and deposit payable
- 8<sup>th</sup> January 2023 End of Clarion's formal resident consultation
- 22<sup>nd</sup> January 2024 Clarion reports the outcome of the formal resident consultation to the Clarion Housing Association Board and seeks approval to complete.
- 29<sup>th</sup> January 2024 Clarion communication to residents following Final Board Approval
- 14<sup>th</sup> February 2024 Completion.

### **3.7 PCC Resident Consultation Process**

**3.7.1** Early November 2023 the PCC Resident's Consortium, (landlord umbrella resident group) were made aware of the publication of the Forward Plan notice and report title and the intention to consult at the appropriate time.

**3.7.2** On 20<sup>th</sup> November 2023, a special Residents Consortium meeting was held, in line with the partial release of the NDA, where resident members were fully briefed on the intention to purchase, the content of the Cabinet and Full Council report and invited to ask any questions or queries and attend the meetings.

**3.7.3** On 7<sup>th</sup> December 2023, a further Residents Consortium is to be held to update on the outcome of the Cabinet meeting and progress.

### **3.8 Clarions formal stock transfer and Group Board approval**

**3.8.1** As outlined in section 2.2.6, the acquisition is subject to Clarion completing a successful formal stock transfer consultation of residents and Clarion Housing Group Board approval.

**3.8.2** Clarion's strategic decision to transfer the homes in Lot 1a to another registered provider has been approved by the Clarion Housing Association Board (HA Board), under its long-term asset and footprint strategy. Additionally, Clarion's delivery process has two further HA Board approval stages. Firstly, pre-exchange, when contracts have been agreed, and secondly, following satisfactory formal consultation with residents, ahead of completion.

#### **4. Reasons for Recommendations**

- 4.1** Portsmouth City Council has a proud history of providing and managing council housing and is a respected partner across Hampshire to other Council's. The Council continues to develop new housing and over the last six years has operated a capital programme to acquire former council homes and other residential properties.
- 4.2** Portsmouth City Council is the largest registered social housing provider in Portsmouth and Havant and is well placed to take on the Clarion stock and to manage these properties alongside the existing portfolio of 17,000 properties. The new portfolio can be managed within our existing framework and service provision.
- 4.3** The acquisition supports the Housing Revenue Account (HRA) through an increase in social homes and affordable home ownership units. This acquisition will allow for the transfer of these properties from their current landlord Clarion to PCC. The core purpose of local authority housing is to provide social homes, this portfolio sits directly within this purpose. As well as aligning with PCC's core purpose the expansion and growth of the HRA supports the financial position of the HRA through an increased revenue from the new homes. Increased revenue must be balanced against the life cycle and repair needs of the assets.
- 4.4** Acquiring the Clarion portfolio will enable the HRA to benefit from the revenue it generates directly influencing the economic prosperity of the city. The acquisition supports the HRA through an increase in social homes and affordable home ownership units.
- 4.5** The stock within this portfolio is in the majority newer than our existing housing stock with 67% of the portfolio having been built after 1980. Only 6% of our existing housing stock is post 1980's construction this stock will have a greatly improved life cycle in comparison to our existing stock.
- 4.6** Most of the newer stock benefits from traditional construction methods and blocks are predominantly low rise with pitched roofs. The elements within these blocks are of types which have long life cycles and limited defects, this means that these properties will be lower in maintenance costs than other types of properties.
- 4.7** The Clarion portfolio being newer in age will require less maintenance than our existing stock as the component elements of the housing have a greater amount of time before they will require replacement. This stock is therefore likely to be cheaper to hold than our existing housing stock, allowing the revenue generated from these properties to be able to sustain the HRA.

- 4.8** The majority of the properties within the portfolio sit within existing management areas. Stock outside of existing management areas has been allocated to the local housing offices to manage. All of the stock is within a local geographical area and is able to be managed through our existing teams and service providers.
- 4.9** The tenants, leaseholders and shared ownership residents of this portfolio will benefit from having a local landlord who is a large, registered provider with local contact points for services. Tenants will also benefit from an increased security of tenure and protection of their existing terms and conditions of tenancy.
- 4.10** The transferring tenants will be eligible for Right to Buy following completion. However, PCC's investment in the stock is protected by The Housing (Right to Buy) (Cost Floor) (England) Determination 1999. Provision is made for the protection of the investment for a 15-year period and specific mention is made to the protection of acquisition costs and costs for those works initially required following the acquisition of the dwelling by the landlord to put it into good repair, or to deal with any defect.
- 4.11** The HRA has been operating a stock replacement capital programme since 2016. The programme has successfully acquired 525 general needs properties at an average rate of 100 properties per year. Since 2016, 60 properties are sold annually on average under the Right to Buy scheme. Outside of this, the Council has also acquired 147 units used for temporary accommodation and Supported Housing. This acquisition therefore provides best value to the HRA as the quickest and most cost-effective way to increase its housing stock when compared to the alternative options.
- 4.12** The acquisition of the Clarion portfolio does not increase the overall supply of affordable housing for the local authorities nominating to the stock. PCC alongside the other authorities will maintain the nomination rights to the stock.

## **5. Integrated Impact Assessment**

- 5.1** An Integrated Impact Assessment has been completed, Appendix Six, and no adverse equality implications were identified.

## **6. Legal Implications**

- 6.1** The acquisition of the Clarion portfolio is within the range of powers available to the authority to purchase property. Section 120 of the LGA 1972 provides a legal basis for purchase of land (Sec. 120 (a) (1 and 2)), this is in addition to the general power of competency within the Localism Act 2011.

- 6.2** An NDA was entered into between PCC and Clarion which was partially released on 20<sup>th</sup> November 2023 to allow certain details of the proposed acquisition to be discussed publicly and enable the formal resident consultation to commence. As a condition to this release, a further NDA has been entered into by the parties to protect the commercially sensitive details of the transaction, Appendix Seven.
- 6.3** An external legal firm, Trowers and Hamlins LLP, have been appointed to advise on all legal matters relating to the purchase due to the scale and complexity of the acquisition.
- 6.4** A contract for sale for the acquisition will confirm the commercially accepted terms that have been negotiated and agreed between Clarion and the City Council for this transaction. The contract for sale will be signed by both parties in readiness for exchange of contract. The contract for sale will be dated at exchange once the approvals outlined in section 2.2 have been achieved.
- 6.5** Trowers and Hamlins LLP have provided the City Council with a report on title and continue to undertake legal due diligence for the transaction.
- 6.6** A small number of Clarion employees will be subject to TUPE and transfer to the City Council with the acquisition. Trowers and Hamlins LLP are advising PCC HR officers and have assessed the impact on the City Council. However, detailed advice can only be provided once further data can be shared post-exchange. That is the correct position with the TUPE Regulations.
- 6.7** Given the significant volume of data, including personal and sensitive data that will be transferred from Clarion to the City Council a Data Protection Impact Assessment (DPIA) will be undertaken. A data sharing agreement forms part of the contract for sale obligating parties to ensure compliance with The Data Protection Act 2018.

## **7. Director of Finance's comments**

- 7.1** The opportunity to acquire a stock portfolio such as this, is a rare opportunity to increase and improve the average age of the City Council's housing stock, at a cost per unit that is considerably less than the cost of its current acquisition strategy of purchasing from the secondary market or of building new properties.
- 7.2** The primary aim of the acquisition is to improve the overall viability and sustainability of the 30-year HRA Business Plan and therefore secure decent accommodation for the Council's housing tenants on a long-term basis.

- 7.3** The purchase price of the stock, associated fees and the additional funding required for anticipated early refurbishment costs is set out in Appendix One, subject to a Non-Disclosure Agreement. Furthermore, the actual purchase price will not be finally determined until all due diligence is satisfactorily completed. For clarity, this will not exceed the value set out in Appendix One.
- 7.4** The purchase price of the stock as set out in Appendix One, has been further validated by a RICS Red Book Valuation which is being undertaken by Savills.
- 7.5** An overall 50-year financial appraisal has been undertaken and will continue to be refined and finalised when the legal due diligence has been completed and in readiness for a completion on 14th February 2024. A deposit will be paid on exchange of contracts on 15<sup>th</sup> December 2023.
- 7.6** With the information available at the date of this report, it is expected that the acquisition will generate a positive financial return in cash terms over 50 years as well as over the 30-year HRA Business Plan. This return considers income received and deducts all maintenance, operational and borrowing costs. Additionally, the present value i.e. the financial return at today's value is similarly positive. Appendix One sets out the financial benefits of the proposed transaction.
- 7.7** Whilst the acquisition has an overall positive financial impact on the HRA and is undoubtedly beneficial over the longer-term, there are both positive and negative annual cash flows over the first 10 years after which positive cashflows consistently occur.
- 7.8** The Base Case financial appraisal indicates that the overall financial impact of the acquisition in cash terms is forecast to result in an overall improvement of £15.7m by Year 30 which rises to £88m by Year 50. Additionally, at the end of the 50-year period the assets themselves would have at least land value in a worst case scenario.
- 7.9** A cumulative cashflow surplus is not achieved until Year 19. This illustrates both the long term-nature of the decision to acquire and that there is a financial management challenge to the HRA in accommodating the cumulative cashflow deficit over that 19-year period.
- 7.10** The challenging short-term financial impact where cumulative negative cashflows arise must be considered in the context of the HRA's overall affordability and financial resilience. The Council Housing Budget Report 2023-24, approved by the Cabinet Member for Housing and Tackling Homelessness on 2<sup>nd</sup> February 2023, stated that the current 30-Year HRA Business Plan forecasts that it will only have sufficient reserves to sustain it for the next 8 years. However, there is a general improving position in the HRA since the forecast was last revised as well as a programme of

savings being developed to ensure that in the medium term the in-year expenditure of the HRA is matched by its in-year income.

- 7.11** The impact of the acquisition by Year 8 is a cumulative negative cashflow of £4.2m and this will need to be managed through both savings and re-profiling of expenditure in order to realise the longer-term financial benefits to the HRA.
- 7.12** This acquisition delivers an overall financial improvement over the long term and therefore improves the overall sustainability of the HRA for current and future tenants. Furthermore, the programme of savings that is referenced is occurring irrespective of the Clarion acquisition.
- 7.13** There are several key assumptions underpinning the expected financial return which are described below. The assumptions have been informed from professional advice, experience of officers and market insight reports. The assumptions are prudent and represent a realistic approach to form the "Base Case". The assumptions are:
- i. As interest rates on borrowing are expected to fall in the future, to utilise City Council reserves (internal borrowing) for the first two years to avoid "locking in" at relatively high interest rates now and then borrow when interest rates fall; and
  - ii. An economic life of the stock averaging 50 years (borrowing is undertaken over the same period in order to match rental income streams with debt repayments); and
  - iii. Borrowing costs assumed at 3.80% at Q1 2026; and
  - iv. Rental income growth of 3.14% for two years then 2.14% beyond year 2; and
  - v. Voids of 2.70%; and
  - vi. Early refurbishment premium; and
  - vii. Assumptions on repair and refurbishment costs informed from the due diligence, stock condition surveys and the City Council's approach to repairs.
- 7.14** The assumptions that form the 'base case' are subject to variation with the effluxion of time, better knowledge of the assets and economic factors. A sensitivity analysis has been undertaken to model how sensitive the base case model is to changes and specifically for interest rate movements which would have the most material impact. Other sensitivities including rental inflation, cost inflation etc, have also been modelled to assess the range of financial returns that could reasonably be expected to occur.

Appendix One includes details on the sensitivity analysis and downside risks are expected to be capable of being managed.

- 7.15** The initial sensitivity analysis indicated that the expected return was most sensitive to changes in the initial purchase price and early maintenance costs. The purchase price is now de-risked as this has been formally accepted. The early years maintenance budgets have been informed from multiple sources including professional advice, stock condition surveys, asset component data sheets and inspections amongst other due diligence exercises. The assumptions made on early years maintenance would be considered to be above standard market compared to other registered social providers. This reflects the Council's responsive maintenance provision, which is considered to provide a better level of service to both the residents and assets.
- 7.16** The most significant material risk and sensitivity to the base case now is the forecast movement in interest rates. To mitigate this, the financial appraisal assumes that the transaction is initially funded using City Council reserves. In Q1 2026 the model then assumes the capital requirement is borrowed from the Public Works Loan Board.
- 7.17** The sensitivity analysis illustrates that in the short-term (the first 8 years cumulative deficit of £4.2m) that a +/-1% change in interest rates could result in a movement from the base case of a £4.9m deterioration to a £4.9m improvement. Similarly, over the life of the 30 Year Business Plan the £15.7m surplus could vary from a £22.9m deterioration to a £22.9m improvement.
- 7.18** The appraisal includes a payment to the City Council in respect of the interest it will lose on not investing these funds, however, this approach means that borrowing does not have to be taken at a higher cost across the next 50 years but can be taken in two years (or a more opportune timescale) when interest rates are forecast to have fallen.
- 7.19** There is also the possibility of a more positive environment with associated optimistic scenarios. Whilst not modelled, included within a range of realistic scenarios, the following could be included:
- i. Higher rental inflation;
  - ii. Reduced voids;
  - iii. Less maintenance requirements;
  - iv. Lower borrowing costs / longer use of Council reserves.



- 7.20** It is recommended that any decision taken by Full Council to complete the acquisition is subject to the outstanding due diligence; and a satisfactory financial appraisal, approved by the Director of Finance & Resources and S.151 Officer that demonstrates (based on the completed due diligence) that the financial impact and risks are affordable and manageable by the Council.
- 7.21** Whilst the acquisition is underpinned by borrowing and therefore a long-term debt liability, it has been undertaken through the Prudential Borrowing Framework. That framework is designed to meet the tests of Affordability, Sustainability and Prudence. In essence all such borrowing is on the basis that it is for "Invest to Save" purposes where the income streams derived from that borrowing are relatively strong (to cover the annual debt repayments) and where the underpinning asset investment has a value that is aligned with the amount of outstanding debt over its lifetime (to allow the flexibility to sell in the event that the Council wishes to reduce its level of outstanding debt). This approach is consistent and similar to the majority of all of the City Council's significant long-term borrowing.
- 7.22** To facilitate the acquisition and transaction, three of the City Council's Treasury Management Limits will need to be increased. One of those limits only needs to be increased temporarily to amass the funds necessary in instant access accounts to then be able to make the transaction. The other two limits relate to a permanent increase in the Council's borrowing limits. These amendments are set out in recommendations 2.2.3 and 2.2.4 of this report.
- 7.23** The temporary increases required to the limit is to enable the necessary funds to be held in instant access facilities so that the transaction can be made when completion occurs is set out in recommendation 2.2.4.
- 7.24** The permanent increases to the City Council's borrowing limits are necessary for the Council to finance the acquisition and, as previously described, the increase in the City Council's debt will be underpinned by an asset with a similar value to the debt as well as strong future income streams to cover future borrowing repayments.

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Signed by:  
James Hill - Director of Housing,  
Neighbourhood and Building Services

.....  
Signed by:  
Chris Ward - Director of Finance  
and Resources



**Appendices:**

- Appendix One Key Financial Information - **Exempt**
- Appendix Two Maps showing geographic context.
- Appendix Three Tenancy Type Definitions
- Appendix Four Non-Disclosure Agreement signed 22<sup>nd</sup> February 2023 - **Exempt**
- Appendix Five Governance Structure
- Appendix Six Integrated Impact Assessment
- Appendix Seven Non-Disclosure Agreement signed 20<sup>th</sup> November 2023 - **Exempt**

**Background list of documents: Section 100D of the Local Government Act 1972**

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

Title of document	Location
Council Housing Budget 2023/24 (including rent setting)	<a href="#">Agenda for Cabinet Member for Housing and Preventing Homelessness on Thursday, 2nd February, 2023, 10.00 am Portsmouth City Council</a>

The recommendation(s) set out above were approved/ approved as amended/ deferred/ rejected by ..... on .....

.....Signed by: