

Date: 19/11/19
Our Ref: RFI2816
Your Ref: FOI Request – Community Related Assets - Preston
Tel: 0300 1234 500
Email: foi@homesengland.gov.uk



Homes
England

██████████
By Email Only

Windsor House
Homes England – 6th Floor
50 Victoria Street
London
SW1H 0TL

Dear ██████████

RE: Request for Information – RFI2816

Thank you for your request for information, which was processed under the Freedom of Information Act 2000 (FOIA).

For clarification, you requested the following information:

As a Freedom of Information request I should appreciate your providing:

- 1) *details of the methodology, currently being applied, by Homes England, to calculate the cost, of the annual maintenance, in perpetuity, of Community Related Assets, such as landscape areas, children's playgrounds and nature reserves, with transfer of responsibility, for the required maintenance of the Community Related Assets, to a local Authority.*
- 2) *if the English Partnerships' Best Practice Note No.2 - Endowments is no longer the preferred methodology when was it withdrawn and why:*
- 3) *if the methodology, contained in the English Partnerships' Best Practice No.2 - Endowments, remains the preferred option, has the Discount Rate of 3.5%, used, in the calculation of the scale of an Endowment been adapted, to recognise the extremely low Bank of England Bank Rates which have been in evidence since the 2008 financial crisis, and resulted in the Discount Rate of 3.5%, falling materially out of alignment with the investment marketplace: and*
- 4) *if the Discount Rate of 3.5% continues to be applied, in calculating the scale of an Endowment, how has this decision been justified, as material misalignment has been a factor for over 10 years and the English Partnerships' Best Practice Note No.2 requires a change to the Discount Rate, should the Discount Rate, no longer reflect the ability of the endowment capital to cover the future profile of costs and, therefore, the likely return on investment of the Endowment capital, prior to expenditure.*

Response

We can confirm that we do hold information that falls within the scope of your request, we will address each of your questions in turn below.

- 1) Please find enclosed to this response Annex A which is the Best Practice Note (BPN) for Endowments.
- 2) We can confirm that the English Partnerships' Best Practice Note No.2 has been superseded with the attached 2014 BPN (labelled Annex A). However, we would like to note that the discount rate remains unchanged at 3.5%.
- 3) We can confirm that the discount rate has not been changed.
- 4) Annex A explains;

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‘With respect to the discount rate, HCA should (but subject to future review) use a real rate of 3.5%. 3.5% is recommended on the basis that it is representative of the level of long-term real rates of return achievable in the investment marketplace on a portfolio of low to medium risk investments, net of fund management charges’

It would be very unusual to use a different interest rate. This has been confirmed with HM Treasury (HMT) verbally most recently (2019). If there were concerns about the Endowment sum we would look at a case for in perpetuity rather over a 30 year time horizon.

Furthermore, the 3.5% was originally signed off by HMT, as it was considered to reflect the appropriate discount at the time the endowment was considered and approved. We can find no evidence to suggest that either the agency or the endowment recipient sought to move away from the default rate, and this was appraised and approved at this level without concern. The rate adopted reflects the long-term view on rates and therefore implicitly caters for short term fluctuations in interest rates.

Homes England have not made any recent endowments but should we do so in future we would take a refresh of the existing BPN and update in collaboration with the Ministry of Housing, Communities and Local Government and HMT, but this would be more around process and potentially delegations.

Right to Appeal

If you are not happy with the information that has been provided or the way in which your request has been handled you may request an internal review by writing to;

The Information Access Team
Homes England – 6th Floor
Windsor House
50 Victoria Street
London
SW1H 0TL

Or by email to foi@homesengland.gov.uk

You may also complain to the Information Commissioner however, the Information Commissioner does usually expect the internal review procedure to be exhausted in the first instance.

The Information Commissioner's details can be found via the following link

<https://ico.org.uk/>

Please note that the contents of your request and this response are also subject to the Freedom of Information Act 2000. Homes England may be required to disclose your request and our response accordingly.

Yours sincerely,
Information Access Team
For Homes England