

To:  
Sally Randall  
Deputy Director, Private Rented Housing and Empty  
Homes  
Department of Communities and Local Government  
Eland House  
Bressenden Place  
London

From:  
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29<sup>th</sup> January 2012  
By email only

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Dear Sally

### Re Empty homes bids - "revolving funds"

I am writing on behalf of the Empty Homes Network about guidance issued by HCA and CLG in respect of bids for funding under the £100million empty homes programme. Our comments apply equally to both sets of guidance and relate to the paragraph concerning revolving funds, which in the latest guidance reads as follows (Para 20):

...Bids may include proposals to create or contribute to a revolving fund for the reinvestment of funding in delivering further properties as loans are re-paid. In assessing value for money, we will take account of the first property brought back into use for the funding requested – but innovative approaches to create revolving loan funds are encouraged, and providers should set out their proposals, including on-going monitoring and reporting arrangements as part of their bid.

We fully support the underlying principle, which is that investment in an empty property can help unlock its value, which in turn allows an up-front injection of capital to be repaid. We commented favourably on the value-for-money of loan schemes in our letter to Andrew Stunell in January of last year and we are not surprised that George Clarke has made a loan scheme a centre-piece of his Channel 4 campaign on empty homes. We hope that the additional £50million will enable loan-based schemes to be rolled out more widely.

What concerns us in the bidding guidance cited above is the statement "In assessing the value for money, we will take account of the first property brought back into use for the funding requested". IN our view this fundamentally undermines the workability of a revolving fund and is essentially self-defeating and contradictory. Perhaps we have missed something and if so we invite your clarification: if not we would encourage you to take steps to implement a modified approach.

Our main point, in a nutshell, is this: if the first property is good value for money, then by definition there should not normally be any money left to pass on to another property. For a revolving fund to work, the value-for-money exercise should be against the total quantum of benefits achieved by the money over its entire life i.e. over all the properties that are supported by the funding, not just the first. The up-front cash requirement in a true revolving fund model needs to be carefully distinguished from the public subsidy requirement. At the risk of insulting your intelligence, we offer on the next page an illustration of our point\*:

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\* The figures used are to illustrate the principle of a revolving fund only and no more should be read into them than is relevant to the argument. But we welcome any challenge to their essential validity.

Total grant amount **£30,000**

### **Property 1:**

Refurbishment and on -costs £30,000

On completion the property is let at an Affordable Rent, some of which will be required to cover the cost of management and day-to-day repairs and the remainder of which could **in theory** be paid to the owner (in theory but not, in our model, in practice - **see the next point**)

The owner has no money to fund the refurbishment but is able to repay the cost of refurbishment through the rental stream once the property is let. So a “repayment amount” is deducted from the rental stream and the balance (if any) passed to the owner.

However, the rent paid by the tenant is below market level. In negotiating the financial arrangements the owner, whilst accepting the need to repay the cost of refurbishment, quite reasonably wishes to factor in compensation for the fact that the rental stream from which repayment is to be made has been reduced on account of the Affordable Rent. Let us say that the reduction amounts to £10,000 over the course of a 4-year lease<sup>†</sup>. If this is factored in (and it is reasonable that it should be) the £30,000 is repaid partly by a deduction of £20,000 cash from the rental stream and partly by the fact that the rental stream is £10,000 lower to start with because it is an Affordable Rent, with the tenant and probably DWP as the beneficiaries. One way or another, the owner has repaid the entire £30,000.

At the end of the lease, £20,000 will have been returned as cash to the capital pot from the rental stream; £10,000 will have been invested in subsidising the Affordable (sub-market) Rent and will not be recoverable by the delivery agent (RP/community group).

### **Property 2**

All the circumstances are exactly the same, except that the refurbishment costs are only £20,000.

At the end of this second lease, a further £10,000 will have been allocated in the financial arrangements to subsidising the rent and the remaining £10,000 will have been recovered and will be available for re-investment.

### **Property 3**

All the circumstances are exactly the same except that the refurbishment costs are only £10,000.

At the end of the third lease a further £10,000 will have been invested in a subsidised rent and the full amount of the original £30,000 grant will now have been used up.

It can be seen that in this example the true outcome from the investment of £30,000 of public subsidy is three empty homes brought back into use and 12 years of affordable housing. However, the value-for-money equation on the first property alone would be radically different i.e. one empty home brought back into use and 4 years of affordable housing. This makes the difference between a level of grant that might be considered reasonable value for money and one that certainly is not value-for-money, illustrating why we think the logic in the current bidding guidance is fundamentally and obviously flawed.

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<sup>†</sup> For example, the property might have a market rent of £12,500 per annum and is let on an Affordable Rent of £10,000, a shortfall against the market rent of £2,500 per annum. We note that the grant calculation model recently published by CLG indicates that the subsidy requirement would normally be assessed against the applicable LHA rate, not the market rent. This would reduce the applicable amount of grant.

The practical implications, in our view, are that

- the HCA, in considering “revolving fund” bids against its part of the £100million programme, should assess the total quantum of affordable housing that is expected to be delivered by the grant requested in the bid; if necessary, further guidance should be issued and clarification sought from bidders;
- revised Guidance should be issued in respect of the Community Grants Funding and Tribal instructed to evaluate bids accordingly.

The second of these is particularly important because community groups will rarely have the financial flexibility of Registered Providers to, for example, borrow or use cash reserves to cover up-front refurbishment costs<sup>‡</sup>.

One further point should be mentioned about the advantages of a revolving fund: it gives greater long-term sustainability to the organisations involved in delivering the programme. Again, this is particularly relevant to smaller groups that, under current proposals, might be expected to gear themselves up to deliver over an uneconomically short period of time. The practical importance of this should not be underestimated.

We hope you will be able to give the foregoing your serious consideration and look forward to hearing your response in due course.

Yours sincerely



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cc. (by email only)  
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David Ireland, Chief Executive, Empty Homes  
Pacian Andrews, Delivery Partnership Manager, HCA  
Jennie Bryce, Programme Manager, Tribal Group  
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<sup>‡</sup> For example, a private RP might could bid for £30,000 and deal with 3 properties simultaneously: it could raise the money required for refurbishment (£60,000 n our example) from private borrowing or its reserves. It would then keep the money being generated by the rental stream to repay its own loan (and finance costs) or replenish its reserves.