

Housing Strategy 2008-2013:
healthy homes, healthy lives, healthy city

Local Delivery Vehicle update

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Where are we up to?

LDV proposal aims:

- To raise investment for improving council tenants' homes
- To refurbish leased stock
- To provide a stable supply of accommodation for homeless households and other groups for whom the council has a duty to provide housing

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Parameters

- No RSL involvement
- No freehold transfer of properties
- No transfer of tenanted properties
- No more than 499 empty properties leased to the LDV over 5 years

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Tenant consultation and necessary approvals ?

Approvals received from:

- Housing Management Consultative Committee - 23 September 2008
- Cabinet - 24 September 2008
- Full Council - 9 October 2008

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What next?

Now planning implementation, including:

- Recruiting board of management
- Setting up and registering the company
- Finalising LDV business plan and obtaining funding
- Producing agreements between the council and LDV

Tenant board members will have key input

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Housing Management Consultative Committee 23 September

Unanimous support

HMCC representations included:

- Regular updates to be provided to HMCC
- Further information regarding the financial details of establishing LDV
- More information on charitable status
- Further information to be provided to Area Panels
- Clear commitment to ongoing consultation with tenants

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Financial Model

- Lease payment to Council of up to £45m
- Invested to improve the homes of secure tenants of the Council
- Funding to refurbish the leased stock
- Business plan for the LDV to fund refurbishment of leased stock and lease premiums to Council
- LDV lets to households nominated by the Council

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Financial Model

- LDV rents within housing benefit levels already used for accommodating households in temporary housing
- LDV borrow capital on the basis of revenue from these rents, to be repaid over 30 years
- Pays for lease payments to the Council and refurbishment costs for leased properties
- Lease payments to the Council invested to improve in Council retained HRA stock

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Length of leases

- Council retain freehold
- Project only works if properties leased out of the HRA (minimum 21 years)
- Lease of up to 125 years proposed in order to be long enough to raise private finance and minimise lender risk
- Longer lease reduces cost of borrowing and offers a more attractive investment opportunity
- Option of break clause at year 30 without Council paying the LDV

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What kind of company will it be?

- Company limited by guarantee, not for profit
- Independent of the council
off council's balance sheet and not subject to EU procurement regulations and various other controls if privately funded
- Recommend charitable status as tax benefits contribute up to £10 million toward lease payments to Housing Revenue Account
- Board members will approve the constitution memorandum and articles of association
board to choose the company's name

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Charitable status - financial advantages

- Financial advantages of achieving charitable status
- Maximises funding for investment in improving secure tenants homes

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Charitable status - Tax benefits

- LDV would not pay Stamp Duty Land Tax (SDLT) on leases.
- On a lease payment of £45m this equates to a saving of £1.8m
- LDV would not have to pay corporation tax on any surpluses from charitable activities after debt paid off
saves as much as £2.5m a year

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Charitable status - tax benefits

VAT shelter savings on costs of refurbishing properties estimated at £8m

- Based on Council entering into a development agreement with LDV to refurbish the properties with Council recovering VAT
- Unless the LDV is charitable saving the VAT creates more corporation tax liability than VAT saved

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Charitable status - other benefits

Charities not associated with profit making or risk taking

Proposed objects around which the LDV would house fit within the activities of a charitable organisation

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Charitable status - disadvantages

A charitable LDV would have to be independent of the Council

However, Council has the right to approve constitution and any proposed changes, is represented on the Board and has leasehold interest and nominations agreement

Once constituted as a charity the LDV would not be able to cease being charitable.

In the future the LDV could set up non-charitable subsidiaries to undertake non-charitable activities

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Charitable status - other issues

Charitable status has no impact on Council rights to exercise break clause at year 30

Charitable status would not stop the option of building in 'overage' provisions so that if there turns out to be more value in leases than expected this is shared with the Council

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Who will run the company?

Board of management:

- 4 council tenants or leaseholders selected by Area Panels
- 4 council board members appointed by the council
- 4 independent board members appointed by tenant and council board members

Tenant board members will also be company members

One third tenants, one third independents and one third council voting rights at board and company membership

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Reporting back to Area Panels

Cabinet agreed further information to be provided to Area Panels as part of the ongoing consultation process

Regular updates and financial information also to go to HMCC

Tenant board members to keep Area Panels and Citywide Assembly updated

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