

# **LOCAL HOUSING COMPANIES FINANCIAL MODELS**



# Introduction

- **The National Context and Key Drivers**
- **The Council's Plans**
- **The Financial Considerations and Models**
- **Prudent Management of Financial Risks**
- **Summary Reflections**

# The National Context and Key Drivers

- **Shortage in the Supply of Housing**
- **Regional Housing Market Imbalances**
- **Support Economic Growth Strategy (Mobility, Regeneration, Employment)**
- **Reduce Pressure on Public Services and Resources (Homelessness, Welfare Costs)**

# The Council's Plans

- ▶ **Significant Demand for Housing (all tenures)**
- ▶ **Scheme in Progress (£14m for 92 properties-completion in Spring 2018)**
- ▶ **Pipeline of New Developments (400+)**
- ▶ **Transfer of some vacant social housing stock (at a financial consideration)**

# The Financial Considerations

- **Invest to Save (reduces pressures on other statutory obligations e.g. homelessness)**
- **Relief of General Fund Pressures (margins on onward lending to companies)**
- **Circumvents HRA Debt Cap?**
- **Protection of Affordable Housing?(Right to Buy)**
- **Revenue or Long Term Investment Returns**
- **Relative Costs of Building/Transferring Existing HRA Stock/Open Market Acquisition of Properties**

# Our Financial Model – The Property Issues

<b>Build of Property (incl. land @ 10%)</b>	<b>£150,000</b>
<b>Funding of Property (usually a loan)</b>	<b>£150,000</b>
<b>Interest on Loan (for company)</b>	<b>5%</b>
<b>Interest on Council Borrowing</b>	<b>3%</b>
<b>Potential Capital Receipt to HRA</b>	<b>?</b>

# Financial Model – Managing the Properties

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<b>Market Rental Income (£800 per month)</b>	<b>(9,600)</b>
<b>Voids and Arrears (2% of rent)</b>	<b>200</b>
<b>Repairs and Maintenance (3% of rent)</b>	<b>300</b>
<b>Management Costs (8% of rent)</b>	<b>800</b>
<b>Debt Financing Costs (5%)</b>	<b>7,500</b>
<b>Net Potential Surplus (Retained or Distributed)</b>	<b>(800)</b>

**\* potential financial risks/costs avoided on temporary accommodation**

# Managing the Financial Risks

- **Debt Levels Per Property (70%?)**
- **Debt Interest Costs to Rent Income (50%?)**
- **Volatility in Future Market Rent Levels**
- **Inflationary Cost Pressures**
- **Implications from Continued Welfare Reforms**



# Summary Reflections

- **Clear Rationale and Objectives**
- **Provision of Housing or Financial Rewards**
- **Strong Fiscal and Risk Management**