Leicester
City Council

WARDS AFFECTED
All Wards

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Housing Management Board	**9th February 2004**
Housing Scrutiny Committee	**12th February 2004**
Cabinet	**1st March 2004**

NEW AFFORDABLE HOUSING

Report of the Corporate Director of Housing

1. Purpose of Report

1.1 To agree how new affordable housing can be provided in Leicester, in support of objective G2 of the Council's Corporate Plan; by enhancing the Council's well established policies regarding dilapidated Council houses and the Empty Homes Strategy.

2. Summary

2.1 Leicester has a shortage of affordable housing. The Council housing stock is losing over 500 units each year through Right to Buy.

2.2 Because of Right to Buy it is not financially viable for the Council to build New Council houses. New affordable housing is currently created by Registered Social Landlords (RSL's), using grant funding from the Housing Corporation, and from the planning requirement for new developments to provide a proportion of affordable Housing.

2.3 In the past RSL's have provided, on average, 80 units each year and 15 units have been created from new developments. Some of the RSL units have been empty homes bought on the open market and vacant dilapidated properties transferred from the Council stock.

2.4 The Council has a policy established for 10 years of disposing of empty Council properties that have high investment costs. In the past this has meant selling the property to an RSL, normally at a discount, to improve it and accept tenants nominated from the Council Housing Register, thereby bringing affordable housing back into use.

2.5 Recently the Housing Corporation has said that, within the Regional Housing Board's Strategy, it will no longer give a high priority to grant fund the rehabilitation of individual properties, the mainstay of the Leicester programme for new affordable housing. Officers, within this new framework, will be seeking to secure grant aid for RSL's within major schemes. However this change in Corporation policy means that dilapidated Council properties cannot be dealt with as before and will need to be sold at market value, which will further reduce the supply of affordable housing. This report recommends a method of continuing this policy of small scale non tenanted dilapidated property disposal and creating new affordable housing.

2.6 In addition it would be beneficial if the Council could find a way to purchase empty properties on the open market to use as affordable housing, which would also support the Council's Empty Homes Strategy, and provision has been made in the Housing Capital Programme for this.

2.7 The supporting information explains how new affordable housing could be achieved and concludes that, after exploring alternatives, that a not for profit company should be created to develop new affordable housing. The company should be constituted in such a way that to all intents and purposes it operates as a RSL and that its own borrowings do not count as the Councils capital expenditure and for the first few years it would have no employees and be serviced by Council staff. In total it is estimated that 90 units of rented affordable housing can be created within 3 years.

2.8 It is important that this report is seen in the context of the Stock Options Appraisal, which will examine options for investment in the Councils Housing Stock. Whilst the supply and demand of affordable housing will be considered, the Stock Options Appraisal will concentrate on reaching the governments decent homes standard for the existing stock rather than creating new affordable housing. The recommendations of this report will complement whatever option is agreed in the Stock Options Appraisal.

3. Recommendations

3.1 That a not for profit company be set up to create new affordable housing in Leicester as described in the report, subject to the Corporate Director of Housing and Chief Financial Officer, in consultation with the Cabinet Link member for Housing, agreeing that a viable business case exists; and that the detailed legal framework can be set up so as to properly safeguard the Councils and tenants interests.

3.2 That a well being grant of up to £10k be provided to NewCo Homes from the Housing General Fund for setting up the new company

3.3 That the Corporate Director of Housing to be given delegated authority, in consultation with the Cabinet Link Member for Housing, to sell dilapidated, non tenanted HRA property at less than market value, with nomination rights and apply capital receipts from those sales and those at market value for investment in the Housing Capital Programme.

4. Financial Implications (Rod Pearson Ext. 7108)

4.1 The financial implications relate to the impact on the Council and the business of NewCo Homes.

4.2 The Council will be continuing its well established policy of small scale disposal of non tenanted, dilapidated properties and so this report has no new HRA revenue implications in that respect. However it should be noted that although the current policy avoids the Council investing capital and losing the property through RTB, it does lose £700 per property within the HRA. The properties will be bought from the Council at market value and the Council will receive a capital receipt that is 100% reusable. The capital receipt will be the basis for a well being Affordable Rent Grant from the Council to NewCo Homes. There will be no net capital cost to the Council. More details are shown in Section 5 of the Supporting Information. Measures will be taken to avoid VAT on improvements and management/maintenance, where possible. For the time being, it is assumed that VAT cannot be reclaimed, as is generally the case for landlord companies.

4.3 The Council will also be making capital “wellbeing” Affordable Rent Grants to NewCo Homes for it to let properties at affordable rents, which it has bought on the open market, as well as properties bought within the Councils Empty Homes Strategy. There is capital programme provision for this of £600k in each of the next 3 financial years, although £100k is earmarked for empty homes officer’s costs. It is estimated that provision of £500k will generate between 9 and 11 new affordable homes each year.

4.4 The wellbeing grant will have legal restrictions on the way it can be used by NewCo Homes, which will enforce the landlord requirements set out in Section 4 of the supporting information. In the event of NewCo going into liquidation the Council will have made provision for continuation with another landlord and/or sale and return of proceeds to the Council after bank loans have been repaid.

4.5 Money borrowed by NewCo Homes will not count as the Council’s Capital expenditure, as NewCo Homes Board will have one out of 6 of the Board members from the Council.

4.6 An indicative NewCo Homes business plan is shown at Appendix 1 of the supplementary information, and outline approval has been given by a bank to lend to NewCo on terms indicated in the business plan. Nevertheless there is a degree of risk associated with the venture and a risk assessment is included in Appendix 1. It should be noted that the expected annual surpluses of NewCo are small and risk needs to be assessed in this context. However the Business Plan seeks maximum borrowing potential from the Revenue Account which could be lessened by increased Council grant.

5. Legal Implications (Joanna Bunting – Ext 6450)

5.1 The Council has a duty under S8 of the Housing Act 1985 to consider housing conditions and needs with respect to the provision of further accommodation.

5.2 Disposal of non tenanted HRA properties for deregulated rental requires special government consent. This has been obtained for properties in the past by the Council.

5.3 It is possible to set a company up as a housing provider which would not be an RSL, but, if required, there could be a member’s agreement/golden vote arrangement so that the company could later make the necessary constitutional arrangements so it could become an RSL.

5.4 The Council has 2 principal powers to give financial assistance for privately let housing accommodation:

a) Section 24 and 25 of the Local Government Act 1985 (for which ODPM consent is required – there are some general consents, for non RSL’s there are limitations, both in amount and duration).

b) Section 2 of the Local Government Act 2000 (well being powers). Regard must be had to the Council's Community Strategy. It is proposed that the company be set up using "well being" powers. This means that its activities, even if outside our area, must be capable of benefiting our area.

5.5 Where the Council's participation in a Company reaches a certain level the company could be "regulated" under Part V Local Government and Housing Act 1989. This would mean certain administration requirements but the real impact would be on the Council's capital finance and credit arrangements. The Chief Finance Officer currently advises that companies must avoid being regulated. To do this the Council must not have a majority of members / control a majority of voting rights and the Council must have less than 20% of Directors/Directors voting rights. This can be achieved by the Board of NewCo Homes having one Council member out of the a Board of 6.

5.6 At present, unless the Company is a Housing Association the Council could not generally provide technical, administrative or professional services at a charge. However, the Council can provide staff and services (and indeed goods under "well being powers"). There is a problem in that well being powers cannot be used to raise money (i.e. charge) but as regards services then, if these are provided by virtue of the well being power then the Council can charge for these at cost. This power would therefore appear to apply in the case of this company if the company was operating for "well being" purposes / outputs.

5.7 North Memorial Homes is an existing charitable trust. The current beneficiaries are disabled members of the armed forces / "worthy" persons in indigent circumstances born or residing in Leicester especially those with permanent disability. Officers of the Council act as the Trustees. There are about 40 units of accommodation in Oadby. It is also a housing association and therefore de facto an RSL. The transfer of houses for general letting would therefore fall outside the charitable purposes or any charitable purpose (without limiting the category of person who could take a letting e.g. to "the poor", it's doubtful that the Charities Commission would agree such a scheme so far removed from the original objection). Nominations rights would be similarly constrained. The Trustees Powers to invest and trade would also be limited under the various statutory provisions relating.

5.8 The company would be limited by guarantee, that means that the members would, on setting up the company, provide a guaranteed amount. In practice this is nominal, say £10.00. Any liability of the company therefore only falls on the individual members for the amount of their guarantee. Because of this, people doing business with companies sometimes require a bond or guarantee from a backer (this is sometimes also referred to as underwriting). Also Directors could be personally liable if they have acted beyond the rules of the company in some way. It is for this reason that it is sometimes difficult to find sufficient and suitable people willing to become Directors. The Directors may be able to get insurance through the company but this would only cover them for mistakes and the like made in good faith. The City Council's insurance is unlikely to cover its Directors on this company. It is possible for the City Council to consider indemnity for Directors especially where they are a Member/Officer of the Council. If the company is wound up then its assets will be disposed of until its debts are met and, if there are any remaining assets, these would be distributed as per the company's constitution. This could mean that tenanted properties pass out of the control of the company. One device that could be considered if this is a real problem is to make the initial disposals (see Section 2 above) on a long leasehold basis where they forfeit a clause in, case of insolvency. This is not entirely foolproof as the receiver (or indeed, an administrator) try and get relief from a forfeiture through the court. However, subject to that, if the long lease was forfeit, then the property would revert back to the Council.

6. Report Author

Mike Forrester
Corporate Director of Housing – Ext. 6800

DECISION STATUS

Key Decision	**Yes**
Reason	**Significant effect on two or more wards**
Appeared in Forward Plan	**Yes**
Executive or Council Decision	**Executive (Cabinet)**

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NEW AFFORDABLE HOUSING

SUPPORTING INFORMATION

Report

1. Shortage of Affordable Housing

1.1 A Housing Needs Survey conducted under government guidelines, by independent consultants, was considered by Cabinet on 27th January 2003. This showed that there was, at that time, a shortage of 600 units of affordable housing every year and this was cumulative, so for example, within 3 years, this would be a shortage of 1800 units of affordable housing if the supply and demand conditions of 2002 were maintained. The total stock of affordable housing in Leicester comprises of Council (24,670 units) and Registered Social Landlords (RSL) (10,400 units) making 35k units in all.

1.2 Leicester is losing affordable housing through the Right to Buy (RTB) of Council homes. Over the last 23 years, since RTB was introduced the Council has had to sell, on average, 550 units per year. In 2002/03 this rose to 591 units and in the current financial year, is forecast to rise to over 600 units.

1.3 It is not financially viable for the Council to build and own new affordable homes as it would have to let those homes on a secure tenancy which gives the tenant RTB, and it would require use of the Councils capital resources.

1.4 The experience of the new Council properties which replaced the Boot Homes in Saffron and Braunstone is that, tenants are exercising RTB and the properties are being sold at discounts of up to £24k. Not only does the Council receive less cash than the value of the property, but only 25% of the receipt can be used for new spending. From next year the government have put 75% of RTB sales into a national pool which is used to resource the Basic Credit Approval, which for 2004/05 has declined for Leicester.

2. Supply of New Affordable Housing

2.1 New affordable housing is currently created by RSL's, using grant funding from the Housing Corporation and from the planning requirement for new developments to provide a proportion of affordable housing. In the past RSL's have provided, on average, 80 units each year and 15 units have been created from new developments.

2.2 The Housing Corporation has recently said it will no longer grant fund rehabilitation of individual properties. This is an outcome of the East Midlands Regional Housing Board's (RHB) Strategy that determines Housing Corporation funding. The RHB priority is for new units within mixed tenure developments and not rehab of existing properties.

2.3 Officers can understand why the Housing Corporation has changed its priorities within its funding restrictions and it is hoped that the Council will be able to sustain high levels of Housing Corporation funding for large mixed tenure developments such as the Mosan Mills site at St. Margarets Way, but it is unlikely that previous levels of new affordable housing will be sustained.

2.4 However the new policy chokes off Leicester's valuable source of rehab affordable housing, and reduces the potential for new affordable housing to be created. This change in Housing Corporation policy has also deterred RSL's buying empty properties from owners to create new affordable housing. This is undermining the Council's Empty Homes Strategy, which led to new affordable housing being created.

3. Disposal of vacant dilapidated Council houses

3.1 The Council has a well established policy since 1994 of disposing of dilapidated Council houses that need more than £10k spending on them. In the past this has meant selling the property to an RSL, normally at a discount, to improve it and for the RSL to accept tenants nominated from the Council Housing Register, thereby avoiding the loss of affordable housing. In the past around 20 properties each year have been identified for disposal in this way.

3.2 The change in Housing Corporation policy means that vacant Council dilapidated properties cannot be dealt with as before and will need to be sold on to private buyers, if the present policy is to be maintained, which will further reduce the supply of affordable housing.

4. Purchase of Properties.

4.1 The Councils empty homes strategy encourages owners of empty homes to bring them back into use. This can be achieved by the owner taking up residence, sale to a new owner or sale to a Housing Association who will then let the property at affordable rents.

4.2 This latter option requires a grant from the Housing Corporation and with the change in Corporation policy is no longer an option.

4.3 The only way this can continue is for the Council to take the place of the Housing Corporation in making an Affordable Rent Grant to an RSL or other body.

4.4 In addition, it would be beneficial if the Council's Affordable Rent Grant was available for an RSL or other body to purchase properties on the open market along with a bank loan and its own resources to let at affordable rents.

5. Options to create New Affordable Housing

5.1 Clearly it is important to continue to lobby the RHB/HC for a return to the practice of grant funding rehab. However, this appears unlikely to change and the options below assume no change in RHB/HC policy.

5.2 In considering the options it is assumed that Council funding will be required to replace HC grant funding and that the Council would want to have considerable control over the new affordable housing created. The following criteria have been used to assess the options:

(i) rents should be affordable

(ii) landlord should be able to borrow without counting as Council's capital spending

(iii) landlord must accept full nominations from Council's Housing Register in perpetuity.

(iv) landlord must operate to standards as good as, or better than the Council

(v) landlord must be committed to creating new affordable homes in Leicester with any resources generated from Leicester activities.

(vi) no RTB

(vii) landlord must be fully committed to dealing with ASB perpetrated by their tenants.

(viii) landlord must be fully committed to a partnership with the Council.

(ix) landlord must consult with tenants

(x) the Council should be able to regulate the landlord, particularly in view of the Affordable Rent Grants from the Council.

Option 1 – Council grant to RSL's

5.3 Continue to dispose of dilapidated vacant Council houses to a variety of RSL's with Council providing grant funding instead of the Housing Corporation. Also the Council would grant fund RSL purchase of empty private sector homes to create new affordable housing. This would be welcomed by RSL's but is fragmented and unlikely to give a focus to the Council's investment. It would require the Council to regulate each RSL, whereas currently the HC regulates those RSL's on a wider area basis.

This option continues the Councils practice of property disposal, as explained in the financial implications, which avoids high repair costs and RTB but leads to a loss of £700 HRA income per annum.

This option avoids RTB but a satisfactory level of nominations could not be achieved.

5.4 This option meets criteria (i), (ii) and (vi), but not (iii), (v), (vii) and (x) and to varying degree (iv), (viii), and (ix).

Option 2 – Council grant to one RSL.

5.5 This would avoid the fragmented approach at Option 1 and enable the Council to establish a real partnership with one RSL. There is no RSL that only operates in Leicester and so there would always be concerns about priority for Leicester in terms of Board focus, lettings and resources. A medium sized RSL that has a large proportion of its properties in Leicester is Leicester Housing Association and a small RSL that has around 40 properties – all in Oadby is North Memorial Homes, although the latter restricts access to ex service people. Clearly any other RSL could be chosen as a partner.

5.6 This option meets criteria (i), (ii) and (vi) but not (iii), (v), (vii) and (x) and to a varying degree (iv), (viii), and (ix). In particular this option avoids RTB but a satisfactory level of nominations would not be achieved.

Option 3 - Council grant to new body

5.7 This would be a new body committed to creating and managing new affordable housing in Leicester, initially managed to Council standards by Council staff, letting properties at affordable "benefit level" rents to people nominated from the Council's Housing Register. Any other activities of NewCo Homes would require Council approval and would need to demonstrate low risk to the main purpose of NewCo and that any money generated by those activities were deployed in support of the main purpose. A not for profit company is proposed which can evolve into an RSL when it is big enough. The reason why a new RSL is not appropriate at this stage, is that it would be too small to have its own staff, which is an independence requirement of the Housing Corporation. More details are shown in the Business Plan at Appendix 1.

5.8 This option meets all the criteria and for this reason it is the recommended option. This option avoids RTB, leads to full nominations and genuine partnership is more likely with NewCo and the Council.

6. Capital transactions for Option 3

6.1 The Council will continue to identify empty Council houses with improvement costs over £10k, and sell the property at market value. The sale at market value requires ODPM approval.

6.2 The business plan at Appendix 1 uses a real example of a property in Braunstone with a market value of £60k and improvement requirement of £20k. For VAT reasons the Council would improve the property prior to sale giving a value of £80k. Using this example the Council would receive a capital receipt of £80k which is 100% reusable. Of this sum £20k would be used to finance the improvements and £60k would be available to support the Councils Housing Capital Programme, from which an Affordable Rent Grant of £60k would be made to the Company. The basis of this grant would be for the Company to charge affordable rents rather than market rents. The company would borrow £20k from the bank to complete the financing of this £80k purchase of the Council's empty property. Whilst this property is a real case - the repair costs are at the higher end of the scale - on average repair costs of £15k are required. There would be no net cost to the Council.

6.3 The Council's well being grant provision could also be used by the Company to finance empty property purchase in the private sector. The £600k provision in the Capital programme would generate 9 units.

6.4 In total each year it is estimated that (20 + 9) 29 new affordable homes could be created.

2. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph References Within Supporting information
Equal Opportunities	No	
Policy	Yes	1.1
Sustainable and Environmental	No	
Crime and Disorder	No	
Human Rights Act	No	
Elderly/People on Low Income	Yes	2.1

3. Background Papers – Local Government Act 1972

None.

4. Consultations

Leicester Federation of Tenants Association
Housing Management Board
Corporate Directors Board
Housing Scrutiny Committee

5. Aims and Objectives

The aim of the Housing Service is a "decent home for every citizen of Leicester". This report supports objective 2 "to encourage provision of new housing to meet the needs of Leicester's citizens."

APPENDIX 1

NEWCO HOMES

BUSINESS PLAN

Background

The purpose of NEWCO Homes is to create and manage new affordable housing in Leicester. It may enter into other activities with the approval of the Council provided that those activities do not create a significant risk to the affordable housing business and that any resources created by these activities are used to support affordable housing.

Leicester Housing Needs Survey shows an annual shortage of over 600 units of affordable housing. The report to the City Council Cabinet of 23 February explains this in more detail. The demand for the NewCo Homes properties is likely to remain high for the foreseeable future.

It is a not for profit company with a Board of 6 comprising:

Tenant
Council member
4 vacant

Management and Maintenance services will be provided by Leicester City Council as well as advice to the Board. Initially, therefore, there will be no staff nor administrative property.

Its assets will initially be bought on the open market and from Leicester City Council, against which it will borrow to part fund the purchase and fund new affordable housing to create further assets. The Council will sell properties that need improvement, and due to VAT advantages will improve them before sale, thereby increasing the purchase price.

The Council will provide An Affordable Rent Grant for each property to allow the Company to let the property at an affordable rent.

NewCo Homes will also buy properties on the open market both within and outside the Councils Empty Homes Strategy using bank loan and an Affordable Rent Grant from the Council to let at affordable rents.

The Company Secretary is XXXXX

Its business address will be P O Box XXXX.

Property purchase estimates

The actual figures will depend on the value of each property. However 4 properties in Braunstone have recently been marketed for sale at a value of £60k each, requiring £20k improvements, and these values can be used as an illustration of how the company would pay for each property. Legal fees for purchase are estimated at £600 per property, not significant for this illustration, and would be incorporated into the purchase cost.

	£000
Affordable rent grant from Council	60
*Bank Loan	20
Total resources to buy property	80
Payment to Council to buy property	80
	-

*The size of the bank loan for each property will vary according to the rehab and purchase costs of the property. A cost of £20k is at a higher level than the average cost of rehab of £15k.

The capacity to borrow is based on the asset value and net income and this is estimated in the Revenue Account forecast.

Revenue Account estimates

Again using the Braunstone properties as examples, these estimates are based on a 3 bedroom house let at typical deregulated rents allowable for Housing Benefit.

The Council will provide a management and maintenance (M&M) service for a fixed fee per property, which will be deducted from rent income collected (mostly HB). The Councils relevant weekly cost of management and maintenance is £1,219pa. Including VAT. Also payment to the Council for major repairs of £517 per annum is estimated to be required.

From time to time properties will be unlet. For Council properties this averages less than one week per property per year and it is suggested that 4 weeks void per property per annum is assumed, although as more properties are acquired this average ought to reduce. The M&M fee would still apply during void periods. An allowance is also required for non payment of rent by the tenant and this is assessed at 1.3% or £45 per property per annum.

At current interest rates the Company could borrow @ 6.026% fixed over a 30 year period. This would give an annual capital financing cost of 7.42% of the amount borrowed, and the loan would be repaid after 30 years.

Taking these factors into account a forecast single year for a single 3 bedroom house would be as follows:

	£	£
Rent income (£68 pw)	3480	
Less void period	272 -	
Less unpaid rent	45 -	
Less major repairs	517-	
Less M&M fee	1219 -	
Net rent income		£1,427

First Year forecast

Assuming 20 properties are bought from the Council as shown in the Property purchase and Revenue Account estimates and that they were let as follows:

			Income Factor
5	let by	1 July 2004	3.75
10	let by	1 October 2004	2.50
15	let by	1 January 2005	1.25
20	let by	1 March 2005	0.42
			7.92

The Revenue Account forecast for 4 years are as shown in Annex A.

Purchase of Houses on the Open Market

This is a very positive way that the Company can contribute to the affordable housing stock. Assuming a purchase price of a lettable 3 bedroom property of £80k, an Affordable Rent Grant from the Council of £56k, leaving the company to borrow £24k. The actual amounts of the Affordable Rent Grant and the borrowings will vary accordingly to the property cost, and any funding generated by NewCo.

The Councils Housing Capital Programme provision for this is £600k per annum, but some would be spent on staff for empty homes strategy and so £500k is likely to be the maximum amount available. This would indicate that around 9 new affordable rent 3 bedroom properties can be created each year.

New Site Development

The Council owns a large number of small plots of land under housing powers which require redevelopment. Depending on the size of the site, this could be solely affordable housing or a mixture of owner occupied and rented. The Council would be able to provide the land at no cost to the company either by peppercorn lease or market sale with an appropriate Affordable Rent Grant. If the land has no net cost to the company, the new build would cost £75k for a 3 bedroom semi-detached and £65k for terraced. Assuming a mixture – mid price £70k per unit.

This would also create a more cost effective way for the Council to create new affordable housing rather than private sector purchase, involving a grant of £46k from the Council instead of £56k. If this were used to its fullest extent, then the Council capital provision of £500k could finance 11 new affordable units each year.

If some larger sites have the affordable housing paid for by cross subsidy from owner occupier sales, then much more new affordable housing can be created but this cannot be estimated at this stage.

Number of Units Forecast

The number of units owned by NEWCO depends on the number sold to it by the Council, the number created on new sites and the amount of money the Council can provide for it to buy privately on the open market.

The following forecast is based on the figures shown in the Business Plan.

	Properties owned (cumulative)		
	Year 1	Year 2	Year 3
Bought from Council	20	40	60
Developed* with			
- Council funding	9	18	27
Maximum	29	58	87

*assumes private sector purchase. If new build on Council land, this money could provide 2 more units per annum making 93 units at the end of the third year.

Corporation Tax

NewCo will be liable for Corporation Tax. Profits for Corporation Tax are calculated prior to any debt repayment or charge to provisions.

The Business Plan at Annex A shows that NewCo is unlikely to make profits of any substance – that is the intention.

However, those figures allow for debt repayment of the loans. In the first year NewCo is expected to borrow £240k and £500k per annum thereafter. The principal repayment in year 1 will be £2,710, Year 2 £9,407 and Year 3 £16,742. It is possible to defer principal repayments and it might be possible to use the revenue account surplus to make revenue purchases that would avoid tax. However it is unlikely that such measures could be sustained for more than 7 years.

Therefore, unless such actions are taken, Corporation Tax will apply to NewCo at a marginal rate of 23% on profits over £10k from year 3 – estimated tax of £1,551 and in Year 4 Tax of £3,385.

It would be the intention before Tax was paid i.e. before Year 3 to establish whether charitable status was a route to consider to avoid Corporation Tax.

Risk Assessment

The risks to NewCo Homes are:

1. **Demand will drop leaving NewCo Homes with voids**.

   The Councils Housing Needs Survey 2002 shows that each year there is a shortage of 600 units of affordable homes. There are no indications, with high levels of

Council houses being sold through Right to Buy that there will be anything other than a shortage of affordable homes in the foreseeable future.

Also turn around times to relet may take longer than 4 weeks provided in the business plan. The Council will be contracted to deliver to these timescales.

2. Interest rates will increase

Bankers have already indicated willingness to lend at the fixed rates shown in the business plan for 30 years to allow the debt to be repaid, before the life of the property has expired.

The business plan includes interest rates at current market rates which take account of the forecasts for base rate to rise 1% above the low of 3½%.

New factors such as unexpectedly rising inflation would be required to increase long term rates higher. Even so long term rates of 6% would be considered at the high end compared with current rates of 5%. If rates increased to this level an overall financing rate of about 8.1% for a 30 year fixed term loan could be the terms for new borrowing. This would increase the cost of borrowing £15k to improve sold Council homes from £1,113 per annum to £1,215 per annum, an increase of £112 which would reduce the amount that could be borrowed for new property purchase by £1,400 per property. This would mean the Councils Affordable Rent Grant for a property costing £80k would increase from £56k to £57.4k. Alternatively if NewCo were able to generate surplus funding that could avoid an increase in the Councils Affordable Rent Grants.

A rise in interest rates would not impact on the business of managing properties already bought with money borrowed at fixed rates.

3. Fall in Property Values

A fall in property values would mean that in the event of NewCo going into liquidation there would be a reduction in proceeds to the council after bank loans had been repaid. Alternatively if NewCo is successful a fall in property values would mean affordable housing could be created by purchase at a lower price.

4. Government will reduce benefit rent levels

The government would like to reduce the cost of Housing Benefit, and to pay benefit only on lower rents would achieve this. However the government also has to have regard for the viability of investment in affordable housing in a lower rent environment.

With rising property prices across the country, increased Right to Buy, increasing demand for affordable housing, it would seem that a downward pressure on rents is unsustainable if high levels of homelessness are to be avoided.

Nevertheless the government are piloting in 10 Councils a scheme that allows tenants to retain some Benefit cash in excess of the rent they pay, where this would lead to a lower Housing Benefit to the government. This is intended to encourage "shopping around" for the lowest rent.

It is intended that this will depress deregulated rents toward RSL levels. This will be mitigated by the availability of low rented property. In Leicester low rented property is in short supply.

The business plan for NewCo Homes provides for a typical deregulated rent for a 3 bedroomed house of £68. There are not likely to be any downward pressure on deregulated rents for at least 2 years, and in any case those rents will increase for inflation each year.

Since the business plan provides for a fixed rate loan and there is surplus of rent over costs it is estimated that NewCo could continue in business for properties in its ownership at that time even if rents fell from £68 per week to £57 per week in actual terms. The extent to which it could create further affordable housing in such an extreme situation would depend on bank rates at that time.

5. Government may stop sale of properties to NewCo Homes and/or stop well being grants being paid.

If the government stopped the sale of Council properties to NewCo Homes it would mean that 20 units per annum could not be acquired by NewCo, significantly reducing its capacity to grow.

If the government also stopped well being grants being paid this would mean that 13 units per annum could not be acquired.

If the government did both, NewCo could not grow and would continue to manage properties in its ownership at that time. More a risk to the growth of NewCo Homes than a risk to the Business Plan for owned properties.

Although it is possible on a property by property basis for the government to refuse consent to dispose of Council properties, there would appear to be no sound reason for doing so. It is possible that the Council could contend such action, if it were seen as a blanket policy by the government without each disposal being considered on its merits.

To stop wellbeing grants for NewCo would mean changing or scrapping the wellbeing powers for all Councils. This is considered unlikely.

ANNEX A

NewCo Homes

NewCo Housing Stock Changes

	Year 1	Year 2	Year 3	Year 4	Year 5	
Transferred from Council 2004/05	8.00	20.00	20.00	20.00	20.00	Note 1
Purchased from Capital Prog. 2004/05	5.00	9.00	9.00	9.00	9.00	Note 2
Transferred from Council 2005/06	-	8.00	20.00	20.00	20.00	
Purchased from Capital Prog. 2005/06	-	5.00	9.00	9.00	9.00	
Transferred from Council 2006/07	-	-	8.00	20.00	20.00	
Purchased from Capital Prog. 2006/07	-	-	5.00	9.00	9.00	
Transferred from Council 2007/08	-	-	-	8.00	20.00	
Purchased from Capital Prog. 2007/08	-	-	-	5.00	9.00	
Total Stock	13.00	42.00	71.00	100.00	116.00	

Properties acquired in year

Ex Council properties (FYE)	20.00	20.00	20.00	20.00	20.00
Private Sector (FYE)	9.00	9.00	9.00	9.00	9.00
Profit Funded					
Cumulative properties	29.00	29.00	29.00	29.00	29.00

Note 1 MF's assumption of 20 properties per year on a phased basis equal to 7.92 in first year.

Note 2 MF's assumption of 9 properties per year. Based on £600k provision within the Company borrowing a further £24k per property.

Income/Expenditure per unit	
One-off start up costs expected to be less than £10k and met from General Fund	-
Average weekly rent	68.00
Void Weeks	4.00
Percentage Bad Debt	1.30%
Bank interest earned percentage (this may be liable for tax)	4.00%
Average Management Cost per property pa (incl. VAT – excludes CEC and indirect charges	335.00
Average Revenue Main Cost per property pa (incl. VAT)	884.00
Average Cap Expend Cost per property pa (incl. VAT)	517.00
Bank Interest Paid Percentage (annuity rate ie repayment of principal)	7.42%
Annual Administration Cost	
Accounting, secretarial (fixed)	-
Conveyancing (per property)	-
Insurance Costs per property	100.00
Average Purchase Price per refurbished Council property (includes £600 legal fees)	75,000.00
nb no Stamp Duty included above as full relief in designated disadvantaged areas	
Average Grant from Council per ex Council property	60,000.00
Therefore bank loan per council house acquired	15,000.00
Bank loan per private sector house acquired	24,000.00

Interest Calculation Year 1	Amount	No	Total	Int Rate	Interest
Acquired Council Houses	15,000.00	8.00	120,000.00		
Acquired Private Sector	24,000.00	5.00	120,000.00		
			240,000.00	7.42	17,808.00

Profit & Loss Forecast

Income	Year 1	Year 2	Year 3	Year 4
Rents	45,968	148,512	251,056	353,600
less Voids	(3,536)	(11,424)	(19,312)	(27,200)
less Bad Debts	(598)	(1,931)	(3,264)	(4,597)
Interest Earned				
Total Income	41,834	135,157	228,480	321,803

Expenditure				
Set up costs	-			
Management Costs	4,615	14,910	25,205	35,500
Maintenance Costs	11,492	37,128	62,764	88,400
Capital Expend Maint	6,721	21,714	36,707	51,700
Admin Costs (Fixed)	-	-	-	-
Admin Costs (Conveyancing)	-	-	-	-
Insurance Costs	1,300	4,200	7,100	10,000
New Properties: Interest Paid	17,808	38,287	38,287	38,287
Previous Properties: Interest Paid		17,808	56,095	97,383
Total Expenditure	41,936	134,047	226,158	318,270
Net Profit/(Loss)	**(102)**	**1,110**	**2,322**	**3,534**
Corporation Tax Payable		-	1,551	3,385