

Summary of changes to key data inputs from September 2008 Cabinet report

The Cabinet report in September 2008 was based on the Stage 2 report prepared jointly by the council's external legal and financial advisors to the project. The Stage 2 report incorporated the outcome of two financial models – one based on bank funding and one based on council borrowing. Both models included a number of key data based on information available at that time.

The projected lease payment to the council for each of these models was up to £43.0 million for bank funding and up to £36.9 million for council borrowing. Since the Stage 2 report a number of the key data have been revised. The latest modelling projects a lease premium of about £17-22 million (the equivalent of £34-44k per property) for bank funding and £25-30 million (£50-60k per property) for council funding both based on express consents being granted by the Secretary of State. The modelling and assumptions here are based on the most recent available information. The cost of borrowing and the bank cover ratios are based on the information arising from the soft market testing conducted in mid-2009. The data needs to be viewed in conjunction with the information at Appendix 4 which sets out key sensitivities in the assumptions.

The reduction in the lease premium is the result of a number of changes to the data, details of which are set out in the following paragraphs.

Cost of borrowing

One of the major costs to the LDV will be interest payments on the debt. Since the Stage 2 report changes in the financial markets has resulted in the cost of bank funding increasing, whereas the cost of council funding has decreased. Table 1 summarises the changes and the impact on the lease payment.

Table 1 – Impact of changes in cost of borrowing

	Stage 2	Current	Impact
Bank funding	6.5%	7.04%	-£2.6m
Council funding	5.25%	4.52%	+£4.5m

Bank cover ratios

A bank will require the LDV to generate sufficient income (after operating costs) that exceeds the cost of debt repayment and interest on an annual basis. This is known as the cover ratio and is used by the bank to protect itself against the risk of non payment by the LDV. Since the Stage 2 report cover ratios have increased as banks become more risk adverse. Table 2 summarises the changes and the impact on the lease payment.

Table 2 – Impact of changes in bank cover ratio

	Stage 2	Current	Impact
Bank funding	1.05	1.17	-£4.3m
Council funding	1.05	1.05	-

Rents - Leaseback

The Stage 2 report was based on the council procuring the properties under two methods:

- “leaseback” where the council leases back the properties and become the landlord for the tenant, and
- a management agreement whereby the LDV remains the landlord but the council contracts to “manage” the properties on behalf of the LDV.

The rent income to the LDV under the leaseback option is higher than the management agreement option. The Stage 2 report includes a significant number of properties under the leaseback option for the full 30 year period.

HB subsidy only allows for leases not exceeding 10 years to be granted. However, the DWP have confirmed that the same HB subsidy would apply if a new lease were entered into, the proviso being that the council discusses this possibility with CLG first. Table 3 summaries the change and the impact on the lease payment.

Table 3 – Impact of reducing leaseback period to 10 years

	Stage 2	Current	Impact
Bank funding	Years 1-30	Years 1-10	-£7.4m
Council funding	n/a	n/a	-

Rents – Housing benefit levels

The Stage 2 report was based on housing benefit rates as at July 2008. In addition the Department of Work & Pensions is consulting on changes to the housing benefit rules which will be implemented in April 2010. The latest model takes into account updated rates (as at September 2009) and the proposed new system of benefit calculation.

Table 4 summarises the change and the impact on the lease payment.

Table 4 – Impact of changes in housing benefit rates and rules

	Stage 2	Current	Impact
Bank funding	June 2008	Sept 2009	+£2.1m
Council funding	June 2008	Sept 2009	+£2.4m

Additional payments by council to LDV

The Stage 2 report included additional sums payable by the council for management of homeless clients at £30 per week per property and community care clients at £50 per week per property. Further detailed analysis has been undertaken of the cashflows of both the LDV and the council and some changes have been made to more accurately reflect the transfers of cash between them.

Recent legal advice indicates that unless there is a justifiable reason for the payment, any payment would be treated as “financial assistance” and the council would not have the legal powers to make the payment without Secretary of State consent. Table 5 summarises the change and the impact on the lease payment.

Table 5 – Impact of removing additional payment for homeless client group

	Stage 2	Current	Impact
Bank funding	£30	-	-£6.6m
Council funding	£30	-	-£10.3m

In addition the analysis work has identified that the provision for management costs included in the Stage 2 report did not fully allow for costs of the extra work required to manage the CYPT and community care clients. Table 6 summarises the change and the impact on the lease payment.

Table 6 – Impact of increasing management cost or removing additional payment for special needs client group

	Stage 2	Current	Impact
Bank funding	£50	-	-£6.1m
Council funding	£50	-	-£9.2m

