ANNEX 5

COUNCIL MEETING – 24TH FEBRUARY 2022

AGENDA ITEM NO. 4 (5)

RUSHMOOR HOMES LTD BUSINESS PLAN UPDATE 2022-2027

A report from the meeting of the Cabinet held on 8th February 2022

SUMMARY AND RECOMMENDATIONS:

This report presents Rushmoor Housing Ltd.'s third business plan covering the period 2022-2026/27 and associated Shareholder Report covering the first year and a half of the company' operation.

The Council is recommended to:

1. Approve the updated Business Plan 2022-2027
2. Approve the amendment of the Shareholder Agreement to enable Rushmoor Homes Limited to purchase leasehold property where this supports its primary aim of providing market rented homes
3. In the event of the Government introducing a requirement to provide "Minimum Revenue Provision" on loans to wholly owned Housing Companies, Rushmoor Homes Ltd be required to review the Business Plan in co-operation with the Council

1. INTRODUCTION

1.1. Rushmoor Homes Limited (RHL) was incorporated in April 2020, it is owned, controlled, and funded by Rushmoor Borough Council. The purpose of the company is to develop and acquire a portfolio of residential properties for letting in the local housing market.

1.2. The company governance arrangements require a rolling five-year business plan to be approved by the council and a six- monthly shareholder report.

1.3. This report presents the RHL Business Plan for 2022/23 to 2026/27. The report summarises the full Business Plan attached as appendix 4.

2. BACKGROUND

2.1. The council supports the company by supplying council owned land and property, development finance and staff.

2.2. The Business Plan approval process allows the council to influence the company's objectives and identify where the company can support council in achieving its objectives. It also provides detailed information on the company's funding requirements which informs the council's budget processes. A Year End Report with full details of the financial and delivery programme performance against objectives will be published in April 2022.

2.3. The company aspires to become the best performing local landlord in the borough; its purpose, values, and business objectives focus on meeting local housing need through regeneration, environmental and financial sustainability.

3. MARKET REVIEW

3.1. Market profiles of Aldershot and Farnborough have been provided by RHL's Managing Agent Romans, the full report is provided in Appendix 1.

3.2. Based on the information in these reports, RHL has been able to conclude that its strategy to deliver a portfolio of 1 & 2 bed flats targets at small households with incomes of £30k - £60k p.a. remains valid.

3.3. The Board and Staff of RHL appreciate that there is need for affordable family accommodation in the borough and aspires to assist the council in meeting this need in the long term. It is developing a limited number of houses to broaden its portfolio. It is essential for the company to first establish itself and its financial viability. Provision of affordable housing requires either subsidy in some form or for the company over the longer term to outperform its business plan.

4. THE PROGRAMME

4.1. There has been some adjustment to the previous development programme the full details of which are included in appendix 2. The key changes are:

Site	Change
12 Arthur Street	Delay in securing the transfer due to the need for the council to negotiate a settlement agreement with the adjoining owner for a minor encroachment.
Cambridge Road	This will now be rented as a single 4 bed house rather than converted into two 2 bed flats as the works required for the conversion reduced the yield and

	therefore viability. A 4-bed house provides variety to the company portfolio.
9a Wellington Street	This 3- bed flat above retail units has been added to the portfolio with potential to convert into 2x1 bed flats subject to viability and planning permission.
237 High Street	At the council's request the scheme will be expanded to deliver a more comprehensive scheme if achievable
Churchill Crescent	A new build development to be built to maximise environmentally sustainable measures with an increase in build cost of 10% which has been reflected in the financial modelling of the programme. It is intended that lessons learned from this development will inform future RHL development.
Union Yard	An approach from the council has been made offering 82 completed 1 & 2 bed flats. The cost of acquisition is estimated at £15million to be funded by loans from RBC.

4.2. Experience gained during the first 18 months of operation have provided the Board and staff with a better understanding of the resources and timescales needed to move the programme forward successfully. The revised programme therefore shows a slower pace of delivery which impacts the financial model. The dates for peak debt and loan payback are pushed back one year resulting in the company paying lower levels of interest to the council during the early years. However, the addition of Union Yard into the Business Plan compensates for this.

5. FINANCIAL PROFILE AND THE PROPOSED DEVELOPMENT TIMETABLE

5.1. The company's Profit and Loss, Balance Sheet and Cash Flow Statement are set out in appendix 3 and have been derived from the joint RHL and RBC financial model.

5.2. The Profit and Loss statement shows the total rental income and expected running costs over the 65-year life of the financial model. It shows a profit of £124million before tax and profit distribution. The amount paid by RHL to RBC for loan repayments is £43million with the potential to provide an additional £100million as dividend payments.

5.3. RHL will run at a loss for the next five years as rental income is not able to meet loan repayments along with running costs, therefore, until peak debt is reached in 2030 RHL will require cash flow financing from RBC to ensure viability

5.4. The balance sheet table shows the value of the assets being brought into the company over the next 5 years and how these are financed. This shows that by 2025/26 assets totalling £26.6 million on a cashflow basis will be financed by loans (overdraft financing). The current estimate shows that the peak debt position will be reached in January 2030 with a debt amount of £29.923 million.

5.5. The valuation of the property assets is assessed based on the total cost of the purchase price and development cost of the property and for cashflow purposes is depreciated on a straight-line basis over 25 years. Land values are retained at their purchase / transfer price and not depreciated.

5.6. The Balance Sheet position after 65 years shows the property assets fully depreciated with a cash balance of £6.49million contributing to total assets on a cashflow basis of £24.2million. The property assets will in reality be maintained at a full valuation estimate based on market value and is expected to be as a minimum their original value of c£9.8million with the estimated full value of assets therefore being c£34million.

5.7. The Cash Flow Statement shows how the total income from rents is being used. The model anticipates all surplus cash is used to fund loan repayments which produces the zero cash balance from 2021 onwards. Once debt is repaid in full, surplus cash can be distributed to RBC as the company’s shareholder. From 2024/25 no additional capital debt is anticipated although loan repayments will remain outstanding until peak debt is reached in 2030 following which debt will start to be repaid.

6. PERFORMANCE MEASURES

6.1. Previous Business Plans have included a set of limited performance indicators (PI’s) which have been reviewed, two sets are of particular importance to the council as shareholder: PIs for the whole programme and for individual sites.

6.2. For the programme as a whole the performance indicators are:

- NPV is positive
- IRR is greater than 5%
- Initial Yield is greater than 3%
- Peak Debt is by or before 2037
- A profit is returned over 65 years
- Break even date is by or before 2070

6.3. These indicators will need to be reviewed each time a site is being considered for addition to the programme.

6.4. For individual sites performance measures are used to evaluate if a site is suitable for taking forward. The levels at which a site is deemed suitable are:

- A positive NPV over 65 years
- A cost of value of less than 90%
- An IRR of more than 5%
- AN initial yield of more than 3%
- Break even date by or before 2070

6.5. The Board have the flexibility to agree individual schemes that do not meet all these criteria providing PIs for the whole portfolio remain within the agreed parameters.

7. FINANCIAL PROFILE AND PROPOSED DEVELOPMENT TIMETABLE

The Next Five Years

7.1. RHL should have a portfolio of 60 properties delivered over 17 development sites with a further 82 properties at Union Yard. As the portfolio grows consideration will need to be given to management capacity with Romans.

7.2. RHL is determined to support the council in its commitment to make Aldershot and Farnborough greener and more sustainable and will look to incorporate energy efficiency and environmental sustainability into its development programme. The site at Churchill Crescent will be used to test this.

7.3. Initial financial modelling shows an expected increase to the development cost of 10% to achieve highly energy efficient homes. The test site shows the impact of this to the programme on Peak Debt which increases from £29.245 million to £29.51 million and delayed from 2030 to 2031 with debt being cleared in 2061 rather than 2060 and the interest being paid to the council will increase overall from £41.9 million to £42.8 million.

7.4. To support the council in meeting a broader range of housing needs RHL will start to look at sites able to take family houses. The Board will make decisions on a scheme-by-scheme basis.

7.5. The existing shareholder agreement does not allow RHL to purchase leasehold property. During the last year 2 opportunities arose where purchase of an element of leasehold property would have been necessary to acquire land/property for the company's primary business of the development and ownership of rented housing. To ensure the company is able to negotiate the best range of development opportunities it is proposed the shareholder agreement is amended to allow RHL to consider purchasing property on a long leasehold providing where it supports the company to achieve its primary objective of providing homes from market rent.

8. RESOURCING

8.1. RHL's operating costs are funded by loan finance from RBC. Expenditure for 2021/22 is estimated at £132k. This level of expenditure will increase as the business grows.

8.2. The staff team is made up of RBC employees and charged by RBC on a cost recovery basis:

- Tim Mills Chief Operating Officer
- Sally Ravenhill Business Manager
- Zoe Paine Business Manager
- Steve Ward Company Accountant
- Charlie Heavens Business Support Officer
- Simon Ross RBC's Interim Construction Surveyor

8.3. Additional development and construction resources are needed to deliver the programme successfully. Discussions are underway with RBC on the most appropriate way to recruit this resource taking account of the Council's other regeneration and development needs.

8.4. The Board is composed of:

- Cllr Ken Muschamp
- Cllr Keith Dibble
- Cllr Paul Taylor

8.5. As RHL's business develops the range and complexity of its activities is likely to increase. A Board member skills analysis is currently underway to identify any areas where training or additional expertise may be needed.

9. EXTERNAL ADVISORS

9.1. RHL has appointed the following external consultants:

- Romans- Managing Agent
- Browne Jacobson- Legal Advisors
- Ridge Partners and Rund Partnership Employers Agents

10. APPROVAL OF THE BUSINESS PLAN

10.1. The Business Plan covers a rolling 5 year period and provides the parameters within which the business operates, it is prepared and approved by the Board and presented to the council as the sole shareholder for approval by the council's Cabinet and Full Council.

10.2. The Business Plan is updated annually or when the business wishes to pursue opportunities outside of the approved parameters, each development is delivered with its own business case and project plan approved by the Board and the Council as shareholder.

11. GOVERNANCE

11.1. The company's governance arrangements are set out in its Articles of Association, there are particular governance arrangements in place which are:

- The preparation of the Business Plan for approval by the Chief Executive of the Council to present to Cabinet
- Cabinet agrees land disposals set out in the Business Plan, and recommends the budget and investment required to the council.
- Council approves the annual budget, Business Plan and investment required
- The Board provides a half year report to the Chief Executive, as shareholder which reviews performance against the Business Plan and which is then presented to the council's Licensing, Audit & General Purposes Committee (governance) and Overview and Scrutiny Committee (performance)
- The Chief Executive feeds back any comments from Cabinet, Council PPAB O&S LA&GP to RHL as necessary.

12. RISKS

12.1. A risk register is monitored quarterly against pre-set thresholds and reported to the Board.

12.2. Government is proposing to make changes to the Capital Framework for Local Authorities which may widen the loans on which a minimum revenue provision is required. As the potential changes are subject to consultation and have not yet been finalised it is not clear whether how this will impact lending to RHL or the council's appetite to continue to fund it due to its possible impact on risk and returns. This risk is included in Rushmoor Homes Limited's Risk Register. In the event of this risk materialising it will be necessary for the Council to review the implications, and work with RHL to review the options and proposed business plan. This is reflected in the recommendations.

12.3. RHL will monitor risks against a number of risk indicators; demand, rental values and rental inflation, sales values, build cost inflation, operational costs and regulatory changes impacting the rental market.

12.4. The company will procure asset valuations to ensure the portfolio is valued accurately. Wherever it is found that risks have a negative impact on the Business Plan the financial model will be re-run to quantify the effect.

12.5. The council will be asked to approve actions proposed by the Board to mitigate negative effects of risk. Options that may be considered an exit strategy include winding the company up, selling the company or alternative management options.

13. LEGAL IMPLICATIONS

13.1. RHL has its own legal advisors appointed however, RBC has a continuing role in ensuring proper governance and is represented at weekly project meetings.

14. FINANCIAL AND RESOURCE IMPLICATIONS

14.1. Lending to RHL is a substantial financial commitment for RBC but represents opportunities to; operate in the housing market and participate in the regeneration of the town centres.

14.2. The success of RHL will allow RBC to receive interest on its loans set out in appendix 2

14.3. Staff resources are being considered to ensure the successful delivery of the development programme

15. EQUALITIES IMPACT IMPLICATIONS

15.1. There are no equalities issues arising from this report.

16. CONCLUSIONS

16.1. The Business Plan provides the operational, financial and risk parameters for RHL and sets out a clear plan for the development of the business over the next five-year period. At its meeting on 8th February 2022, the Cabinet supported the Business Plan for the period 2022-2026/27 (as set out in Appendix 4).

16.2. Approving the Business Plan enables RHL to progress the delivery of good quality homes for rent in the borough.

D.E. CLIFFORD
LEADER OF THE COUNCIL