

Rushmoor Homes Ltd: Shareholder report for April 2021 – September 2021

Report on Rushmoor Homes Limited's progress on its Business Plan 2021-26

1.0 Introduction

- 1.1 Rushmoor Homes Ltd was established in April 2020. The governance arrangements put in place by the Council requires the company to prepare a six monthly report for its shareholder, Rushmoor Borough Council, to track the company's progress against its agreed business plan.
- 1.2 This report will be submitted to the Council's Chief Executive as the shareholder representative.

2.0 Achievements

- 2.1 Delivery of homes in the first 18 months of RHLtd's operation has been slower than expected, however, some important milestones were reached over the last six month period (April to September 2021).
- First property purchased by the Company from the Council
 - First planning consent granted
 - First tenants in occupation
 - First drawdown of funds from the Council and beginning of income generation for the Council.
- 2.2 In addition, work has continued on putting together a team of professional advisers to help the company. Architects have been employed to prepare schemes for four further sites and an Employers Agent procurement is nearing completion and procurement of valuation services about to commence.
- 2.3 Together with the Council, the company has commissioned a new financial model with improved capacity for sensitivity analysis to guide decision making. The need to be able to stress test the Business Plan informed the Council and Company's decision and was particularly driven by the potential of RHLtd to purchase the market rented properties at Union Yard which would more than double the company's borrowing from the Council.

3.0 Progress against current business plan

- 3.1 The Business Plan 2021 –2026 programmed delivery of 59 units by 2023/24 and estimated that funds totaling £12.7m would be drawn down from Rushmoor Borough Council to fund its day to day operation and its development activity. Challenges remain around developing small sites in low value locations many of which have issues to resolve before they are transferred to the company. Table 1 shows the estimated delivery in the approved 2021-26 Business Plan against actual delivery as currently programmed. A review of the programme is being undertaken and will inform the next iteration of the Business Plan.

Table 1 : Estimated delivery 2021-26 Business Plan and actual delivery at 1/10/21

	20/21	21/22	22/23	23/24	24/25	25/26
Number of properties transferred						
Estimated	4	0	0	2	0	0
Actual	0	1				
Number of properties developed and completed						
Estimated	0	2	35	16	0	0
Actual	0	0				
Number of properties acquired from the market						
Estimated	0	2	0	0	0	0
Actual	0	0	0	0	0	0
Cumulative number of properties in ownership of RHLtd						
Estimated	4	6	41	59	59	59
Actual	0	1				
Number of Properties managed by RHLtd on Behalf of RBC						
Estimated	0	0	0	0	0	0
Actual	0	2*	0	0	0	0
Number of Properties managed by RHLtd						
Estimated	4	6	41	59	59	59
Actual	0	3*				

Assumes letting of second MoD Property w/c 13/9/21

- 3.2 Delays in delivery will have resulted in a reduction in expected income to the Council however other changes to the programme will result in other changes in drawdown and the overall rescheduling of drawdown and impact on income is currently being worked through and will inform the budget building process and 3rd quarter monitoring of the budget.
- 3.3 A draw down of funds took place before the end of the financial year 2020/21 in anticipation of the purchase by RHLtd of 154 Ship Lane and 12 Arthur Street. Completion of 154 Ship Lane took place on 28 June 2021 and the rent realised is above that estimated in the Business Plan. 12 Arthur Street is yet to be transferred due to ongoing negotiations with the adjoining owners about an encroachment onto their land.
- 3.4 This has meant the Company has incurred interest charges with only a limited amount of income being received in the form of rent from 154 Ship Lane. This will have a small but limited negative impact on the business plan
- 3.5 The original programme for RHLtd envisaged the transfer of two properties at Manor Park. In undertaking due diligence it became clear that the tenancies of these properties were actually Secure Tenancies. The transfer of these properties would therefore be extremely time consuming and complex including securing both the tenants consent. Also as Secure Tenancies are subject to the Right to Buy the transfer would also introduce elements of risk to RHLtd. Having considered these matters it has been agreed that the Council will retain the ownership but that management will become the responsibility of RHLtd using the contract with Romans and a small management charge being made.
- 3.6 Very recently the Council has also requested help with RHLtd taking on management of two properties provided by MoD for Afghan refugees. One letting occurred on 9 September with a further letting expected w/c 13/9/21.

4.0 **Revisions to programme**

- 4.1 Experience gained in the first 18 months of operation has resulted in a better understanding of the resources needed to move the programme forward and the potential delays due to the issues arising on the sites offered by RBC. RHLtd needs to adjust the programme to reflect these issues. This will result in a slower pace of delivery and is illustrated in the chart in appendix one. This will form the basis of the programme to be approved in the next Business Plan. Faster delivery could be achieved with increased resources.
- 4.2 There has also been a change to the properties that form the programme. The Company is considering a purchase of a Council owned property at 9A Wellington Street, Aldershot and this has now been added to the delivery programme.
- 4.3 The Council has approached the Company with an offer to purchase completed units at its redevelopment of Union Street, Aldershot. This would add a significant number of units to the Company's portfolio. The Company will evaluate the offer using the new financial model and will, subject to its Board approval, respond to the Council.

5.0 **Sites Update**

- 5.1 The summary programme chart is attached in appendix one and provides current estimated timescales

12 Arthur Street, Aldershot

- 5.2 An agreement to settle the dispute with neighbouring owners is still uncompleted. Until this is approved by the neighbour's lenders completion of the transfer of this property to the company will be delayed.

154 Ship Lane, Farnborough

- 5.3 This property has been transferred to the Company and is now let.

Land next to 69 Victoria Road and next to 3a Arthur Street, Aldershot

- 5.4 Planning permission has been granted subject to completion of a s106 agreement. Architects have been commissioned to prepare design drawings in preparation for building regulations approval and for tendering a build contract.

9a Wellington Street, Aldershot

- 5.5 Preliminary designs for the conversion of this property to two one bedroom flats have been prepared for pre application discussions.

57 Cambridge Road, Aldershot

- 5.6 The company is planning to buy this property from Society of St James to let as a family home for a discounted rent.

Land at Churchill Crescent, Farnborough

- 5.7 Quotes are being sought from architects to prepare a scheme on behalf of the Council.

237 High Street

- 5.8 The Council requested RHLtd to review the opportunities to achieve a wider regeneration of the properties 229-237 High Street. This has now been completed and is about to be reported to the Council.

Manor Park Cottage New Build, Aldershot; Land next to Fleet Road Scout Hut, Farnborough; Former Depot at Redan Road, Aldershot; Former Depot at Pool Road, Aldershot

- 5.9 Architects have been appointed to prepare schemes for these sites with planning applications expected to be submitted late autumn/ early 2022.

2a Windsor Way, Aldershot

- 5.10 Further discussions are required with Holy Trinity Church to determine whether this site can be developed in conjunctions with Church land to produce housing and a new Church Hall.

Manor Park Cottage and Manor Park Lodge, Aldershot

- 5.11 These properties will remain in the ownership of the Council unless they become vacant.

Union Yard redevelopment, Aldershot

- 5.12 RHLtd had provided an offer for the non affordable housing element of Union Yard. The Council confirmed that it was interested in taking forward RHLtd's offer subject to demonstration of the financial ability of the company to sustain the necessary borrowing.

Remaining sites in the programme: Union Street Car Park, Farnborough; 11 Wellington Street, Aldershot; Land at Water Lane, Farnborough,

- 5.13 No work has been started on these schemes, all are not expected to deliver until 2024/25 or 2025/26.

- 6.0 **Financial profile** (Please note these are draft figures at this stage pending final accounts for 2020/21 and revised Business Plan for 2021/22 Revised Estimates)

Company Balance Sheet

	Year One 2020/21 actuals £'000s	Year Two 2021/22 Estimates £'000s
ASSETS		
Assets -cumulative		2,930
Assets cash		
Net all assests		2,930
FINANCING		
Accumulated (profit)/loss	-78	-267
Financing - loans	78	3,197
Financing - equity		
Total finance	78	3,197

Company Profit and Loss: Income

	Year One 2020/21 actuals £'000s	Year Two 2021/22 Estimates £'000s
RENT INCOME (gross)		32

Deductions		4
NET RENT	0	28
OPERATING COSTS	77.9	134
FINANCING AND TAXATION		
Interest payments	0.1	83
Corporation Tax		
0.1	77.9	
NET (PROFIT)/LOSS	78	189

Interest payments

In 2020/21 the company paid £111 interest to the Council. The estimate for interest payments in 2021/22 is £83,044

7.0 Issues for Shareholder to note

7.1 Over the first eighteen months of operation issues emerged that RHLtd wants to bring to the attention of its Shareholder.

7.1.1 Valuations

Where sites are being transferred to RHLtd from the Council, open market valuations have been commissioned by RHLtd for the purpose of establishing the value of the site/property in its most valuable use. RHLtd is unlikely to be able to pay full market value because its proposed use, market rent, is not expected to be the most profitable use. Developing housing for sale would produce better returns. RHLtd will run an appraisal based on its proposed use to determine what value it can pay while meeting its objectives in the agreed Business Plan. The difference between these values will be recovered by an overage clause to take effect when RHLtd sells the property. Legal advice obtained by the Council confirms these arrangements constitute “best consideration” for the purposes of s123 of the Local Government Act 1972 which governs local authority land disposals.

7.1.2 Risk Mitigation

Following the Grant Thornton audit of the London Borough of Croydon in relation to its housing company, Brick by Brick, RHLtd has been concerned to mitigate the risks of development while providing a return to the Council. Working together the Council and RHLtd will bring sites forward as follows:

- RBC will prepare sites/properties for transfer by, for example, obtaining planning consent and dealing with title issues etc.
- RHLtd will satisfy itself that it can deliver a viable scheme before it draws down funds from RBC and takes a transfer of the site/property.

- The costs incurred by the Council to prepare sites for transfer will be recovered from the capital receipt resulting from the sale.
- RHLtd will pay interest on the funds it draws down from the date of drawdown, ensuring an income stream to the Council and a return on the funds it has invested.

7.1.3 The New Financial Model

The first version of the financial model was constructed in house. It was used to establish that, based on a portfolio of RBC properties, RHLtd could create a portfolio of properties for letting at market rent, provide a return to the Council and be a going concern.

As the company progresses and needs to evaluate proposed purchases of sites and property a more sophisticated model is required with the capacity to run sensitivity analyses of a number of variables.

Grant Thornton was commissioned jointly by RBC and RHLtd to create a new model to provide this feature, present the model outcomes in a user-friendly way and calculate performance indicators for use in assessing sites and properties.

7.1.4 Leasehold properties

RHLtd has been approached with two opportunities in the last twelve months which included the freehold of leasehold properties which had been sold within a block. In one case the inability of RHLtd to purchase such properties together with the adjacent site meant the vendor who wanted a single and swift sale chose to go with another party. This was disappointing as the additional land would have enabled a more efficient and better scheme. In the other the price of the complete portfolio was not considered to offer value for money for RHLtd or the Council. However it highlighted that the company's articles of association did not allow for the freehold purchase of leasehold properties where the leasehold has been sold to another party particularly if this is for owner occupation. While leasehold management should not be a primary purpose of the company the ability to hold such properties where part of a wider scheme would appear from these experiences to make sense. To enable the company to be able to respond positively to such opportunities, changes would be needed to be made to the company's articles. Shareholder approval from the Council will be required to make this change and it is proposed that this is sought as part of the next Business Plan process.

7.1.5 Performance Indicators

The new financial model provides a range of indicators for individual schemes.

- Profit on costs
- Development costs as a percentage of the value of the completed development
- Yield at inception
- NPV of cashflow
- IRR

- Debt to asset ratio
- Operating ratio
- Interest cover ratio
- Breakeven date
- Peak borrowing

As it develops it's new business plan the company will need to discuss with it's Shareholder the additional key indicators and the benchmarks to be used in assessing schemes.

8.0 **COMPANY MANAGEMENT**

Staffing

8.1 RHL is staffed by Council employees for which RHL pays a charge.

- Over the first 6 months of operation (April 2020 – September 2020) 277.1 hours were devoted to housing company work to a value of £15,039.90.
- Over the following 6 months of operation (October 2020 – March 2021) 440.4 hours were devoted to housing company work to a value of £27,510.28.

8.2 The staff working for RHL are:

- Head of Economy, Planning and Strategic Housing
- Project accountant
- Housing Enabling and Development Manager
- Housing Strategy and Enabling Manager
- Regeneration and Property Graduate Trainee

8.3 Support is provided from time to time from

- Procurement Officer
- Legal Services
- Property Services

External support

8.4 RHLtd now has a range of external support

- LRG Romans as its managing agent.
- Two firms of Architects are currently working for RHLtd MH Architects and OSP-architecture
- The company's legal advisers are Browne Jacobson
- Procurement of Employers Agents is underway.

The Board

- 8.5 The Board of Directors comprises_
- Cllr Ken Muschamp
 - Cllr Keith Dibble
 - Cllr Paul Taylor
- 8.6 The Board meets approximately every six weeks however this has varied from monthly to two monthly depending on the timing of key decisions. Each meeting is minuted and actions recorded in an action log.

Audit Review

- 8.7 During the first six months an Audit Review of the Housing Company and Rushmoor Development Partnership was undertaken and RHLtd are addressing the matters raised. However the report established that there was a reasonable level of assurance and had no high priority action identified.

9.0 **CONCLUSION**

- 9.1 The Company continues to put in place the support it needs to develop and manage properties; good progress has been made. The focus is now on development. Some additional resources have been made available to help with this so that the company can begin to deliver on its business plan objectives. However a further review of the resourcing of the company will be undertaken and discussed with the Council to ensure that the best and most efficient structures are in place taking account of the two organisations requirements and relationship.
- 9.2 RHLtd continues to review and manage its potential risks to delivery, finance and staffing through a robust risk register and programme and project management arrangements. As RHLtd commences development the level of risk will naturally increase and ensuring the right staffing/support, project and risk arrangements are in place is vital over the next twelve months.