

Magenta Living – Proposed New Group Structure

Heads of Terms

This Agreement is dated

2014

Between:

- (1) **Wirral Partnership Homes Limited trading as Magenta Living**, a company limited by guarantee registered in England and Wales with registered number 04912562 whose registered office is at Partnership Building, Hamilton Street, Birkenhead, Wirral CH41 5AA (“**Magenta Living**”); and
- (2) **Wirral Borough Council** of the Town Hall, Brighton Street, Wallasey CH44 8ED (“**the Council**”).

1. Background

Magenta Living has been reviewing its existing governance arrangements and structure.

The operating environment for Magenta Living has changed dramatically from when it was first formed in 2005. Magenta Living secured a loan facility with the Royal Bank of Scotland and has spent around £170m since transfer to bring its homes up to decent homes standard and delivering the 89 promises made at transfer to make its estates more sustainable places to live. Its existing loans will be paid for over the thirty year life of the current business plan.

(a) Future Challenges

Whilst Magenta Living’s current business plan is strong, there are a number of upcoming challenges to its revenue streams in the future including:

- with the continued ‘right to buy’ and selective demolition of non-sustainable homes the organisation needs to be able to build more replacement homes to ensure it continues to have the economies of scale to continue to deliver high quality services. Magenta Living had 13,087 homes at transfer and this has reduced to 12,133 homes as at 31 March 2014.
- reduced public subsidy to build new affordable housing will require housing associations to look at raising funding in other ways to provide the ‘subsidy’ for social and affordable rent schemes
- with continuing reforms to welfare spending there will be reduced support to rent payers and potentially reduced income which will need to be offset with income from other sources in order for Magenta Living to carry on providing the services presently being delivered

- working in more deprived neighbourhoods at a time when competing pressures have resulted in publicly funded services being withdrawn Magenta Living will have to identify new sources of funding in order to provide wider services to support its communities.

(b) Developing a Group structure

The solution being proposed will be for Magenta Living to carry out a wider range of activities some of which will be commercial ventures in order to create revenue surpluses to provide the subsidies required for Magenta Living to continue to manage and build social rented homes for the future. This will require changes to our current governance structure.

Should Magenta Living fail to adapt it will reduce in size and be less relevant. The size of the organisation will reduce given its lessened circumstances and potentially be a takeover target for other organisations.

As it stands Magenta Living is a charitable stock-holding RP company through which the majority of the Group's activities are routed. In the existing structure there are two existing non-charitable commercial trading company subsidiaries. A development subsidiary, WPH (Developments) Ltd, a tax-efficient procurement vehicle to secure design and build services for Magenta Living's development programme. The second is WPH (Building Services) Ltd, a general commercial trading company that carries out non-charitable commercial building maintenance works too risky for Magenta Living to carry out itself, or where there are tax implications if it does so directly. This trading company is currently dormant following the Building Services business, which had at transfer been externally trading, being brought into the main company (Magenta Living).

In order to be able to respond to the new operating environment it will be necessary for Magenta Living to set up a new group structure which will allow a wider range of activities to be undertaken, which will produce revenue to help fund new housing and social housing services. This will allow the creation of other trading ventures 'ring fenced' from the social housing business.

As part of considering strategically its future direction and identifying potential business, revenue and funding streams, Magenta Living is keen to ensure that its corporate structure is flexible enough to enable it to develop and implement these strategies, should they prove viable, and to respond to other opportunities that may arise in the future.

This Agreement sets out the heads of terms for the proposed new Group structure and governance arrangements.

For illustration purposes we have used the name 'New Magenta Housing Group' for the new registered RP which will head the group. This is not the chosen name for the new group it is a working title for this document; a new name will be considered by the board in due course.

2. Philosophy

The philosophy of the 'New Magenta Housing Group' will be to uphold the values and approach that Magenta Living has developed since transfer in 2005. The 'New Magenta Housing Group' will be formed to allow Magenta Living to carry on as it does now as a social landlord with other companies /partners in the new group able to undertake many more diverse activities. This will strengthen and make both Magenta Living and the new group stronger and more resilient at a time of great change.

The 'New Magenta Housing Group' values will be based on consensus, trust, respect for stakeholders, an approach to working in partnership and resolving issues together for the greater good.

The 'New Magenta Housing Group' will be a registered provider with the HCA and as such it will adopt and reinforce the values of Magenta Living as an organisation with a strong social purpose.

It will recognise and value the existing relationship with stakeholders in particular its tenants and Wirral Council and will continue to strive to maintain a strong working relationship based on agreement and co-operation.

3. Proposals

(i) New Group structure

Magenta Living proposes to establish a new group structure, in order to be able to provide a wider range of services. Magenta Living will become a member of a new group which will have a newly registered RP (working name: 'New Magenta Housing Group') at its head. This will allow Magenta Living to continue to provide social and affordable housing as it does now – a diagram of the proposed structure is set out in Appendix 1 attached to this Heads of Terms document.

We want the 'New Magenta Housing Group' to be registered with the Homes and Communities Agency (the "Regulator"), as Magenta Living currently is. Having a Registered Provider at the head of the Group will have a number of significant benefits for the Group and for Magenta Living including:

- Releasing the Magenta Living Board from being directly accountable to the Regulator for its compliance with the Regulatory Framework, and instead putting this responsibility on to the Group Board. This would free up the Magenta Living Board from much of the administration associated with regulatory compliance and enable it to focus on delivering excellent services to customers.

- Ensuring the whole of the Group operates within the “regulated” environment, which would give comfort to other organisations dealing with the Group, especially funders. This may make it easier for the other members of the Group to raise their own funding over time.
- It may also have a positive effect on Magenta Living’s own funding situation. This would include access to new funds on competitive terms, particularly where the Group structure facilitates other Group Members to deliver diversified activities that either funders or the Regulator may prefer to see delivered outside Magenta Living itself. This would reduce Magenta Living’s risk profile, improving its “covenant” and therefore making it more attractive to funders.
- It would also be more attractive to other Registered Providers looking for a group to join rather than one headed by a non-registered organisation.

The alternative of having a non-registered organisation at the head of the Group would mean that the Regulator has no overview of any of the Group’s activities carried out outside Magenta Living. These activities would not, therefore, be subject to the same rigorous risk management expectations as they would if “New Magenta Housing Group” was registered. Amongst other things, the Regulator would impose stringent restrictions on Magenta Living funding non-social housing activities carried on by the Group, including requiring Magenta Living to get the HCA’s consent to apply any of its funds outside its own organisation, even where these are furthering Magenta Living’s own charitable objects. In effect, this removes some of Magenta Living’s Board’s freedom to use its own money as it sees fit, and instead gives this power to the Regulator. Within the Group, this could reduce Magenta Living’s status and influence, arising out of its position as the principal asset-holder (and, therefore, de facto controller of the Group’s purse strings). It could also impact on the Group’s ability to meet its ambitions to grow and prosper for the benefit of residents in the Wirral. However, if the “New Magenta Housing Group” is a Registered Provider, it will be simpler for Magenta Living to fund other members of the Group to carry out the diversification and growth aims, where Magenta Living either cannot or does not want to carry them out itself.

As the Regulator will only register stock holding RPs, the ‘New Magenta Housing Group’ will require some units of stock. It is proposed that it would own only one or two social housing properties, transferred up to it from Magenta Living, and managed on its behalf by Magenta Living.

Going forward, the Group wishes to put in place other subsidiaries alongside Magenta Living, to deliver diversified, non-social housing, activities. Future subsidiaries could include:

- A company building homes for sale
- A company managing and building homes for market rent

The aim of these companies would be to generate surpluses to be used for the benefit of the group including building further social rented homes or provide wider services for tenants and residents.

Further subsidiaries may be added which provide a wider range of services which would be outside the scope of a social housing landlord. These could include care services, supporting social enterprise or community and environmental services. The social landlord's day to day operations would be ring fenced from these new business activities.

The key advantage of the proposed new Group arrangement is that it will allow the Magenta Living board to focus on the excellent delivery of its social and affordable housing portfolio and remove the burden of responsibility of overseeing and managing the non-social housing aspects of the Group's activities.

(ii) Ensuring the Group has the right skills to manage more diverse activities

The Regulator has recently issued consultation on a new Regulatory Framework for registered providers (May 2014). It is keen to learn lessons from recent high profile failures in the sector. The consultation document states a revised Governance and Viability Standard will be introduced and that *"Registered providers need to ensure that they have suitable skills to reflect the range of activities they undertake..."* (para 3.18)

The 'New Magenta Housing Group' board will be recruited solely on the basis of skill and experience, to oversee the Group's strategy, direction and regulatory compliance. The 'New Magenta Housing Group' board will not need to have the same level of detailed technical and operational knowledge as Magenta Living's board about the management of the social housing (although it will be advantageous for some of 'New Magenta Housing Group's' board members to have this). The Group board will recruit board members with wider commercial, charitable and social enterprise experience to manage all aspects of the Group's current (and potential future) activities as successfully as possible.

(iii) Management arrangements

Initially any staff working for the 'New Magenta Housing Group' will have a dual role. Specifically the Chief Executive and Deputy Chief Executive will work to the "New Magenta Housing Group" Board. Their performance will be overseen by – and they will be line managed by – the Group Board. However, their duties and responsibilities will continue to be owed to Magenta Living and any future members of the group. Because both the "New Magenta Housing Group" and Magenta Living are Registered Providers, the Regulator will expect the Group Chief Executive and Deputy Chief Executive to act in the best interests of both organisations to enable them to continue to meet the requirements of the Regulatory Framework. This will include dedicating

an appropriate proportion of their respective time to meeting the needs of Magenta Living (as the “core” of the Group’s assets and activities).

The Regulator will expect that the Group Chief Executive will have the appropriate skills and expertise to act as the Chief Executive of a group comprising the diverse businesses that it includes. The group board will carry out an assessment of the suitability of the current chief executive of Magenta Living to fulfil this post.

(iv) Group governance arrangements

The ‘New Magenta Housing Group’ and Magenta Living boards will need to comprise individual board members with skills and expertise appropriate to the activities that that organisation will be carrying out. It is proposed that the boards should comprise:

- **‘New Magenta Housing Group’ board** – The current National Housing Federation good practice guidance states that boards should ideally be 9 and the group board will therefore be a self-appointing board of up to 9, consisting of members with the following skills/experience: housing, commercial, business, finance, governance, charity and risk management. The Group board members will be appointed on the recommendation of the Governance & Membership Committee.
- The **Chair’s Group** is intended to be the forum through which Magenta Living is engaged directly with and influences Group-wide issues overseen by the Group Board. It will be chaired by the ‘New Magenta Housing Group’ chair. It is intended to be a small and focussed Group populated solely by the Chairs of the various companies in the ‘New Magenta Housing Group’, who will continue to be appointed in accordance with the constitutions of their respective Group members. This means that, in Magenta Living’s case, the Chair of Magenta Living will continue to be appointed by the Magenta Living Board as it currently is. The Chair’s Group will be consulted on strategic and Group-wide issues and its support on a particular decision would be seen as crucial for the implementation of that decision by the Group Board.

The **Governance and Membership Committee (GMC)** will include three representatives from the ‘New Magenta Housing Group’ board, one representative from the Council, a tenant representative and a representative from the Magenta Living board. The nomination from the Council may be any sitting councillor, officer or council nominated board director from the Magenta Living board. A mechanism for the selection of the tenant representative will be agreed with the company’s tenant company members.

Appointments to the ‘New Magenta Housing Group’ board will be overseen by the GMC.

On the set up of the ‘New Magenta Housing Group’, Magenta Living together with a representative from the Council and a representative from the tenant company

membership will oversee the appointments to the shadow board of the 'New Magenta Housing Group'.

The GMC's role is also to support Group Members in the recruitment of their boards. The detail of its remit will involve it working closely with boards of any Group Members (which choose to avail themselves of its support) to identify in conjunction with them what skills they need and how these could be resourced. For Magenta Living, responsibility for recruitment continues to rest with the Board itself (and the Council for council nominations). The Magenta Living Board will identify the skills needed and then to ensure that people appointed to the Board have those skills. It will be a decision for the Magenta Living Board as to whether it wants to draw on the support of the GMC, which could help the Magenta Living Board to identify and recruit potential candidates, drawing on the benefits of doing this across the Group rather than on a board-by-board basis. The GMC will not appoint people to the Boards; the Boards themselves will continue to have the power to appoint their own board members as they do now. Boards will have discretion to reject any candidates recommended by the GMC but the aim would be that the GMC will have worked closely with the Boards to identify their needs and what they want from their Board Members, and therefore it will only propose candidates for appointment who it is confident will be acceptable to the Boards. If Magenta Living decides not to work with the GMC to recruit its board members, Magenta Living's board will continue to do so as it currently does.

- Magenta Living board will continue as at present – board of 12, consisting of 4 Independent Board Directors, 4 Tenant Board Directors and 4 Council Board Directors, appointed by the Council or elected, in the case of Independents and Tenants. The Magenta Living board members will comprise people with the following skills/experiences: social housing, asset management, human resources, customer service.
- it is proposed that, subject to compliance with company law and the requirements of the Regulator of social housing, Magenta Living will retain its existing committees (for example, its internal audit committee) and will have the power to continue to appoint committees of its own in the future. Alternatively, Magenta Living may instead choose to participate in Group committees, in which case these will be constituted in such a way as to ensure Magenta Living (and its interests) are appropriately and adequately represented.

(v) Future Governance changes

(a) Safeguarding the Group

The circumstances in which the Regulator will use its regulatory powers to directly intervene in a Registered Provider include where a Registered Provider's actions or

inactions threaten the ongoing compliance (of itself or its' Group) with the Regulatory Framework, or its own (or its' Group's) viability. In practice, this may occur where there has been – or is likely to be – a material breach by a Registered Provider or a member of its Group of the Regulatory Framework, of its charitable status, company law or of its funding documents, or where a Registered Provider's solvency is in jeopardy.

Within a group structure, the Regulator agrees that it is pragmatic for it not to regulate directly any Registered Providers within the group other than the organisation at the head of the group (the 'New Magenta Housing Group'). Instead, it expects the Registered Provider organisation at the head of the group (the 'New Magenta Housing Group'). to ensure that the other Registered Providers comply with the Regulator's expectation. The HCA's current consultation on revised regulation states: *"The Regulator expects that, where the Parent company of a group is a registered provider it should look to maintain not only its own but also the on-going viability and compliance with Regulatory Standards of all the registered providers within the group. This requirement (to support and assist their subsidiaries) does not change that, instead it enhances it, giving additional protection to the social housing, making clear that if appropriate the Parent must step in to help ensure compliance of all registered providers in the group."* (para 3.52)

On this basis, to reflect the requirements of the Regulator as part of the new Group structure arrangements, 'New Magenta Housing Group' will have "step-in" rights, which in exceptional cases could be used to remove and appoint the board members of Magenta Living. The Regulator will expect these rights to be included within Magenta Living's Articles of Association to ensure that the 'New Magenta Housing Group' will have adequate control of Magenta Living to enable it to step in and "steady the ship" if any serious issues were to arise with Magenta Living, as required by the proposed revised Governance and Financial Viability Standard (as set out above). This will allow the Regulator to step back and only regulate the Group via the 'New Magenta Housing Group'.

As well as fulfilling the requirements of the regulator, company law requires the group parent to be able to control the Magenta Living board via the step-in rights, in order for the group to function as a group for accounting and tax purposes. The test that company law will apply to confirm whether Magenta Living and the "New Magenta Housing Group" are in a group structure or not is whether the "New Magenta Housing Group" is a member of Magenta Living and either controls all of the votes at member level (which will not be the case here) or it has the ability to appoint and remove Magenta Living's board, if necessary (which will be the case here, via the step-in rights). Unless this test is met, the "New Magenta Housing Group" and Magenta Living will not be considered a "group" for company law purposes and may not achieve the tax and other benefits that will flow from being part of the same Group.

Whilst the step-in rights have to be unrestricted constitutionally to satisfy company law and the Regulator, it is usual in group structures for the head of the group to agree (in the Group Membership Agreement) that it will only exercise these step-in rights in certain, extreme, circumstances (for example,, in the face of financial or

regulatory default by Magenta Living, giving rise to any of the circumstances in which the Regulator would have the ability to intervene directly into the Registered Provider, as summarised above), or at the invitation of the Magenta Living board. The inclusion of these provisions will give Magenta Living (and the Council) comfort that the the 'New Magenta Housing Group' will not exercise its step-in rights in bad faith or capriciously, and the Group and the Regulator comfort that the 'New Magenta Housing Group' has appropriate control over the Group. Furthermore, it is proposed in the present case that, if the "New Magenta Housing Group" does have cause to exercise its step-in rights at any time:

- It will give Magenta Living as much notice of its proposal to do so as it can, to give Magenta Living's board the ability to take any action needed to rectify the situation and mean that the "New Magenta Housing Group" does not need to exercise its step-in rights; and
- If the "New Magenta Housing Group" does have to exercise its step-in powers at any time, as soon as the situation has been rectified (and "normality" resumed), "New Magenta Housing Group" will "step out" of Magenta Living to enable its board to resume control;

Except where the "New Magenta Housing Group" has had to exercise its step-in rights as above, Magenta Living's board would continue to manage and oversee the organisation's activities and the delivery of its business plan, as it currently does, including:

- The ownership and management of Magenta Living's stock
- Implementation of its agreed business plans and budgets
- Housing and estate management, strategies, policy and execution, including:
 - Maintenance modernisation and improvement contracts
 - Day-to-day responsive repairs
 - Resident involvement
 - Rent collection including arrears
 - Tenancy conditions including enforcement
- Commissioning programmes of works, improvements, acquisitions and developments.

(b) Future decisions on joining another group

Within a normal group structure, the decision as to whether to take that structure into a wider group at some future date would sit with the 'New Magenta Housing Group' Board (because it is that company that would become a subsidiary of the new larger Group). As part of any approach the 'New Magenta Housing Group' Board will have an obligation to consult the subsidiary RPs in the Group. The Regulator's consent

would be needed to take the 'New Magenta Housing Group' into a larger Group, and part of the Regulator's consideration would involve looking at whether the wider Group – particularly the RPs such as Magenta Living – would be in favour of the proposals, as well as the Council's views on the proposals.

The Regulator will not accept an arrangement by which Magenta Living has an absolute right of veto over any proposal to take the 'New Magenta Housing Group' into another Group in the future, because the Regulator needs to ensure that it has the ability to "rescue" the Group, should this be necessary, for example by directing the 'New Magenta Housing Group' to take it into a larger group structure (NB it is already the case that the Regulator has the power to direct Magenta Living to enter a group structure, should it choose to do so). However, Magenta Living will have a right of veto over such a decision in certain circumstances, where Magenta Living can demonstrate that it is not in its or the Group's best interests to join a wider group, based on objective criteria that are financial/business related.

(vi) Dispute resolution

The Group will have at its heart a commitment between all of its members to co-operation and consensus. Inevitably, however, from time to time there may be disagreement between group members, and the Group Membership Agreement will contain mechanisms to enable these to be resolved constructively before they escalate into formal disputes.

In relation to services provided by the 'New Magenta Housing Group' or other group members to Magenta Living, there will be a suite of safeguards giving Magenta Living the ability to terminate services provided by the 'New Magenta Housing Group' where these do not meet the relevant service standards, or where Magenta Living can demonstrate it can achieve greater value for money by purchasing them from another service provider.

Within many group structures, any formal disputes that may arise between the group members or with their holding company will be resolved by the Group Board (in effect, denying the group members a genuine right of recourse). However, recognising that the ethos of the 'New Magenta Housing Group', it is proposed that any disagreements between members of the 'New Magenta Housing Group' will be resolved:

- Locally, wherever possible, by agreement between the parties to the disagreement, in which case their decisions will be final;
- If this is not possible, via the Chairs (again, with any decision they reach between them being final), and if this is not possible, by reference to the boards of the two organisations (again, with any decision they reach between them being final); and
- If the disagreement still can't be resolved, either party to the dispute can refer it to an agreed independent external mediator, whose decision will be binding on the relevant Group Members.

And this will be reflected in the intra-group agreement between the Group and Magenta Living. Allowing for a party to a dispute to refer it to external mediation, and for any decision made by a mediator to be final and binding, is unusual in the sector, where it is standard practice for the “parent” board to have the final say on disputes. It is evidence of the ‘New Magenta Housing Group’s’ intended commitment to strong relationships between members founded on mutual respect, consensus and collaboration.

(vii) Magenta Living’s assets

It is proposed that all of Magenta Living’s current social housing assets (other than the two properties to be transferred up to the ‘New Magenta Housing Group’ set out in 3(i) above) will remain in Magenta Living. The Magenta Living board will retain control over those assets and will control how those assets are used (subject to Magenta Living’s business plan, which will be set by Magenta Living in consultation with the ‘New Magenta Housing Group’), which will be expected by the HCA as Regulator as it will not allow Magenta Living to fetter its discretion over how its assets are used.

The market rent subsidiary company may lease some homes from Magenta Living to let at market rent. Such arrangements would require agreement by the Magenta Living board.

As a charity and an RP, Magenta Living’s ability to use its funds for non-charitable / non-social housing purposes is strictly limited. It can only do so where there is a very strong business case and Magenta Living’s charitable assets (principally its money or its housing stock) would not be put at risk as a result of any on-lending. Magenta Living would therefore never be in a position where it was expected to fund risky activities or ones that it was not confident would be in accordance with the stringent investment criteria for charities laid down by the Charity Commission and the Regulator. In cases where Magenta Living is raising “borrowed money” secured against its social housing, and wants to invest this money in other group members’ commercial activities, this would also require the consent of the Regulator, which would require to see a strong business case in support of the proposals, that has been stress-tested extensively, to reduce any risks to the social housing assets

(viii) Timetable

The proposed target date for implementation of the new Group structure is in April 2015. In order to achieve this target date, a report to the Council’s Cabinet will be presented in the Autumn of 2014 and resolutions to amend the Articles of Association of Magenta Living will be put to Magenta Living company members in early 2015.

4. Heads of terms

This section sets out the key principles of the new Group structure and governance arrangements, to which the Council’s agreement is sought, both as a member of Magenta Living and under the Transfer Agreement for the transfer of the Council’s housing stock to Magenta Living.

(a) Changes to Magenta Living's Articles of Association to make it a subsidiary in the new 'New Magenta Housing Group'

The following changes will be made to Magenta Living's Articles of Association in order to make it a subsidiary of the new 'New Magenta Housing Group':

- the 'New Magenta Housing Group' will be a member of Magenta Living, and as a requirement of both the Regulator and of company law is not be capable of being removed as such by Magenta Living, its board or its members;
- a representative of the 'New Magenta Housing Group' will need to be present in order for a general meeting to be quorate (in the same way as a representative of the Council must be present, which would be unaltered);
- the 'New Magenta Housing Group' will be able to call a general meeting of Magenta Living (and the Council will continue to have this right);
- as set out above, the 'New Magenta Housing Group' will have the right to appoint and remove the Board Directors of Magenta Living ("step in rights");
- on a poll, the rights of the current members of Magenta Living will be slightly reduced from 33 1/3 % each for the Council, the Independent Members and the Tenant Members to 33% each, with the 'New Magenta Housing Group' having 1% of the total vote on a poll. These small changes ultimately have little consequence under company law, as voting rights of 25.1% are all that are needed to block a special resolution (and therefore, for example) changes to the Articles; and
- in addition to getting the requisite majority of the votes of the Council and the other members of Magenta Living, any resolutions to amend Magenta Living's Articles of Association, remove Board Directors (other than by the Council removing its nominees and replacing them from time to time) or wind up Magenta Living will require the 'New Magenta Housing Group's' prior consent before being validly passed in line with the requirements of company law.

(b) Appointment of the Group board

The Council will have input into the Group's governance arrangements, under the new Group structure arrangements the Council will:

- have the right to appoint one member to the Group's Governance & Membership Committee, which will have delegated responsibility for, amongst other matters, recommending candidates for appointment to the 'New Magenta Housing Group' board (and to other boards within the Group, should they choose to work with the GMC on their own board recruitment); and

- be notified of any vacancies arising on the 'New Magenta Housing Group' board, to enable it to nominate candidates for consideration by the Governance & Membership Committee for appointment to the Group board, subject to that candidate possessing suitable skills and experience for the vacancy.
- The nomination from the Council may be any sitting councillor, officer or council nominated board director from the Magenta Living board

(c) Other changes to Magenta Living's Articles of Association

Finally, some other minor changes may be required to Magenta Living's current Articles of Association in order to obtain the Social Housing Regulator, the HCA's consent. These changes will be kept to a minimum, but are likely to include, for example, the inclusion of the provision of social housing (as defined in the Housing and Regeneration Act 2008) within Magenta Living's Articles of Association.

5. Agreement

By signing this Agreement, the Council and Magenta Living both confirm that the principles set out in this Agreement are acceptable, and that they will act in good faith to effect the new Group structure arrangements and amendments to Magenta Living's Articles of Association.

The Council confirms that it will enter into a Deed of Variation to the Deed of Covenant which was entered into by the Company at the same time as the Transfer Agreement, varying its rights of appointment to the Magenta Living board in accordance with the principles set out in this Agreement.

The Council agrees that it will not exercise its rights as a member of Magenta Living to vote against changes to Magenta Living's Articles of Association which are in accordance with the principles set out in this Agreement.

Signed on behalf of Magenta Living _____

by an authorised signatory

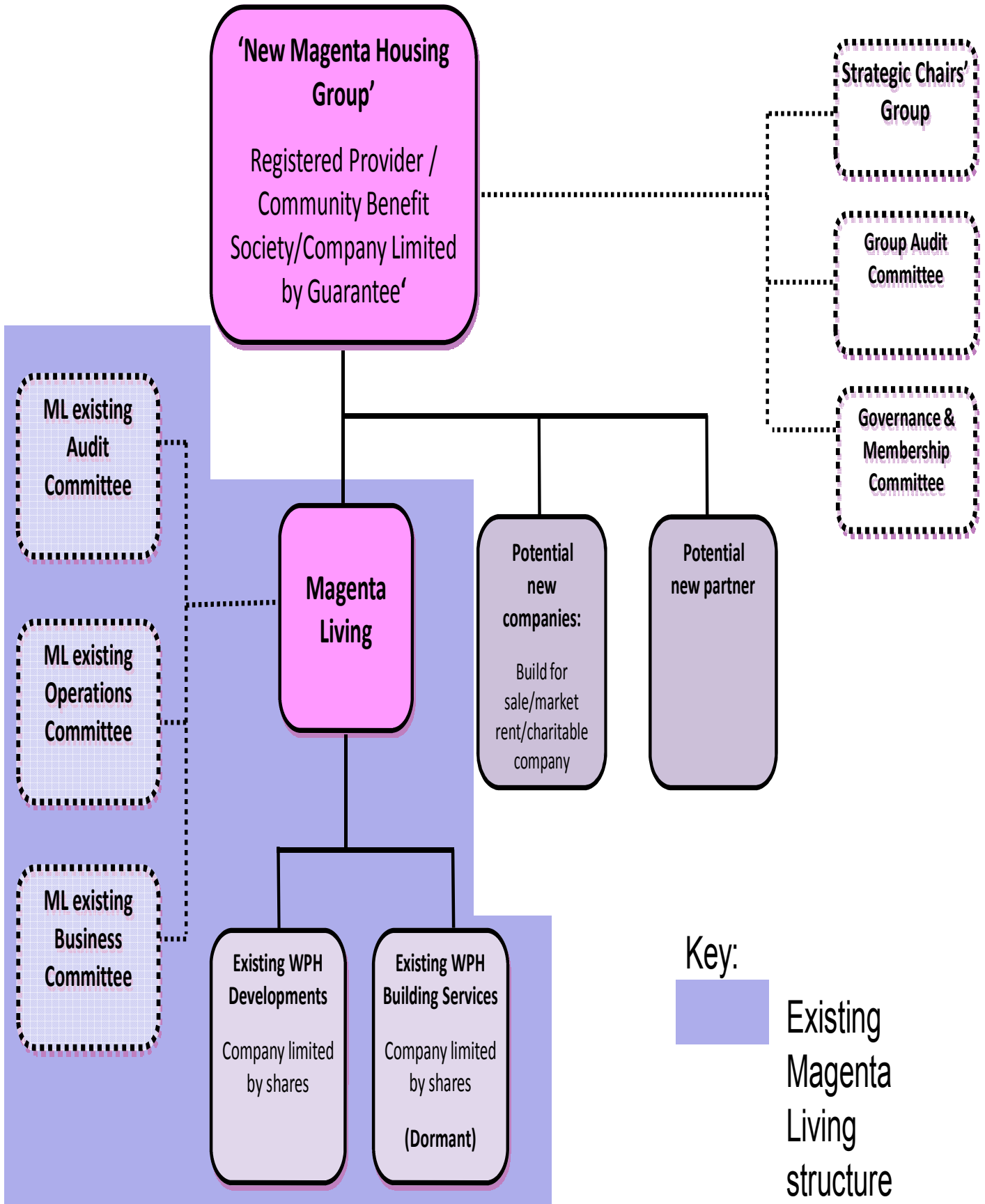
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by an authorised signatory

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