The loan deal won by stock transfer landlord Cross Keys Homes broke new ground. Kath Grant speaks to the people who made it happen.

How the deal was done

The chief executive: Mick Leggett

‘So far, it has gone very well. Work has already started on new kitchens, bathrooms, doors, windows and heating systems. And the tenants seem very pleased – we have had a really positive response.’

Cross Keys Homes chief executive Mick Leggett has had a busy few months since the transfer of Peterborough Council’s homes to the new landlord in October.

Mr Leggett was appointed the council’s head of housing services in 2002 to improve the service and manage the transfer. He was previously interim director of Clapton Community Housing Trust in London, where he managed the transfer of 11,000 properties.

His aim was for Cross Keys to make its mark as a landlord as soon as possible and it has pledged to spend more than £15 million on improving tenants’ homes in the first five years, with £5 million earmarked for landscaping and other environmental improvement work.

‘Peterborough is a big growth area but there is an enormous shortage of social housing because so many properties have been lost through right to buy,’ says Mr Leggett.

‘As a social landlord, we wanted to help redress this loss of properties so part of the transfer funding package will enable us to build 200 new homes.

‘I had worked with Julian [Foster] before and I wanted him on board because he knew his stuff,’ says Mr Leggett.

‘He came up with some innovative ideas to produce the best funding deal for ourselves and our tenants. With the financial deal, we were pushing at boundaries – and it has certainly worked for us.’

The package was a real groundbreaker. It is up, running and working – and I would recommend it to other landlords. It has definitely made life easier for us.

The finance director: Julian Foster

Before moving to Cross Keys as director of resources, Julian Foster was finance director for more than 10 years at Swan Housing Association, Anglia Housing Group and Heart of England Building Society.

It was his idea to ask the funders to provide an offset account that will operate in a similar way to the Virgin One mortgage account.

The facility, a first in social housing, will enable Cross Keys to leave any cash surplus it may have in the account rather than spend valuable time looking around for the best deposit rate deals.

Mr Foster believes the savings from eliminating the interest difference between borrowing and deposit rates will probably only amount to around £20,000 a year. But there will be much higher savings in administration time.

‘In my work, I have suffered for a number of years from problems caused by fluctuations in surplus funds,’ he says. ‘With this offset current account facility, we don’t have to worry about what to do with surplus funds – it takes that administrative problem away from us.’

The properties transferred to Cross Keys homes were only 10 or 40 years old and were not in bad condition but were ‘relatively tired’, Mr Foster explains. ‘It’s really important to keep the promises we made to tenants at the point of transfer to improve their homes and maintain social housing in this area. The funding package we negotiated will enable us to do that.

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The funding adviser: Clive Ecclestone

Senior consultant Clive Ecclestone and his team at Tribal Treasury Services were appointed as Cross Keys Homes’ funding adviser after the tenants’ vote.

‘We looked at the business plan to see if we were comfortable with that and examined key features and identified strengths and problems,’ says Mr Ecclestone.

‘We felt that it was a very robust plan. One of Cross Keys’ strongest points is that the senior management are extremely experienced people with a wide background in housing and that really helped get things off to a very good start.

‘Another plus was that the board, which included tenants, councillors and independent members, really worked well together.’

Mr Ecclestone’s role was to put Cross Keys’ prospectus out to the funding market and examine the various bids.

‘There were five initial bids and they were all very good offers, extremely competitive and very close together,’ he says.

‘The bids were shortlisted and the combined package offered by Royal Bank of Scotland and Newcastle Building Society emerged as the first choice.

‘Peak debt of £97.7 million is expected to be scaled in 15 years but Mr Ecclestone believes that with its high quality of management Cross Keys could peak considerably earlier.

‘It was a very clean stock transfer and I suppose management’s biggest challenge will be to come up with solutions for replacing social housing stock – but I am sure that they will be able to do that.’

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Cross Keys Homes

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Stock price: £44.6 million

Loan: £44.6 million

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Cross Keys chief executive

Mick Leggett and director of resources

Julian Foster (right)

Tribal senior consultant

Clive Ecclestone

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It wasn't particularly easy to deliver,' he says.

We tailor all our funding packages to the needs of individual clients.'

My Tyrrell has worked on funding packages for many stock transfers and rates Cross Key’s senior management team highly in terms of its experience, which will be extremely useful in a growth area like Peterborough.

Cross Keys wanted to play a full role in the development and re-development of the area, he says.

The right to buy take-up is very high in Peterborough so they wanted the funding package to include a facility for development in order to anticipate future housing needs and we were able to do this.

The banker: Paul Tyrrell

Paul Tyrrell, senior director in Royal Bank of Scotland's housing finance team, and his colleague began working on the financial package in July last year and it was completed in time for the transfer at the beginning of October.

The loan facilities of £117 million were arranged and structured by the bank, with £81 million provided by the RBS and £36 million by its funding partner Newcastle Building Society.

My Tyrrell says the offset arrangement presented the bankers with a challenge. 'It wasn't particularly easy to deliver,' he says.

Although these type of arrangements have been used in the commercial sector, it's the first time it has been used by a [registered social landlord] so it took a bit of thinking about – but it's all part of the job we have to do.

This kind of structure does have its benefits. It saves a great deal on administrative time, for instance, and it could be beneficial for other RSLs but it would depend on their particular circumstances.

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The second banker: Darren Warneford

Darren Warneford, the society’s lending manager for social housing, says its average involvement in such a transfer is £23 million to £50 million so it was necessary to find a partner it could work with on the deal.

And make sense for us to work with the Royal Bank of Scotland because we had worked with them very successfully before – on about 10 or 11 other stock transfers,’ he says. ‘The Royal Bank of Scotland took the lead. At the day-to-day negotiations were done by Paul Tyrrell but, behind the scenes, we were very engaged in the discussions. There were a lot of e-mails and phone calls between myself and Paul.

Before negotiations began on the funding package, My Tyrrell and his colleague travelled to Peterborough to meet Mick Luggett.

His familiarity with the stock transfer process has helped to create a lot of confidence in Cross Keys and Julian [Foster’s] wide financial knowledge and skills are also a great asset,” he says. ‘We hadn’t dealt with the executives before but their CVs and reputations were excellent.

The chair of the shadow board, Carl Brown, who had been a Peterborough council tenant for many years, really impressed us too. He was passionate about getting things right and doing the best for the tenants.

We do offset accounts but this one was interesting because it was the first time it had been introduced in the social housing sector. Overall, it was a good deal for us because the growth in population in the area means there will be a long term demand for housing.

“The council were good performers and there were great reasons for the transfer taking place. The authority had done its best with maintenance of the stock. It was tried and mixed-up but it wasn’t falling to bits. ‘The Cross Keys management have fulfilled expectations by hitting the ground running’, he says.

‘They’ve got off to a really good start. They had a couple of contracts on board at a very early stage so the work on tenants’ homes has already started.

‘Many stock transfer organisations take years to put things into place but Cross Keys has created its own identity at a very early stage, which is another good sign.’

The business plan auditor: Laragh Jeanroy

Unlike private sector companies, the future income of a social transfer organisation such as Cross Keys Homes is relatively easy to predict.

The housing stock is managed and maintained properly, there is a continued demand for the properties and income can be predicted with a degree of certainty.

‘The main focus of a new stock transfer company is to ensure that costs are realistic and that these are controlled, managed and maintained within the predetermined levels of income,’ says RSM Robson Rhodes senior manager Laragh Jeanroy, who acted as the business plan auditor.

‘Our role was to carry out an independent review of the business plan and comment on the reasonableness of assumptions used in preparing the business plan.

We also had to report on whether the financial projections in the business had been properly compiled on the basis of the stated assumptions and whether they were arithmetically correct.’

RSM Robson Rhodes has carried out 40 business plan validations for stock transfer organisations.

Laragh says the validation for Cross Keys was comparable to others the firm had done as far as the process, timescale and the main assumptions used in the model were concerned.

The number of units was higher than the average LSVT as was the level of catch-up repairs and the loan facility required,” she says.

‘The funding package offered by the Royal Bank of Scotland with its offset mortgage facility was also different to funding packages we have seen in other plans.’

Like many other recent stock transfers, Cross Keys has entered into a VAT shelter scheme with its local authority to maximise VAT recovery on catch-up repairs.

‘Any potential VAT recovery was not included in business plan projections,’ Ms Jeanroy explains.

‘As and when VAT is recovered through the maintenance programme, this should provide additional income and headroom in Cross Keys’ business plan – provided costs are being controlled and managed within the projected income levels set out in the plan.”

The plan auditor: Laragh Jeanroy

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Spending the loan

£44.6 million to buy the homes
£20.3 million to spend on the homes in first five years
£12 million to build 300 new homes
£3.3 million for business plan headroom and working capital

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The lawyers: Sarah Hayes and James Hawkins

Sarah Hayes, head of housing finance at Trowers & Hamlins, has been working on stock transfer funding agreements since 1988, including for the UK’s biggest transfer in Glasgow.

Her colleague James Hawkins, senior director in the housing finance team, was the legal adviser on the transfer. His work included everything from the tenants’ consultation to the transfer of staff from the council to Cross Keys. Ms Hayes joined the team when the funding deal was being negotiated.

“It was a complex funding structure with different facilities built into the loan agreement so every area had to be thoroughly scrutinised,” she says. "The legal document relating to the loan agreement was comprised of several hundred pages.

"My job is to look at what the document is saying but, just as importantly, to look at what it is not saying, to examine where it is ambiguous and needs clarifying. The key role of the lawyer is to ensure that the LSVT is actually getting what it anticipates it’s getting. It is very important that the organisation has enough flexibility to run the business without having to go back to the lender all the time for approval."

Ms Hayes points out that when new stock transfer organisations are set up they have no business history and are 100 per cent debt-funded.

"In these circumstances, the lenders often want a lot of control. However, in the case of Cross Keys there was an experienced social housing team in place who knew what they were doing and that was a huge advantage. The Cross Keys funding was sorted out in good time for the transfer. It certainly wasn’t the most stressful transfer I’ve worked on – in some cases I’ve worked right up until the 11th hour. Even so, it was a very short timescale, only about six weeks, and there were a lot of documents to look at. The funder is interested in everything – the professional valuation of the stock, environmental reports, the constitutional side of things such as registration with the Housing Corporation, the business plan and the transfer arrangements. They also wanted to know about the set of warranties from the council."

Ms Hayes says one of the most rewarding aspects of her job is explaining the loan agreement to members of the board.

"The board members understand the stock transfer arrangements but they often find the financial side more difficult," she says. "People are not usually used to dealing with such large sums of money. The most the majority of them will have borrowed is the money for their own homes – and, in the case of the tenant board members, not even that. It’s a real challenge to be able to explain the financial deal in simple terms and to make the people on the board feel comfortable with it."