

# HOUSING LOCAL DELIVERY VEHICLE CABINET COMMITTEE MEETING

Agenda Item 9

Brighton & Hove City Council

<b>Subject:</b>	<b>Housing Local Delivery Vehicle – Update on Funding Options</b>		
<b>Date of Meeting:</b>	<b>18 December 2008</b>		
<b>Report of:</b>	<b>Director of Adult Social Care and Housing</b>		
<b>Contact Officer:</b>	<b>Name:</b>	<b>Martin Reid</b>	<b>Tel:</b> 29-3321
	<b>E-mail:</b>	<a href="mailto:martin.reid@brighton-hove.gov.uk">martin.reid@brighton-hove.gov.uk</a>	
<b>Key Decision:</b>	<b>Yes</b>	<b>Forward Plan No. LDV 6470</b>	
<b>Wards Affected:</b>	<b>All</b>		

## FOR GENERAL RELEASE

*Note: The special circumstances for non-compliance with Council Procedure Rule 7, Access to Information Rule 5 and Section 100B (4) of the Local Government Act as amended (items not considered unless the agenda is open to inspection at least five days in advance of the meeting) were that some of the information from potential funders was not available in time and a decision from the Committee on the extension of time cannot be delayed.*

### 1 SUMMARY AND POLICY CONTEXT:

1.1 The purpose of this report is to update the Cabinet Committee on the work undertaken to determine the funding option for the housing Local Delivery Vehicle. This is in accordance with the Cabinet decision of the 24th September 2008 approving the setting up of a Housing LDV.

### 2. RECOMMENDATIONS:

That the Cabinet Committee:

2.1 Notes the attached update report from the PricewaterhouseCoopers (PwC), financial advisors to the LDV project.

2.2 Agrees, in light of the PwC update report, to allow an extension to the project timing in relation to funding determination to allow more time for discussions with the banks that have shown an interest.

### **3 RELEVANT BACKGROUND INFORMATION/CHRONOLOGY OF KEY EVENTS:**

- 3.1 At its meeting on 24<sup>th</sup> September 2008, Cabinet instructed officers to report back to a committee of the Cabinet on the two funding options (private sector funding or council borrowing). Cabinet further instructed officers to undertake all actions necessary to put a private sector funding solution in place concurrently with further assessing the council borrowing option (including, if necessary, seeking any consents from the Secretary of State under sections 24 and 25 of the Local Government Act 1988). It was anticipated that this would be completed by December 2008.
- 3.2 This report updates on the work completed for determination of private funding options to date and outlined in the attached report from PwC.
- 3.3 The report from PwC outlines the contact made with potential private funders since the Cabinet meeting of 24 September and an overview of the current state of the funding market. The response to the Information Memorandum (IM) sent to private lenders did not lead to any firm offers of funding within the time given for receipt of replies. The key constraint mentioned by the majority of respondees was time, with resources being earmarked on closing existing projects.
- 3.4 The PwC report recommends three actions for the council to consider in pursuing private funding for the project:
- Agree to modify the project timetable;
  - Be available to attend meetings with funders and help present the project
  - Deliver the condition surveys and other pieces of information required for due diligence
- 3.5 PwC recommend that approaches are made early in the New Year to a number of funders who have indicated an interest in the project and new funders that entered the housing funding arena post issue of the IM. PwC have further advised that firm bids are unlikely to be received until the second half of February 2009.
- 3.6 The decision made at Cabinet committee on the 24<sup>th</sup> September was to create the LDV by the 1<sup>st</sup> April. A change in the project time line will not prevent incorporation going ahead by this date or stop any of the property preparation activities.
- 3.7 In line with the Cabinet recommendation work will continue on assessing the Council borrowing option in order for it to be reviewed alongside any private sector funding solution being brought forward.

#### **4. FINANCIAL & OTHER IMPLICATIONS**

- 4.1 The Stage 2 report prepared by the advisers highlighted that the value of the leases are likely to be maximised through private sector funding. Council borrowing would result in a receipt of some £6m less than private sector funding but in addition would have other implications:
- the LDV would be subject to EU procurement regulations. Services such as housing management and maintenance would be subject to competitive bids from various organisations. There would be no guarantee that the LDV would buy in to council services in the longer term.
  - the council would be at risk for the debt raised (projected at £58m in the Stage 2 report) by the LDV in the event the LDV was unable to meet its liabilities
  - consent from the Secretary of State would be required to advance the funds to the LDV.
- 4.2 The report to Cabinet in September identified that the timescale for securing private sector funding was extremely tight and that there could be delays in reaching financial close outside the council's control. The response to the IM has shown this to be the case. In the majority of cases the funders have indicated that they require a longer period to fully understand the project. In addition the funders have also indicated that they need a number of key assumptions included within the IM, such as stock condition surveys, to be firmed up.
- 4.3 The feedback from PwC on the IM suggests that a number of the funders will be prepared to consider the IM in the New Year. These funders are currently concentrating resources on finalising existing deals before the Christmas break. In addition the period leading up to Christmas and the New Year is traditionally a difficult period for securing private sector funding.
- 4.4 The recommendation in this report to extend the deadline for private sector funding will therefore enable funders to commit resources to reviewing the IM. In addition the stock condition survey on the initial 106 properties, a key piece of work, will be finalised and be available to the private sector funders to consider. Running parallel will be work on the council funding option. Regular feedback from PwC will advise on progress on the IM and, should it become clear that no bids will be received from funders, then the council borrowing option will still be available.

- 4.5 The extension to the project timing will:
- still retain the option to maximise the level of receipt to the Housing Revenue Account, and
  - will not impact on the decent homes programme as the first portion of receipt will still fall within the financial year 2009/10.

*Finance officers consulted: Mark Ireland / Peter Sargent*

*Date: 10.12.08*

5.1 Legal Implications:

There is insufficient information, at this stage, on the basis of which the Cabinet Committee could make a final decision on the funding options. The proposal to extend the project timeline to allow for more discussions will assist in making a lawful decision by enabling the Cabinet Committee to have regard to all relevant considerations, including the viability of private funding.

*Lawyer Consulted: Abraham Ghebre-Ghiorghis*

*Date: 10.12.08*

5.2 Equalities Implications:

The LDV would provide settled accommodation for households with particular needs including physical and learning disability. Eventual actions in regard to the LDV will be taken with regard to equalities issues. An equality impact assessment will be undertaken.

5.3 Sustainability Implications:

The proposal to set up an LDV, enabling access to funding to refurbish properties and meet strategic housing needs, would contribute to achieving council priorities to address sustainability as an integral part of all service delivery and contribute to the UK's Sustainable Development Strategy:

5.4 Crime & Disorder Implications:

There are no implications for crime and disorder.

## 5.5 Risk & Opportunity Management Implications:

The council will set up and maintain a risk register highlighting risks and how they might be allayed for all aspects of the project. Key risks and risk mitigation have been identified in previous reports. In setting out the risks below it should be noted there are risks in not taking forward this project, which include:

- ability to meet the Decent Homes Standard within an acceptable time frame
- future cost of lack of investment in the council stock
- failure to secure a stable supply of housing for those to whom the council has a housing duty.

## 5.6 Corporate / Citywide Implications:

The proposal to set up an LDV giving access to funding to refurbish up to 499 properties in need of investment would support the following council corporate priorities:

- (1) protect the environment whilst growing the economy;
- (2) make better use of public money;
- (3) reduce inequality by improving opportunities.

5.7 The contribution of this proposal to the objectives of the Local Area Agreement is outlined in paragraph 3.2.11 of the report to Cabinet on 24 September 2008.

5.8 Securing additional funding to meet Decent Homes Standard and carry out improvements to the council's stock in consultation with tenants and leaseholders is a key element to achieve a viable 30 year HRA business plan.

## **6. EVALUATION OF ANY ALTERNATIVE OPTION(S):**

6.1 Stage 1 of the review of Housing Green Paper options analysed and evaluated alternative options for achieving the council's corporate priorities and strategic housing objectives within the parameters – set in the light of tenants' 77% vote against large scale voluntary stock transfer in February 2007 - that there should be no freehold transfer, no RSL involvement or transfer of tenanted stock.

6.2 The development and finalisation phase of the proposals has further refined the options available, as set out in reports to HMCC, Cabinet and Council in September and October 2008.

- 6.3 The option of proceeding to a decision at this stage was considered, but given the advice from PWC it was considered that the discussions with potential funders need more time before the Council is in a position to make a final decision on the funding options. An extension of time was therefore considered the most appropriate course of action in the circumstances..

## **7. REASONS FOR REPORT RECOMMENDATIONS**

- 7.1 As the option of private funding has not been fully explored and the discussions with potential funders have not been exhausted, an extension of time is needed to enable these to happen before the Council is in a position to make a decision on the funding options.

## **SUPPORTING DOCUMENTATION**

### **Appendices:**

1. PWC Private Funding Update Report – confidential part 2 report  
[Exempt Category 3]

### **Background Documents**

1. Local Delivery Vehicle report to Cabinet 24 September 2008
2. A Housing Local Delivery Vehicle report to Full Council 9 October 2008