<u>Details of the risk share</u>

The following table sets out the key risks in the project and the proposed allocation of the risks between the council and LDV. This will need to be updated for the use of general consents although the commercial principles remain unaltered.

No	Risk Area	Context	Risk Responsibility	Comments
1.	Rent Levels	Largely dependent on DWP (Department for Work & Pensions) policies. Potential to mitigate if property could earn more rent income on the open market. Gross weekly rent is based on: - Leaseback properties at 90% of LHA rate plus £60 management fee - Other properties at 100% of LHA rate	Council	
	Rent collection – Risk that rent is not received	Leaseback properties – council collects rent Other properties – council collects rent through management agreement Properties let direct by LDV at market levels	Council if appointed under management agreement LDV LDV	Rent is paid to the tenant unless special circumstances exist which enable payment direct to the landlord- direct payments are assessed individually
	LHA rate – Risk that LHA rises by less than inflation	LHA (Local Housing Allowance) is set locally by the Rent Office. It is proposed by DWP that, from 2010/11, LHA rates for leasebacks will be set annually in January for the financial year immediately following. For direct lets between the LDV and tenant the LHA rate will be set annually using the prevailing LHA rate for the month the HB claim is made. LHA rates can change each month		An analysis of LHA rates since 2004 indicates that LHA rates have increased in line with RPIX + ½% (as per the financial model).

No	Risk Area	Context	Risk Responsibility	Comments
	Manage-ment fee – Risk that fee does not rise with inflation	depending on the market evidence gathered by the Rent Service. Management fee is payable for properties managed by the council (i.e. non-leaseback properties). Proposed management fee for 2010/11 equals £73 per property per week	Council	
2.	Demand – Risk that demand falls	It is unlikely the demand in general, for non-general needs accommodation will diminish in Brighton & Hove, therefore the key risk is more likely to be higher quality/cheaper accommodation being offered by another party.	Council	Where cheaper accommodation was being offered by another party the council would assess the feasibility of either - buying back properties and using cheaper accommodation with another provider, or - staying with the LDV. There may be an opportunity to have a value for money provision in the agreement
2.1	Property allocation – Risk that less than 499 properties transfer to LDV	LDV business plan provides for 499 properties for lease to the LDV. Council fails to identify 499 properties Council identifies 499 properties but LDV rejects	Council Council if LDV can demonstrate properties are not "financially viable"; otherwise LDV	Council has identified some 2,000 properties that would currently satisfy the criteria for lease to the LDV when they become vacant. It is unlikely that 499 properties suitable for lease to the LDV can not be identified

No	Risk Area	Context	Risk Responsibility	Comments
2.2	Property mix – Risk that property mix varies from model and reduces income	LDV business plan provides for a property mix that matches the council's projected requirement for properties. Council requirement does not match property mix	 Council	Nomination agreement provides for Council to place clients in LDV accommodation Linked to Demand risk
3.	Voids – Risk that void levels are higher than anticipated	Some level of voids is predictable – the model assumes 6% of the time the units will not be inhabited. The turnover will affect the cost of maintenance and rents income earnings.	LDV up to 6% of gross rent. Council for voids over and above 6%.	As part of its own due diligence the council will need to be satisfied that the 6% assumption is consistent with current performance levels for similar properties/ client groups and where possible show performance against other authorities
4.	Bad debt – leaseback – Risk that bad debts are higher than anticipated	This can vary depending on whether rents money is paid via the tenant. An assumption of 3% lost income is made at present.	Council	As part of its own due diligence the council will confirm that it is satisfied that the 3% is consistent with current performance levels for similar properties/ client groups. Where there are special needs clients, the landlord can apply to receive the rent direct
5.	Bad debt - LDV own tenants –	This can vary depending on whether rents money is paid via the tenant. An	LDV up to 3% of gross debt.	As above. It is anticipated that the Bank will

No	Risk Area	Context	Risk Responsibility	Comments
	Risk that bad debts are higher than anticipated	assumption of 3% lost income is made at present.	Council for bad debts over 3% if appointed under management agreement.	want this risk to form part of the management agreement.
6.	Housing manage-ment – Risk of under-pricing and inflation higher than anticipated	Mispricing of the original service and also cost inflation during the project.	Pricing – Council RPI - LDV	Pricing based on management specification
7.	Reactive mainte-nance – Risk of under-pricing and inflation higher than anticipated	Mispricing of the original service and also cost inflation during the project. Price should include provision for vandalism costs.	Council	Council accepts this risk which is will pass down to its contractor on the basis that the housing management service which includes a repairs provision will be entered into with the council. The risk reverts to the LDV where they choose to select alternative management providers.
8.	Planned /Cyclical maintenance – Flats – Risk that works are understated and increase by more than inflation	The category includes works both internal and external works. It is usual for a technical advisor to issue a planned works programme for the project properties. This profile, together with a look-forward reserve account, would be integrated into the financial model. In this case, this forecast is likely to be	Structural – council Non structural – council RPI – LDV	As part of its own due diligence the council will satisfy itself that the annual sum paid by the LDV is sufficient to meet the projected cost of planned / cyclical maintenance.

No	Risk Area	Context	Risk Responsibility	Comments
		possible (or practical) only for the internal works. The external works for flats will depend largely on the council's own asset management plan (assuming the flats are located in council-owned blocks). This means that it may be possible for the LDV to take the internal planned works risk, but any private funder may have significant reservations about the LDV taking external works risk as it would have no control over this cost (either the level or the timing of when it is incurred).		
8.1	Planned /Cyclical mainte-nance – Houses – Risk that works are understated and increase by more than inflation	The category includes works both internal and external works. It is usual for a technical advisor to issue a planned works programme for the project properties. This profile, together with a look-forward reserve account, would be integrated into the financial model. In this case, this forecast is likely to be possible (or practical) only for the internal works. The external works for houses will depend on the LDV's own asset management plan.	Structural – LDV Non structural – LDV RPI – LDV	
9.	LDV operating costs – Risk that these are	These costs are within the LDV's power to control.	LDV	LDV board to review operating costs

No	Risk Area	Context	Risk Responsibility	Comments
	higher than anticipated			
10.	Interest on cash balances – Risk that investment returns are lower than anticipated	The LDV may hold large cash balances if it is required to hold, for instance, a debt service reserve. If this is the case, interest earned on cash balances should be substantial.	LDV	LDV to ensure cash balances are managed to minimise capital risk.
11.	Tax – Risk that tax payments are higher than anticipated	Structuring undertaken during this project development phase should minimise the risk of paying VAT on refurbishment costs.	LDV	Tax is minimised by operating as a charity with a VAT shelter put in place. LDV now registered as a charity therefore no Stamp Duty Land Tax on leases or Corporation Tax on profits will be payable.
12.	Insurance – Risk that insurance costs are higher than anticipated	Insurance can vary significantly – for instance, the cost of insurance increased by 150%-200% for many PFI projects in late 2001 which in some cases resulted in some SPVs defaulting on their loans. It is worth discussing this point with the Council's insurance advisors.	LDV	
13.	Surpluses – Risk that surpluses are not used effectively or become taxable	The financial model shows the LDV generating significant levels of surplus cash over the life of the project due to the cover ratio requirements of the bank. Funders will want to approve a methodology for the use of these surpluses to give them a degree of	LDV (See comments)	Funder has indicated it will expect the LDV to set aside surpluses to cover debt servicing costs in the event the LDV fails to achieve income

No	Risk Area	Context	Risk Responsibility	Comments
		control over how they are spent and ensure a sufficient level remains in the LDV to cover any future issues.		levels. Surpluses above this requirement to be shared with the council.
14.	Inflation Risk – Risk that inflation is higher than anticipated		LDV	Risk of inflation is with LDV. Inflation allowance included within financial model.