Squaring the circle

While the credit crunch was snapping away at many businesses in the first quarter of 2008, Circle Anglia, one of the UK's biggest housing groups, secured the largest ever social housing sector financing deal.

The £1.7bn deal will be used to fund the rapidly expanding housing group over the next five years. Circle Anglia worked with eight lenders to secure the deal: Barclays, Abbey, Lloyds TSB, RBC, Nationwide, RBS, Dexia and HBOS. The deal involves £800m of refinancing and £970m of new money.

Executive summary

- Despite the credit crunch, housing group Circle Anglia has continued to grow. With well-established banking relationships, strong financial management, expert investment decisions and an experienced management team, the company provides general needs housing, as well as sheltered and supported housing, key worker accommodation and shared ownership.

REFINANCING OF £800M In 2005 Circle 33 Housing Group and Anglia Housing Group merged operations creating the Circle Anglia Group. The £800m of refinancing consisted of:

- **£450m in Circle 33** Bilateral 30- to 40-year facilities with Barclays, Lloyds TSB, Abbey, RBS and Nationwide at an average margin of around 40bp over Libor; and
- **£350m in Anglia Housing** Syndicated 30-year facility with RBS, Lloyds TSB, HBOS, Abbey, Britannia, Newcastle Building Society and Nationwide at an average margin of around 50bp over Libor.

There were differing financial covenants, levels of compliance and legal structures for each of the groups. Between July 2005 and September 2006, the organisation's legal structure was brought together as Circle Anglia. At the same time a new funding structure was developed (see *Table 1* for timeline and *Table 2* for details of the refinancing).

FUNDING PERIOD Most of Circle Anglia's loans are greater than 30 years. The level of funding recently secured is required to finance the group's planned five-year development programme.

NEW MONEY As well as the refinancing, the deal included over £900m of new money, (see *Table 3* for details). Circle Anglia also intends to issue bonds and floating-rate notes (FRNs).

The large demand for more affordable housing requires a significant amount of funding, and diversifying funding sources increases the amount that can be secured on competitive terms. This forms part of the organisation's risk management strategy.

To secure the deal, Circle Anglia set up a new funding vehicle, Circle Anglia Treasury, to simplify the collecting, hedging and distribution of funds from multiple sources to the companies within the Circle Anglia Group. It allows the local social landlords to retain ownership of their properties and deliver local services while securing the benefits of the group funding arrangements which has simplified covenants, administration and security costs and improved margins.

THE ROLE OF THE BANKS This was a challenging deal, with Circle Anglia presenting a unique funding structure and standardised loan documentation to eight different funding sources. Nathan Dunton, Group Treasurer, says: "Negotiations between the eight banks and five firms of solicitors created delays, although the structure and documentation were robustly tested. This should help in creating a structure supported by the leading lenders and advisers for the future. The banks all have well-established teams who understand the sector and support the large and innovative funding package." It was also a major process issue involving charging over 30,000 properties with a value of £2.4bn to a security trustee. Traderisks was the financial adviser, Devonshires advised on registered social landlord (RSL) legal issues, and Clifford Chance gave advice on banking matters.

MARKET CONDITIONS AND COVENANTS Circle Anglia's objective was to raise funds in the banking market and ensure that the structures were in place to issue in the capital markets. Calum Mercer, Group Finance Director at Circle Anglia, says: "The group was looking to create a commercial funding structure that provided

CIRCLE ANGLIA'S GROUP FD CALUM MERCER AND GROUP TREASURER NATHAN DUNTON TALK TO **PETER WILLIAMS** ABOUT THE HOUSING GROUP'S £1.7BN LOAN FOR AFFORDABLE UK HOMES.

the flexible allocation of financial resources to all parts of the organisation." The documentation and covenants agreed reflect this ambition. "This allows the group to maximise the use of the capacity of all the group members to invest in improved services, improvements to existing properties and building more affordable housing. The covenants help us to achieve this and were in line with our objectives," he adds.

Mercer says such an operation would be much more challenging in current market conditions, although Circle Anglia has a history of strong financial management and is viewed as a quality investment.

THE CHARACTERISTICS OF SOCIAL HOUSING Because Circle Anglia is a social housing group, it does not have shareholders in the conventional sense and is funded by debt. Other sources of income include rents from properties, profits from sales of properties (shared ownership and outright sale), profits from other commercial activities and grants from the Housing Corporation.

Circle Anglia intends to develop 2,000 properties a year for itself and over 1,000 a year for other RSLs. The group also invests in regeneration projects to improve communities and enhance life chances for people. These are typically long-term projects.

The group is also growing significantly, increasing the properties owned in the last year from 27,000 to 46,000 as a result of three stock transfers from local authorities and existing RSLs joining the group. It aims to own between 75,000 and 100,000 properties within the next three to five years, so arrangements have to be flexible enough to cope.

As funding tends to be secured to obtain better terms, large numbers of individual certificates of title need to be obtained and any restrictions reviewed to determine how to value them: existing use value of social housing, market value subject to tenancies or full open market value. This is a significant element of the due diligence process on stock transfers and when new financing is obtained.

Table 1: Refinancing timeline

July 2005	Agreement to merge
September 2006	Legal structure finalised and funding structure agreed
October 2006	Tender for funding requirement
November 2006	Expressions of interest received
February 2007	Final selection of funding partners
May 2007	Anglia Housing Group Syndicate refinanced
July 2007	Circle 33 Housing Group refinanced
December 2007	New funding secured
March 2008	Final completion

Table 2: Refinancing details

Lender	Type	Facility	Term (years)	Price
Lloyds TSB	Bilateral	£300m	30	<30bp
Barclays	Bilateral	£150m	30/40	<30bp
Abbey	Bilateral	£150m	30	<30bp
Nationwide	Bilateral	£100m	30	<30bp
Dexia	Bilateral	£100m	30	<30bp
Total		**£800m**		

Table 3: New money

Lender	Facility	Term (years)
Royal Bank of Canada	£400m	1
Lloyds TSB	£150m	1
Royal Bank of Scotland	£120m	30
HBOS	£300m	30
Total	**£970m**	

There is a mixture of limited companies, charitable companies and regulated companies within Circle Anglia. This creates the need to adapt effective treasury strategies to support a range of commercial and political objectives within the constraints of charity law, company law and, regulatory requirements.

Circle Anglia is one of the largest providers of housing management services and is developing thousands of units per year for social and commercial use. Circle Anglia aims to maximise its surpluses and reinvests 100% of them to increase the provision of quality homes and services.

It holds the majority of its social assets for long periods of time and produces a 40-year financial plan. The income generated by its assets is regulated and linked to the retail price index (RPI). Circle Anglia has an increased programme of shared ownership whereby people can buy a part-share in their home and rent the rest. They are then able to acquire further shares when they can afford to. This allows people on lower incomes the opportunity to get on the property ladder when they would find it nearly impossible otherwise. Interest rates and RPI are key risks which are managed by the treasury team.

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