CABINET **MR. PAUL SHACKLEY**
CHIEF EXECUTIVE

18th April 2022 **REPORT NO. CEX2303**

KEY DECISION? Yes

RUSHMOOR HOMES LIMITED BUSINESS PLAN UPDATE 2023-2028

SUMMARY AND RECOMMENDATIONS:

This report presents Rushmoor Housing Ltd.'s Business Plan covering the period 2023-2028 and associated Shareholder Report.

Cabinet is asked to recommend to council that it approves the Business Plan for 2023-2028.

1. INTRODUCTION

1.1. Rushmoor Homes Limited 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 subsequent shareholder report half yearly.

1.3. This report presents a summary of Business Plan for 2023- 2028 which is attached as appendix 1.

1.4. The capital funding for this Business Plan was agreed as part of the council's budget on the 23rd February 2023. This a key decision based on the importance of the council agreeing a robust Business Plan given the amount of investment and that the Business Plan affects a number of wards across the borough.

2. BACKGROUND

2.1. The council supports the company by providing development sites, development finance and the core staff team.

2.2. The Business Plan approval process plays a key role in ensuring high standards of oversight and governance are achieved for both the company and the council as its only shareholder. The document provides the company's Board and the council's Cabinet with the information needed to assess the company's progress, how the company manages strategic and operational risks and ensures that the financial interests of both parties are protected.

2.3. The business planning process allows the council to influence the company's objectives and identify where the company can support the council in achieving its objectives, for example in managing temporary accommodation for refugees. It also provides detailed information on the company's funding requirements which, in turn, informs the council's budget processes.

3. Market Review

3.1. National and local housing markets have seen inflationary challenges over the last 12 months which have increased the cost of delivering Rushmoor Homes Ltd. capital programme. In addition, rents have also increased substantially which has worked to offset the impact of increased costs generally.

3.2. The company's managing agent LRG Romans provides the Board with regular market profiles and updates for the borough of Aldershot and Farnborough; this report is included in the Business Plan (appendix 2).

3.3. Based on the information in these reports it is clear that demand for private market rented properties in the company's area of operation remains high and the company's strategy to deliver a portfolio of 1 & 2 bed flats targeted at small households with incomes of £30k - £60k p.a. remains valid.

3.4. In response to identified demand and site capacity, the Board have agreed to include an element of family housing in the development programme. Subject to planning consents, the programme will deliver 7 family houses in addition to 154 Ship Lane, already let, and 57 Cambridge Road, due to be let in May 2023.

4. The Programme

4.1. The programme has been progressed at pace with planning permissions secured for 9a Wellington Street and 69 Victoria Road and other sites in the programme having been submitted for pre application planning advice. The company has acquired 235 High Street in readiness for the development of the High Street site. 57 Cambridge Road has been purchased; refurbishment works are nearing completion to deliver a 3-bedroom family home.

4.2. The company now owns 6 properties and manages 2 additional properties owned by the MOD for refugee households.

4.3. To ensure viability, the programme has been re apprised twice since the last Business Plan was approved to ensure, as market conditions changed, the capital programme remained viable. The Cabinet agreement to the Business Plan is not agreement of individual schemes but agreement to an overall programme. Individual schemes will be progressed through the planning process and then subject to the relevant Executive Decision process for disposal if planning is approved. The exact programme may therefore flex depending on those decisions and other issues that may arise. RHL will make decisions within the overall Business Plan envelope on progressing the schemes set out or alternatives. Changes will be reflected in the next Business Plan or by a request to the Council if a substantive amend to the programme is needed.

There have been some changes to the original programme cost plan. The key change is the reduction in the number of units being developed from 60 to 43 (not including the acquisition on 82 Units at Union Yard). A better understanding of site capacity, constraints and design revisions made to achieve some family homes have contributed to the change in numbers and delivery timetable. Also, part of the reason for land/ property disposals to RHL was to ensure best use of the council's assets. In some cases, this has been achieved by the council in alternative ways and disposal is no longer the preferred option. These changes are marginal and do not adversely affect the company's financial profiling. The sites removed from the programme and reasons are listed below:

Site	Reason
Manor Park Lodge	Remains in council ownership, tenanted and generating income.
Windsor Way & Water Lane	Both sites being used by the council for other purposes.
Union Street Car Park	Site generating parking income to the council.
11 Wellington Street	Property let to Karuna Coffee

The following table shows the stage of each site.

Site	Units	Stage
69 Victoria Road	4	Planning granted, preparing for transfer
9a Wellington Street	2	Planning granted, preparing for transfer

235-237 High Street	8	Pre app feedback received, detailed design stage
57 Cambridge Road	1	Refurbishment works on site, expect letting May 23.
Churchill Crescent	13	Pre app feedback received
Manor Park Cottage	4	Pre app feedback received
Fleet Road Scout Hut	3	Pre app feedback received
Redan Road Depot	5	Pre app feedback received
Pool Road Depot	3	Pre app feedback received
Total	**43**	

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 section 7 of the Business Plan and have been derived from the joint Rushmoor Homes Limited and Rushmoor Borough Council Financial Model.

Key Changes:	**Last reported**	**Now reporting**	**Change**
Overall profit	£124m	£136.6m	+£12.6m
Total debt servicing payment to the council	£ 43m	£ 51m	+£8m
Total potential dividend to the council	£100m	£113m	+£13m
Company's asset value by 2027/28	£26.5m	£27.4m	+0.9m
Fully Depreciated cash balance after 65 years	£ 6.4m	£ 7.4m	+1m
Peak debt amount	£29.9m	£32.1m	+£2.2m
Peak debt timetabled	Jan 2030	Aug 2034	+4 years 8 month
Debt cleared	2063	2064	+1 year

Profit and Loss Statement:

5.2. The Profit and Loss Statement shows the total income received from rents and the amounts expended by the organisation for running costs, capital expenditure and debt servicing. Over the 65 years of the model the position shows a healthy profit of £136.6m (£124m previously) before tax and profit distribution. This is an increase of £12.6m or 10% to that reported last year. These increases are due to inflation on both income and costs and some rescheduling of the development programme.

		Model Total over 65 years		Apr-21 Mar-22	Apr-22 Mar-23	Apr-23 Mar-24	Apr-24 Mar-25	Apr-25 Mar-26	Apr-26 Mar-27
Profit & Loss Statement									
	Rental income	£260,241,121		£23,090	£54,301	£86,183	£426,933	£1,411,507	£1,756,338
	Total costs derived from income	-£29,948,418		-£2,748	-£5,688	-£9,014	-£49,627	-£162,611	-£202,252
	Net Rental Income	£230,292,703		£20,343	£48,612	£77,169	£377,306	£1,248,895	£1,554,087
	Operating expenses	-£22,419,095		-£1,731	-£4,274	-£6,297	-£103,831	-£173,500	-£188,763
	Major Repairs costs	-£3,404,163		£0	£0	£0	£0	£0	£0
	Council Management Fee	-£5,582,700		-£107,700	-£120,000	-£84,000	-£84,000	-£84,000	-£84,000
	EBITDA	£198,886,745		-£89,089	-£75,662	-£13,128	£189,475	£991,395	£1,281,323
	Overdraft interest expense	-£50,962,379		-£15,061	-£61,061	-£231,122	-£1,076,567	-£1,541,899	-£1,579,590
	Depreciation charge	-£10,760,954		£0	£0	-£12,884	-£119,769	-£347,880	-£448,005
	S106 Costs	-£545,977		£0	-£41,608	-£437,357	£0	-£67,012	£0
	Gain / (Loss) on Disposal of Property Asset	£0		£0	£0	£0	£0	£0	£0
	Profit after financing cost	£136,617,435		-£104,150	-£178,331	-£694,492	-£1,006,860	-£965,396	-£746,272
	Distributions	-£113,211,139		£0	£0	£0	£0	£0	£0
	Net profit/(loss) in period	£23,406,296		-£104,150	-£178,331	-£694,492	-£1,006,860	-£965,396	-£746,272
Retained earnings									
	Retained earnings - b/f			£0	-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229
	Net profit/(loss) in period			-£104,150	-£178,331	-£694,492	-£1,006,860	-£965,396	-£746,272
	Retained earnings - c/f			-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501

5.3. The amount paid to Rushmoor Borough Council for the servicing of debt has changed to reflect the changes in the programme and inflation and now amounts to £51m (£43m previously) with a potential additional £113m (£100m previously) that could be paid as dividends.

5.4. For each of the next 5 years of operation the company runs at a loss as rental income is insufficient to meet debt principal and interest repayments along with continuing running costs. In the short term, until peak debt is reached in August 2034 (Previously January 2030), the company will require cash flow financing from the council to ensure that it remains viable.

The Balance Sheet

5.5. 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. The changes to the programme now show that by 2026/27 the company assets will increase by £0.9m from £26.5m to £27.4m which is financed by loans from the council shown as overdraft financing.

		Model Total over 65 years		Apr-21 Mar-22	Apr-22 Mar-23	Apr-23 Mar-24	Apr-24 Mar-25	Apr-25 Mar-26	Apr-26 Mar-27
Balance Sheet									
Assets									
	Land Value	£17,599,400		£682,300	£1,249,050	£2,587,900	£17,599,400	£17,599,400	£17,599,400
	Property Assets	£0		£0	£350,749	£4,597,079	£8,557,626	£10,280,420	£9,832,415
	Total Non-current Assets	£17,599,400		£682,300	£1,599,799	£7,184,979	£26,157,026	£27,879,820	£27,431,815
	Receivables	£0		£0	£0	£0	£0	£0	£0
	Cash	£7,392,135		£0	£0	£0	£0	£0	£0
	Total Current Assets	£7,392,135		£0	£0	£0	£0	£0	£0
	Total Assets	£24,991,535		£682,300	£1,599,799	£7,184,979	£26,157,026	£27,879,820	£27,431,815
Liabilities									
	Payables	-£59,174		-£330	-£356	-£833	-£12,852	-£14,940	-£15,829
	S106 Liability	£0		£0	£0	-£154,173	-£23,719	-£44,675	-£11,169
	Interest Payable	£0		-£3,629	-£45,894	-£277,016	-£1,305,934	-£2,049,612	-£2,380,496
	Total Current Liabilities	-£59,174		-£3,959	-£46,250	-£432,023	-£1,342,506	-£2,109,226	-£2,407,493
	Overdraft Balance	£0		-£782,491	-£1,836,030	-£7,729,929	-£26,798,354	-£28,719,823	-£28,719,823
	Total Non-current Liabilities	£0		-£782,491	-£1,836,030	-£7,729,929	-£26,798,354	-£28,719,823	-£28,719,823
	Total Liabilities	-£59,174		-£786,450	-£1,882,280	-£8,161,951	-£28,140,859	-£30,829,049	-£31,127,316
	Net Assets / (Liabilities)	£24,932,361		-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501
Equity									
	Retained Earnings	£24,932,361		-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501
	Total Equity	£24,932,361		-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501

5.6. The company's peak debt position is pushed out by four years and 8 months from 31st January 2030 to 31st August 2034 and the total has increased by £2.2m from £29.9m to £32.1m.

5.7. After 65 years, the property assets are fully depreciated with a cash balance that has increased by £1m, from £6.4 (previously reported) to £7.4m contributing to increased total assets of £25m, up from £24.2m 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.

The Cash Flow Statement:

5.8. The Cash Flow Statement shows how the income from rents is used. The model anticipates all surplus cash is used to fund loan repayments which produces the zero cash balance from 2022 onwards. Once debt is repaid in full, surplus cash can be distributed to the council as the company's shareholder. From 2026/27 onwards no additional capital debt is anticipated, although loan repayments will remain outstanding until peak debt is reached in 2034 following which debt will start to be repaid.

		Model Total over 65 years		Apr-21	Apr-22	Apr-23	Apr-24	Apr-25	Apr-26
Cash Flow Statement				**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
	Net cash received from rental income	£230,292,703		£20,343	£48,612	£77,169	£377,306	£1,248,895	£1,554,087
	Cash paid for Operating Expenses	-£25,762,901		-£1,402	-£4,248	-£5,820	-£91,812	-£171,412	-£187,875
	Council Management Fee	-£5,582,700		-£107,700	-£120,000	-£84,000	-£84,000	-£84,000	-£84,000
	Net cash from operations	£198,947,102		-£88,759	-£75,636	-£12,651	£201,494	£993,483	£1,282,212
	Development CAPEX	-£10,760,954		£0	-£350,749	-£4,259,214	-£4,080,316	-£2,070,674	£0
	Land Acquisition Costs	-£17,814,550		-£682,300	-£566,750	-£1,554,000	-£15,011,500	£0	£0
	Disposal proceeds	£215,150		£0	£0	£215,150	£0	£0	£0
	S106 Payments	-£545,977		£0	-£41,608	-£283,185	-£130,454	-£46,056	-£33,506
	Cashflow available for debt service	£170,040,771		-£771,059	-£1,034,743	-£5,893,899	-£19,020,776	-£1,123,248	£1,248,706
	Drawdown from Overdraft	£28,721,198		£783,866	£1,053,539	£5,893,899	£19,068,425	£1,921,469	£0
	Overdraft interest paid	-£50,962,379		-£11,432	-£18,796	£0	-£47,649	-£798,222	-£1,248,706
	Overdraft principal repayment	-£28,721,198		-£1,375	£0	£0	£0	£0	£0
	Cashflow after financing costs	£119,078,393		£0	£0	£0	£0	£0	£0
	Distributions	-£113,211,139		£0	£0	£0	£0	£0	£0
	Net cash flow	£5,867,254		£0	£0	£0	£0	£0	£0
Cash balance									
	Cash balance - b/f			£0	£0	£0	£0	£0	£0
	Net cash flow	£5,867,254	£0	£0	£0	£0	£0	£0	£0
	Cash balance - c/f			£0	£0	£0	£0	£0	£0

6. Interest Rates and Inflation

6.1 Interest rates currently used in the financial modelling assume the current rate charged to the company by the council at the agreed rate of 5.5% with the council's cost of borrowing at 2.2%. However, these rates may need to be reviewed and it is likely the rate charged to the company will increase as recent interest rates available to the council have increased by from 3.5% and 4.5%, dependant on the length of the loan period.

6.2 Stress testing of the company's financial model shows that interest rates over 6.8% cannot be sustained over the long term. Given that inflation and interest rates are anticipated to fall in 2024, it is expected that interest rates will remain at levels that the company is able to sustain over the medium term and life of the Business Plan.

7. Performance Measures & Financial Forecasting

7.1. For the overall programme, the five years covered by this Business Plan will see the company's debt increase from £786,000 at the end of March 2023 to £31.1m (reported as £27.8m previously) by the end of 2026/27.

7.2. Peak Debt for the programme is £32.136 million which occurs in 2034.

7.3. The debt is expected to be cleared by 2064, a year later than previously reported.

7.4. By 2043/44 the company should be in a position to operate independently of any cash flow loan requirements as it will be in a net profit situation and will commence the repayment of principal on loans.

7.5. The following performance indicators are set by the company's Board and are reviewed each time a site is being considered for addition to the programme and as things change, for example to test viability when actual costs delivery differ for assumed costs.

- 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

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

7.7. For individual sites performance measures are used to evaluate viability. 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

7.8. The Board have the flexibility to agree individual schemes that do not meet all these criteria providing performance indicators for the overall programme and portfolio remain within the agreed parameters and viable. Performance indicators are reported in the Shareholder Report published each October.

8. The next five years

8.1. The company portfolio should have increased to 133 new homes by the end of the Business Plan period. Every effort is being made to ensure that these homes are of high quality and meet high standards of thermal efficiency and supports enhanced environmental and biodiversity aspirations in the borough.

8.2. The most recent financial modelling exercise reflects increases to the development cost to meet new Building Regulations standards.

8.3. The company's procurement process requires labour to be sourced as locally as possible for development and property management activities. Priority is given to property management services which minimise environmental impact. For example, the green credentials of service contractors for block management and day to day maintenance, implemented on the company's behalf by LRG Romans.

8.4. As proposed in the previous Business Plan, the Shareholder Agreement has been amended to allow the company to acquire leasehold properties when it is in the company's interest to utilise this option to achieve its objectives.

9. Resourcing

9.1. The company's operating costs are funded by loan finance from the council. Expenditure for 2022/23 is estimated at £178k, an increase of £46k on the previous year's expenditure. This increase reflects the increased staff workload to move the programme forward. It is anticipated that this will increase further as the development programme moves to multiple sites in the construction phase and in the preparation required to manage an increased number of properties when Union Yard comes into Management at the end of 2024.

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

- Tim Mills Chief Operating Officer
- Zoe Paine Business Manager
- Steve Ward Company Accountant
- Charlie Heavens Programme Manager

Specialist technical support is provided on an interim basis:

- Gareth Dearing Development Manager
- Simon Ross Construction Surveyor

9.3 Given the changing demands identified above and the increasing workload for the Company going forward as shareholder representative and the Council's Head of Paid Service I will be arranging a meeting with the Board early in the new municipal year to better understand the Company's resource demands for the next 2 to 3 years to ascertain the extent to which the Council has the capacity to support the Company's staffing requirements moving forward. It is a matter for the Board to assess and outline its resource requirement request to the Council and to determine how to deliver its programme taking account of any resourcing the Council can provide.

10. External Advisors

10.1. Rushmoor Homes Limited has appointed the following external consultants:

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

11. Approval of the Business Plan

11.1. 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.

11.2. 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.

12. Governance

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

- The annual 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 Representative which reviews performance against the Business Plan. This can then be presented to the council's Licensing, Audit & General Purposes Committee (governance) and/or Overview and Scrutiny Committee (performance) depending on the assessment of the Shareholder Representative
- The Chief Executive of the council feeds back any comments from Cabinet, Council PPAB O&S LA&GP to the company as necessary to the Chief Operating Officer of the company.

12.2. The Board is composed of:

- Cllr Paul Taylor
- Cllr Keith Dibble
- Cllr Marina Munro

12.3 An experienced residential development professional is being recruited as Non-Executive Director to strengthen scrutiny and decision making going forward. Following a Board Member skills analysis, Board Members have received training on the residential development process and housing management. The training programme for the next year will be developed following confirmation of the Director's for municipal year 2023/24, appointment of the Non-Executive Director and the re assessment of the Board's skills.

13. Risks

13.1. A Risk Register is monitored quarterly against pre-set thresholds and reported to the Board it includes demand, rental values and rental inflation, sales values, build cost inflation, operational costs and regulatory changes impacting the rental market. The Risk Register can be found in the Business Plan (appendix 3).

13.2. Government recently made changes to the Capital Framework for Local Authorities which amended the regulations in respect of the requirement on Local Authorities to make Minimum Revenue Provision towards repayments of Principal where they are taking on certain types of investment related borrowing. Although it is not anticipated that this will affect borrowing to fund the company, if the council were having to make this provision, it's appetite to fund the company may be affected.

13.3. The company will procure asset valuations to ensure the portfolio is valued accurately at appropriate frequencies.

13.4. 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.

14. Legal Implications

14.1. Rushmoor Homes Limited has its own legal advisors appointed however, the council has a continuing role in ensuring proper governance and a member of the council's legal team is present at the weekly programme meetings.

15. Financial and Resource Implications

15.1. Lending to Rushmoor Homes Limited is a substantial financial commitment for the council but represents opportunities to operate in the local housing market and participate in the regeneration of the town centres.

15.2. The success of the company will allow the council to receive interest on its loans.

15.3. Staff resources are being considered to ensure the successful delivery of the development programme and future management of the property portfolio.

16. Equalities Impact Implications

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

17. Conclusions

17.1. The Business Plan provides the operational, financial and risk parameters for Rushmoor Homes Limited and sets out a clear plan for the development of the business over the next five-year period. Cabinet is asked to approve the Business Plan for the period 2023-2028.

17.2. Approving the Business Plan enables Rushmoor Homes Limited to progress the delivery of good quality homes for rent in the borough.

18. BACKGROUND DOCUMENTS

Rushmoor Homes Limited Business Plan 2023-2028

CONTACT DETAILS:

Report Author – Zoe Paine/ zoe.paine@rushmoor.gov.uk

Head of Service – Tim Mills/ tim.mills@rushmoor.gov.uk

Balance Sheet

		Model Total over 65 years		Apr-21 Mar-22	Apr-22 Mar-23	Apr-23 Mar-24	Apr-24 Mar-25	Apr-25 Mar-26	Apr-26 Mar-27
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	Net profit/(loss) in period			-£104,150	-£178,331	-£694,492	-£1,006,860	-£965,396	-£746,272
	Retained earnings - c/f			-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501

		Model Total over 65 years		Apr-21 Mar-22	Apr-22 Mar-23	Apr-23 Mar-24	Apr-24 Mar-25	Apr-25 Mar-26	Apr-26 Mar-27
Balance Sheet									
Assets									
	Land Value	£17,599,400		£682,300	£1,249,050	£2,587,900	£17,599,400	£17,599,400	£17,599,400
	Property Assets	£0		£0	£350,749	£4,597,079	£8,557,626	£10,280,420	£9,832,415
	Total Non-current Assets	£17,599,400		£682,300	£1,599,799	£7,184,979	£26,157,026	£27,879,820	£27,431,815
	Receivables	£0		£0	£0	£0	£0	£0	£0
	Cash	£7,392,135		£0	£0	£0	£0	£0	£0
	Total Current Assets	£7,392,135		£0	£0	£0	£0	£0	£0
	Total Assets	£24,991,535		£682,300	£1,599,799	£7,184,979	£26,157,026	£27,879,820	£27,431,815
Liabilities									
	Payables	-£59,174		-£330	-£356	-£833	-£12,852	-£14,940	-£15,829
	S106 Liability	£0		£0	£0	-£154,173	-£23,719	-£44,675	-£11,169
	Interest Payable	£0		-£3,629	-£45,894	-£277,016	-£1,305,934	-£2,049,612	-£2,380,496
	Total Current Liabilities	-£59,174		-£3,959	-£46,250	-£432,023	-£1,342,506	-£2,109,226	-£2,407,493
	Overdraft Balance	£0		-£782,491	-£1,836,030	-£7,729,929	-£26,798,354	-£28,719,823	-£28,719,823
	Total Non-current Liabilities	£0		-£782,491	-£1,836,030	-£7,729,929	-£26,798,354	-£28,719,823	-£28,719,823
	Total Liabilities	-£59,174		-£786,450	-£1,882,280	-£8,161,951	-£28,140,859	-£30,829,049	-£31,127,316
	Net Assets / (Liabilities)	£24,932,361		-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501
Equity									
	Retained Earnings	£24,932,361		-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501
	Total Equity	£24,932,361		-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501

Cash Flow Statement

		Model Total over 65 years		Apr-21	Apr-22	Apr-23	Apr-24	Apr-25	Apr-26
Cash Flow Statement				**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
	Net cash received from rental income	£230,292,703		£20,343	£48,612	£77,169	£377,306	£1,248,895	£1,554,087
	Cash paid for Operating Expenses	-£25,762,901		-£1,402	-£4,248	-£5,820	-£91,812	-£171,412	-£187,875
	Council Management Fee	-£5,582,700		-£107,700	-£120,000	-£84,000	-£84,000	-£84,000	-£84,000
	Net cash from operations	£198,947,102		-£88,759	-£75,636	-£12,651	£201,494	£993,483	£1,282,212
	Development CAPEX	-£10,760,954		£0	-£350,749	-£4,259,214	-£4,080,316	-£2,070,674	£0
	Land Acquisition Costs	-£17,814,550		-£682,300	-£566,750	-£1,554,000	-£15,011,500	£0	£0
	Disposal proceeds	£215,150		£0	£0	£215,150	£0	£0	£0
	S106 Payments	-£545,977		£0	-£41,608	-£283,185	-£130,454	-£46,056	-£33,506
	Cashflow available for debt service	£170,040,771		-£771,059	-£1,034,743	-£5,893,899	-£19,020,776	-£1,123,248	£1,248,706
	Drawdown from Overdraft	£28,721,198		£783,866	£1,053,539	£5,893,899	£19,068,425	£1,921,469	£0
	Overdraft interest paid	-£50,962,379		-£11,432	-£18,796	£0	-£47,649	-£798,222	-£1,248,706
	Overdraft principal repayment	-£28,721,198		-£1,375	£0	£0	£0	£0	£0
	Cashflow after financing costs	£119,078,393		£0	£0	£0	£0	£0	£0
	Distributions	-£113,211,139		£0	£0	£0	£0	£0	£0
	Net cash flow	£5,867,254		£0	£0	£0	£0	£0	£0
Cash balance									
	Cash balance - b/f			£0	£0	£0	£0	£0	£0
	Net cash flow	£5,867,254	£0	£0	£0	£0	£0	£0	£0
	Cash balance - c/f			£0	£0	£0	£0	£0	£0

APPENDIX 1

Rushmoor Homes Ltd

Business Plan

2023 – 2028

Executive Summary

Rushmoor Homes Ltd is a limited company wholly owned by Rushmoor Borough Council. Its purpose is to operate in the local housing market to produce a portfolio of residential properties for letting on private market rents.

The company is owned, controlled and funded by Rushmoor Borough Council and is required to prepare an annual business plan for approval by the Council.

This is the company's fourth business plan, and it looks forward five years to set out the company's plans for delivering on its current programme of property acquisition and development, its requirement for funding and its opportunities for growth.

The most significant change to its business plan since last year is the development of the property portfolio to six units delivering an annual rental income of £62,424. In addition, the company has been successful in introducing an element of family accommodation into the development programme, a proposal put forward in the previous business plan.

There have been revisions to the original development programme resulting in sites at Manor Park Lodge, Water Lane, Union Street Car Park and 11 Wellington Street not being taken forward.

Despite the current economic challenges and impact of that to the national and local property market the development programme and business remain viable over the 60-year term of the financial model.

Performance management, risk management, resourcing and governance issues are also covered by the Plan.

1.0 Introduction

1.1 As Rushmoor Homes Ltd (RHLtd) approaches its fourth year of operation this new Business Plan sets out the company's strategy for its next five years of operation. It examines trends in the local housing market and considers potential opportunities to expand its business. A revised delivery programme has been prepared that generates revised financial forecasts.

1.2 A key factor in the ability of the company to deliver its objectives is its relationship with its only shareholder Rushmoor Borough Council (RBC). The Council provides support to the company by supplying council owned property and land from which the company can create a portfolio of homes for letting on market rents. RBC is also the company's source of finance for its development programme and it provides key members of staff to operate the company and deliver new homes.

1.3 This business plan will be submitted to RBC for approval. Through this approval process the Council has an opportunity to influence the company's objectives and targets and identify where the company can assist in meeting Council objectives. The business plan also provides information on the funding required to support RHLtd's activities to inform the Council's budget building process. This business plan reports progress against objectives since the last Business Plan.

2.0 RHLtd's Purpose

2.1 RHLtd's purpose remains to participate directly in the housing market to provide good quality homes for private market rent. Its sole shareholder, Rushmoor Borough Council, has objectives around meeting housing need, environmental sustainability, regeneration and achieving financial sustainability. RHLtd aims to support its shareholder in meeting these objectives provided this can be done without compromising the company's financial viability and where, working through a company is the best means for the Council to achieve its desired outcomes.

2.2 The company strives to become a highly regarded landlord in the borough, providing tenants with good quality, thermally efficient accommodation supported by an excellent property management service.

3.0 RHLtd's Values

3.1 The way in which the company operates is an important part of the business plan. Rushmoor Homes Limited seeks to become a:

- trusted partner of its shareholder, Rushmoor Borough Council
- highly regarded private sector landlord providing quality homes and services
- business that operates with integrity and treats its staff, tenants, contractors and partners with respect always
- learning organisation that acknowledges and learns from mistakes and recognises good work

4.0 RHLtd's Objectives

4.1 Reflecting the purpose set by the Council, the Company's objectives are to:

- take a transfer of existing residential properties owned and let by the Council;
- develop/acquire property to assemble a residential property portfolio that may contain a range of tenures;
- provide quality homes for rent in the private rented market to meet housing need and create a revenue stream providing a return on investment to its Shareholder (the Council);
- remain financially viable and commercially sustainable;
- assist the Council in meeting requirements for affordable housing and temporary accommodation where a company is the best means of achieving the required outcomes;
- assist the Council in meeting its regeneration and sustainability objectives contributing to a greener borough and improvements in the built environment
- provide an efficient landlord service including housing management and maintenance;
- maintain its properties to a standard that meets tenants' reasonable expectations; protects Shareholder reputation and shareholder investment in the company; and
- create saleable, realisable assets should the generation of capital receipts become a priority for its Shareholder.

5.0 Market Review

5.1 Currently RHLtd's activity will be focussed within the borough of Rushmoor and its housing market area.

5.2 RHLtd has been provided with market profiles for Aldershot and Farnborough by its Managing Agent LRG Romans. These can be found in in Appendix One and evidence the continuing demand for private rented accommodation nationally and locally and rental increases which average 11% in the companies area of operation.

5.3 Based on the information and evidence contained in these reports RHLtd has concluded its existing strategy of growing a portfolio of primarily one and two bed flats targeted at small households with incomes of between £30,000 and £60,000pa remains valid.

5.4 Although the company wishes to assist the Council in meeting local housing need wherever possible, it must continue to establish itself and its financial viability before it can consider introducing any further element of affordable/discounted rent to meet the needs of those on lower incomes without subsidy. Securing Registered Provider status is likely to be the route to achieve this and will be a key issue to be kept under review during the plan period.

6.0 The Programme

6.1 As the programme has advanced, assumptions about the development potential of sites, the number of units in the programme and the timetable for delivery have been adjusted. Each individual site has been re appraised twice since the last Business Plan was published to ensure, as market conditions changed, that the development programme remained viable overall. There have been some changes to the original cost planning and programming.

6.2 A key change to the business plan from that previously reported is the number of units in development. The 2022-2027 Business Plan reported that there were 60 units being developed across 17 sites or individual property acquisitions with the expectation that a further 82 units would be acquired at Union Yard.

6.3 The following sites are now, no longer being included within the current development programme:

Site	**Reason**
Manor Park Lodge	Remains in Council ownership, tenanted and generating income to the Council.
Water Lane	Site being used by the Council for other purposes
Union Street Car Park	Car parking use generating income to the Council
11 Wellington Street	Property let to Karuna Coffee and utilising all floors.

6.4 The current development programme will see 43 units developed at the following sites subject to achieving planning permissions. This number has been reduced slightly compared to previous iterations of the development programme because of both a greater recognition of site capacity constraints and also design revisions made to achieve more family housing provision within RHL's portfolio.

Site	Units	Stage
69 Victoria Road	4	Planning Granted
9a Wellington Street	2	Planning Granted
235-237 High Street	8	Detailed design stage
57 Cambridge Road	1	Refurbishment works being carried out expect letting April 23.
Churchill Crescent	13	Pre app
Manor Park Cottage	4	Pre app
Fleet Road Scout Hut	3	Pre app
Redan Road Depot	5	Pre app
Pool Road Depot	3	Pre app
Total	**43**	

6.5 In addition to the 43 Unit development programme the company will acquire 82 Units at Union Yard in 2024

6.6 This revised programme summary is shown in appendix two the Key changes are as follows.

- 9a Wellington Street has been added to the programme. This is a council owned property located in Aldershot town centre above a retail unit to be transferred on a leasehold basis. There is potential to convert this to two, one bed flats subject to planning permission.
- At the request of the Council, the scheme at 237 High Street, Aldershot will be expanded to include development of the adjoining property at 235 High Street. This will help the Council meet its aspiration of creating a quality development at this gateway to the town. The company will agree terms for acquiring the property with the adjoining owner.
- Churchill Crescent will be developed as a demonstration project for including environmentally sustainable measures in the build programme. There will be a consequential increase in build costs for this site of around 10% which is reflected in financial modelling for the programme. It is intended that lessons learnt from this project can be applied across the programme, where suitable.
- There is "in principle" agreement for RBC to dispose of 82 completed units at its Union Yard scheme currently under development in Aldershot Town Centre. The cost of acquisition is currently estimated at £15m. However the final cost will be subject to valuation and agreement at the appropriate stage and neither party is contractually bound at this stage.

6.7 The staff team have moved the programme forward with experienced consultants and are working to a more accurate programme and cost model. The last report highlighted that whilst the slower pace of delivery had impacted the financial profiling, the incorporate of Union Yard had compensated for this; changes to the timetable since then are marginal and do not adversely impact the financial profile.

6.8 Inflationary pressures have been worked through on construction costs. Original cost modelling assumptions were set at circa £1,500 per square meter and have risen to £2,500 - £3,000 per square meter. Whilst this is a significant uplift, the corresponding increases in rental incomes has largely offset this ensuring the viability of the programme.

6.9 The company currently has a property portfolio of six units in management generating a gross rental income of £62,424. It includes four properties transferred from the council at 154 Ship Lane, three flats at Arthur Street and two flats at recently acquired 235 High Street. The company also manages two MOD owned properties on behalf of the council as part of the Afghan refugee scheme for which a small management fee is charged.

7.0 Financial profile of Proposed Development Timetable

7.1 The following tables set out the key income and expenditure for the company together with its requirement for capital. These figures are derived from the joint RHLtd and RBC financial model.

Profit & Loss Statement		Model Total over 65 years		Apr-21 Mar-22	Apr-22 Mar-23	Apr-23 Mar-24	Apr-24 Mar-25	Apr-25 Mar-26	Apr-26 Mar-27
	Rental income	£260,241,121		£23,090	£54,301	£86,183	£426,933	£1,411,507	£1,756,338
	Total costs derived from income	-£29,948,418		-£2,748	-£5,688	-£9,014	-£49,627	-£162,611	-£202,252
	Net Rental Income	£230,292,703		£20,343	£48,612	£77,169	£377,306	£1,248,895	£1,554,087
	Operating expenses	-£22,419,095		-£1,731	-£4,274	-£6,297	-£103,831	-£173,500	-£188,763
	Major Repairs costs	-£3,404,163		£0	£0	£0	£0	£0	£0
	Council Management Fee	-£5,582,700		-£107,700	-£120,000	-£84,000	-£84,000	-£84,000	-£84,000
	EBITDA	£198,886,745		-£89,089	-£75,662	-£13,128	£189,475	£991,395	£1,281,323
	Overdraft interest expense	-£50,962,379		-£15,061	-£61,061	-£231,122	-£1,076,567	-£1,541,899	-£1,579,590
	Depreciation charge	-£10,760,954		£0	£0	-£12,884	-£119,769	-£347,880	-£448,005
	S106 Costs	-£545,977		£0	-£41,608	-£437,357	£0	-£67,012	£0
	Gain / (Loss) on Disposal of Property Asset	£0		£0	£0	£0	£0	£0	£0
	Profit after financing cost	£136,617,435		-£104,150	-£178,331	-£694,492	-£1,006,860	-£965,396	-£746,272
	Distributions	-£113,211,139		£0	£0	£0	£0	£0	£0
	Net profit/(loss) in period	£23,406,296		-£104,150	-£178,331	-£694,492	-£1,006,860	-£965,396	-£746,272
Retained earnings									
	Retained earnings - b/f			£0	-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229
	Net profit/(loss) in period			-£104,150	-£178,331	-£694,492	-£1,006,860	-£965,396	-£746,272
	Retained earnings - c/f			-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501

7.2 7.The Profit and Loss Statement shows the total income received from rents and the amounts expended by the organisation for running costs, capital expenditure and debt servicing. Over the 65 years of the model the position shows a healthy profit of £136.6m (£124m previously) before tax and profit distribution. This is an increase of £12.2m or 10% to that reported last year. These increases are due to a number of factors including inflation on both income and costs and some rescheduling of the development programme. The amount paid over to Rushmoor Borough Council for the servicing of debt amounts to £51m (£43m previously) with a potential additional £113m (£100m previously) that could be paid as dividends.

7.3 For each of the next 5 years of operation RHL is running at a loss because income from rental is insufficient to meet debt principal and interest repayments along with continuing running costs. In the short term, until peak debt is reached in 2034 (Previously January 2030), RHL will require cash flow financing from RBC to ensure that it remains viable.

		Model Total over 65 years	**Apr-21**	**Apr-22**	**Apr-23**	**Apr-24**	**Apr-25**	**Apr-26**
Balance Sheet			**Mar-22**	**Mar-23**	**Mar-24**	**Mar-25**	**Mar-26**	**Mar-27**
Assets								
	Land Value	£17,599,400	£682,300	£1,249,050	£2,587,900	£17,599,400	£17,599,400	£17,599,400
	Property Assets	£0	£0	£350,749	£4,597,079	£8,557,626	£10,280,420	£9,832,415
	Total Non-current Assets	£17,599,400	£682,300	£1,599,799	£7,184,979	£26,157,026	£27,879,820	£27,431,815
	Receivables	£0	£0	£0	£0	£0	£0	£0
	Cash	£7,392,135	£0	£0	£0	£0	£0	£0
	Total Current Assets	£7,392,135	£0	£0	£0	£0	£0	£0
	Total Assets	£24,991,535	£682,300	£1,599,799	£7,184,979	£26,157,026	£27,879,820	£27,431,815
Liabilities								
	Payables	-£59,174	-£330	-£356	-£833	-£12,852	-£14,940	-£15,829
	S106 Liability	£0	£0	£0	-£154,173	-£23,719	-£44,675	-£11,169
	Interest Payable	£0	-£3,629	-£45,894	-£277,016	-£1,305,934	-£2,049,612	-£2,380,496
	Total Current Liabilities	-£59,174	-£3,959	-£46,250	-£432,023	-£1,342,506	-£2,109,226	-£2,407,493
	Overdraft Balance	£0	-£782,491	-£1,836,030	-£7,729,929	-£26,798,354	-£28,719,823	-£28,719,823
	Total Non-current Liabilities	£0	-£782,491	-£1,836,030	-£7,729,929	-£26,798,354	-£28,719,823	-£28,719,823
	Total Liabilities	-£59,174	-£786,450	-£1,882,280	-£8,161,951	-£28,140,859	-£30,829,049	-£31,127,316
	Net Assets / (Liabilities)	£24,932,361	-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501
Equity								
	Retained Earnings	£24,932,361	-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501
	Total Equity	£24,932,361	-£104,150	-£282,481	-£976,973	-£1,983,833	-£2,949,229	-£3,695,501

7.4 The balance sheet shows the value of the assets being brought into RHL in the next 5 years of operation and how those assets are being financed. As can be seen by 2026/27 assets totalling £27.4m (£26.5m previously) will be totally financed by loans (shown as overdraft financing). The current estimate shows that the peak debt position will be reached on 31st August 2034 with a debt amount of £32.1m (Previously 31st January 2030 with a debt amount of £29.923m.)

7.5 The Balance sheet position after 65 years of the model shows the property assets fully depreciated with a cash balance of £7.4m (£6.49m previously) contributing to total assets of £25m (£24.2m previously)

Cash Flow Statement	Model Total over 65 years		Apr-21 Mar-22	Apr-22 Mar-23	Apr-23 Mar-24	Apr-24 Mar-25	Apr-25 Mar-26	Apr-26 Mar-27
Net cash received from rental income	£230,292,703		£20,343	£48,612	£77,169	£377,306	£1,248,895	£1,554,087
Cash paid for Operating Expenses	-£25,762,901		-£1,402	-£4,248	-£5,820	-£91,812	-£171,412	-£187,875
Council Management Fee	-£5,582,700		-£107,700	-£120,000	-£84,000	-£84,000	-£84,000	-£84,000
Net cash from operations	£198,947,102		-£88,759	-£75,636	-£12,651	£201,494	£993,483	£1,282,212
Development CAPEX	-£10,760,954		£0	-£350,749	-£4,259,214	-£4,080,316	-£2,070,674	£0
Land Acquisition Costs	-£17,814,550		-£682,300	-£566,750	-£1,554,000	-£15,011,500	£0	£0
Disposal proceeds	£215,150		£0	£0	£215,150	£0	£0	£0
S106 Payments	-£545,977		£0	-£41,608	-£283,185	-£130,454	-£46,056	-£33,506
Cashflow available for debt service	£170,040,771		-£771,059	-£1,034,743	-£5,893,899	-£19,020,776	-£1,123,248	£1,248,706
Drawdown from Overdraft	£28,721,198		£783,866	£1,053,539	£5,893,899	£19,068,425	£1,921,469	£0
Overdraft interest paid	-£50,962,379		-£11,432	-£18,796	£0	-£47,649	-£798,222	-£1,248,706
Overdraft principal repayment	-£28,721,198		-£1,375	£0	£0	£0	£0	£0
Cashflow after financing costs	£119,078,393		£0	£0	£0	£0	£0	£0
Distributions	-£113,211,139		£0	£0	£0	£0	£0	£0
Net cash flow	£5,867,254		£0	£0	£0	£0	£0	£0
Cash balance								
Cash balance - b/f			£0	£0	£0	£0	£0	£0
Net cash flow	£5,867,254	£0	£0	£0	£0	£0	£0	£0
Cash balance - c/f			£0	£0	£0	£0	£0	£0

7.6 The Cash Flow Statement shows how the total income from rentals is being utilised. The model anticipates that all available surplus cash is used to fund debt interest and principal repayments in the first instance hence the zero cash balances from 2022 onwards. Once debt is fully repaid surplus cash is available for distribution to RBC as the single shareholder. From 2026/27 onwards no additional capital debt is anticipated however loan interest will remain outstanding until peak debt is reached in 2034 following which debt will start to be repaid.

Notes:

- Development CAP EX = money spent on developing property.
- Land Acquisition Costs = land/property acquisition transferred from RBC to RHL in exchange for a loan note.
- Drawdown from Overdraft is either cash or a loan note used to fund either Development or Land Acquisition as well as cash flow funding to cover income shortfalls in the early years of the organisation.

Interest Rates and Inflation

7.7 It should be noted that in all of the above tables there is an assumption that the interest rate charged to RHL from RBC is at the current agreed rate of 5.5% and RBC's cost of borrowing is assumed at 2.2%. Given that the recent increase in interest rates will affect the Council's interest rate for its borrowing it is highly likely that the rate charged to RHL will need to be increased. Recent interest rates for RBC borrowing amount to between 3.5% and 4.5% dependent upon the term of the loan and whilst this is expected to reduce over the medium to long term the fact that borrowing will need to be incurred to support RHL expenditure inevitably means that the interest rate charged to RHL will need to be increased at least in the short term.

7.8 A number of different scenarios have been modelled to reflect the increase in interest rates to both RHL and RBC and this has indicated that, if all other elements such as costs and income remained constant the RHL would only be able to sustain interest rates below 6.8% over the long term.

7.9 However, due to inflationary increases in both income and expenditure the above scenario is unlikely and therefore assumptions have been made in respect of inflation on both costs and income as well as increased interest rates. Given that both inflation levels and rate of interest are anticipated to fall in the medium to long term scenarios have been modelled to reflect this.

7.10 For example, if we assume interest rates increase by 3% over the next 3 years revert back to around 1% higher than in the original model for 20 years and for the remainder of the 65 years of the model revert to original model rates – the average interest rates would be RBC 2.6% RHL 5.9%. Furthermore, if we assume over the life of the model both income and cost increase by 5%, we get the following results:

RHL – returns £34.9m in profits, reaches peak borrowing of £36.23m by August 2036 and attains debt free break even by April 2065.

RBC – Borrowings of £10.53m at a cost of £1.3m. The total return over the life of the model would amount to £208m an increase of £9.5m from current assumptions.

7.11 Interestingly if we increase all income and costs by 10% this improves profitability by a further £4.7m to £39.6m with very similar effects on peak borrowing and debt repayment. RBC would benefit by a further increase in income to £216m with a minimal additional impact of borrowing at £11.7m at a cost of £1.5m in borrowing costs. This is principally due to the fact that the model is highly sensitive to increases in rental income and to increases in the cost of debt where only relatively small increases in either have a marked effect on the overall results.

7.12 This gearing effect is borne out by the impact of Union Yard on the overall model. As Union Yard includes a large amount of both income and interest expense on the model the exclusion of Union Yard dramatically affects the overall profitability of the programme. If we exclude Union Yard totally from the above the model the results show that the remaining sites would only be able to sustain long term interest rates of 5.51%. In the event that it becomes apparent that the Union Yard properties were not going to be sold to RHL then a review of the Business Plan would be undertaken and it might be necessary to set higher financial thresholds for schemes to proceed to enable RHL to cope with the higher interest rate.

Performance Measures

7.13 Previous business plans included a limited set of performance indicators. These have been reviewed and two sets of measures are proposed for the whole programme and individual sites, some of which will be particularly relevant to the Council as shareholder.

The Whole Programme

7.14 For the programme as a whole, the five years covered by this business plan will see the debt incurred by RHL increase from an actual £786,000 at the end of March 2022 to £31.1m (£27.8m previously) by the end of 2026/27.

Peak debt for the programme will occur in year 2034 at an estimated £32.136m.

Debt from the current programme is expected to be cleared by year 2062 (Previously 2061).

Interest payments to RBC are estimated to total £50.962m (£43.252m previously) over 65 years.

7.15 The performance indicators (PIs) for the whole programme are as follows

- NPV is £ positive
- IRR is = or > 5%
- initial yield is = or >3%
- Peak Debt by or before 2037
- Returns a profit over 65 years
- Break even date by or before 2070

7.16 These indicators are reviewed each time a site is being considered for addition to the programme

Performance Measures for sites

7.17 Each site in the programme is measured against similar performance indicators. In determining whether RHLtd should pursue a site and what price it should pay; the sites can be evaluated through the RHLtd/RBC financial model.

The levels at which a site is deemed suitable for the programme are:

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

7.18 The RHLtd Board have flexibility to agree individual schemes that don't meet all these criteria but only if the Performance Indicators for the whole portfolio remain within the agreed parameters.

7.19 These Performance Indicators are reported in the Shareholder Report which is published in October each year.

8.0 The next Five Years

8.1 RHL will continue to pursue its programme of property purchases from Rushmoor BC to produce homes for its target market of small households on incomes between £30,000 and £60,000. By the end of the next five years RHLtd should have a portfolio of 133 units of privately rented accommodation.

Sustainability

8.2 RBC declared a climate emergency in 2019. As part of its climate promise it has a stated aim of making Aldershot and Farnborough greener and more sustainable. RHLtd wishes to support the Council in its aspirations for sustainability and will look to incorporate energy efficiency and environmental sustainability into its development programme.

8.3 Changes to Building Regulations will see all of the company's sites delivered to improved standards for thermal efficiency, furthermore the site at Churchill Crescent has been identified as to ascertain cost implications of further environmental and biodiversity improvements over and above those required by Building Regulations. Initial testing suggests that if sustainability measures add 10% to development costs the impact on the programme's performance is as follows. The additional debt for the five years covered by the business plan (2023-2027) amounts to £280,300. Peak debt will occur in 2035 at £32.397m (compared with 2034 and £32.136m). Debt is expected to clear in 2063 rather than 2062 and interest payment to the Council would increase to £51.825m from £50.962m

Diversification

8.4 RHLtd’s business plan and development programme are centred around one- and two-bedroom flats at market rents.

8.5 The previous business plan stated that the company would consider including a small amount of family homes into the development programme which has been achieved in the pre application submissions for Churchill Crescent, Fleet Road Scout Hut and Pool Road sites and has the potential to provide nine homes suitable for families (subject to planning approval). In management 154 Ship Lane provides a family home and 57 Cambridge Road (currently on site) will provide an additional family home in 2023/24.

8.6 In the longer term it may be possible to provide discounted rents with cross subsidy from the company's other schemes. The Board will make decisions on schemes of this nature based on its ability to maintain its loan payments to RBC and discussions with RBC on utilisation of additional revenue for this purpose.

Leaseholds

8.7 As proposed in the previous Business Plan the Shareholder Agreement has been amended to allow for the acquisition of leasehold properties, when it is in the company’s interest to utilise this option to achieve its principal purpose of providing homes for market rent.

9.0 Resourcing

9.1 RHLtd’s operating costs, in so far as not being covered by available rental income, are funded by loan finance from Rushmoor Borough Council. Net Expenditure for the current (2022/23) financial year is estimated at £178K (including £61k of interest charges) and it is expected that this level of spend will increase as the programme expands and company activity rises. By 2043/44 the Company should be in a position to operate totally independently from any cash flow loan requirement as it will be in a net profit situation and will commence the repayment of principal on loans.

Staffing

9.2 The staff team comprises:

- Tim Mills, Chief Operating Officer
- Zoe Paine, Business Manager
- Steve Ward, Company Accountant
- Charlie Heavens, Programme Manager

Additional support is provided by:

- Gareth Dearing Interim Development Project Manager
- Simon Ross RBC's Interim Construction Surveyor

9.3 All members of the staff team are employed by Rushmoor Borough Council and are charged out to RHLtd on a cost recovery basis. Considering the responsibilities of the post the Business Support Officer role has been changed to Programme Manager.

9.4 The previous business plan raised the need for additional resources with development expertise to deliver the programme. The position of Development Project Manager is funded directly by the company on an interim basis.

External Advisors

9.5 RHLtd has engaged the following external advisors

- LRG Romans - as managing agent to provide tenant and property management services and advice on the rental market
- Browne Jacobson – as legal advisors
- Ridge and Partners and Rund Partnership - as employer's agents

10.0 Risks and Exit Strategy

10.1 A risk register is included at appendix three.

10.2 The government has recently introduced changes to the Capital Framework for local authorities and amended the regulations in respect of the requirement on local authorities to make Minimum Revenue Provision towards repayments of Principal where they are taking on certain types of investment related borrowing. It is not anticipated that this will affect borrowing to fund a wholly owned housing company but the risk that the Council may need to make this provision, and that this might affect the Council's appetite to fund RHLtd is included in the current version of the risk register.

10.3 RHLtd monitors risks monthly. The following risk indicators are considered:

- Demand for rental units - report from Managing Agent Quarterly
- Rental values and rental inflation over time - report from Managing Agent. Current level of rental inflation is set at 2.5% per annum. On the assumption that costs remained constant rental inflation would need to fall below 1.5% per annum before the programme fell into deficit overall.

- Sale values - report from Managing Agent
- Build Cost inflation over time – as this has been in excess of the 5% parameter the programme has been reviewed twice since the last business plan was published.
- Operating costs - Current level of operational expenditure inflation is set to follow RPI. The current level is modelled at an RPI of 10%. The previous business plan explained that increases in RPI would be met by increases in rental income which has be borne out by the rents received and construction cost modelling.
- Regulatory changes affecting the operation of the rental market.
- Interest rate changes (PWLB rates). The recent increases in borrowing rates will necessitate a review of the market rate that should be charged to RHL. Once this is determined the Business Plan will be reviewed and any amendments necessary agreed with the Council.

10.4 The company will procure asset valuations as required to make sure it has a good understanding of the value of its portfolio.

10.5 If the benchmarks are exceeded and/or the regulatory environment becomes unfavourable or if there are changes in other risk indicators that will have a negative effect on the business plan, the company's financial model will be re-run to quantify the effect.

10.6 If the effect is that the company's ability to generate a profit or repay its debt is impaired, compared with the financial projections contained in its current business plan, the following will be considered

- The possibility of refinancing to reduce interest costs
- A review of operating costs to see if savings can be made
- A review of assets to determine if a sale of a property(ies) will improve performance
- A review of performance of development, management and contractors' performance.
- A review of usage of assets to determine if better value from alternative letting strategies can be achieved

10.7 This quarterly review of risks, any modelling and consequential review of costs and performance will be reported to the Housing Company's Board and if in the view of the Board it is appropriate, the Council as shareholder.

10.8 If appropriate the Council will be asked to approve actions proposed by the company to mitigate the negative effects of movements in the risk indicators.

10.9 If in the view of the Council as shareholder, there is little prospect of the company mitigating the risks so that it returns to operating within reasonable tolerances of the original baseline model and business plan, the Council may consider options to mitigate its risk and ensure it recovers the maximum value to repay its own borrowing. Options that may be considered are:

- Winding up of the company and disposal of property – This option is highly dependent on the capital values of the property in comparison to debt. Over time it is likely that capital values will grow. However, in early stages there is a risk that values may not cover the Council's debt particularly if there is a significant market down-turn
- Winding up of the company and retention of the property by the Council as temporary accommodation – The Council is not able to hold rental property in general but can do so for the purposes of providing temporary accommodation. This depends on the need of the Council for such accommodation and the potential income/cost for this accommodation
- Sale of the company either in whole or to create a joint venture – The value of the company to an existing company in the rental market may represent a better value option particularly in the early stages. The ability of a company already operating in the rental market to share or absorb the overhead costs of management and maintenance may result in a better value proposition. Entering a joint venture may enable the Council to maximise value over the longer term
- Alternative management options – The Council could explore whether alternative approaches to managing the company in a more arms-length arrangement particularly if alternative markets are being considered could deliver better value

10.10 In deciding on what actions to take, the company will need to be fully aware of the value of its assets. There is a risk that the value of schemes in development may not allow full recovery of money spent, therefore, the company is at greatest risk of not being able to raise sufficient funds to pay off its borrowings in the development phase of the programme. In order to secure its position, the Council will need to ensure that appropriate collateral warranties are in place to secure its interests where it may wish to exit or in the event of insolvency.

11.0 Approval of the Business Plan

11.1 Rushmoor Borough Council, as sole Shareholder, exercises its influence and control through the Shareholder Agreement which requires Council consent to a range of company actions; and through its annual consideration and approval of the company's business plan. A limited number of actions are permissible without recourse to the Council to allow ease of operation. The company can enter property transactions and into contracts as set out in the Approved Business Plan.

11.2 The Business Plan approval process requires its preparation and approval by the Board of Directors and presentation to the Council as shareholder, with consideration by the Council's Cabinet and Full Council as necessary.

11.3 The Plan will cover a rolling five-year period and will be updated annually or when the company wishes to pursue opportunities outside of the parameters of the approved business plan.

11.4 Rushmoor Homes Ltd will develop its programme as set out in the approved business plan and develop for each project a business case and project plan which will be prepared and approved by the Board of Directors and the Council as Shareholder.

12.0 Governance

12.1 Governance of the company is detailed in the Articles of Association, however, as a company wholly owned by Rushmoor Borough Council there are specific governance arrangements in place.

- Annually the Board prepares its Business Plan and its budget for the Chief Executive of the Council, as shareholder, to present to the Council's Cabinet.
- RBC's Cabinet agrees any land disposals required by the Business Plan and recommends the Business Plan, the annual budget and investment required to the Council
- The Council approves the annual budget Business Plan and investment in the company.
- The Board prepares a half year report to the Chief Executive, as Shareholder, reviewing progress against the Business Plan. The Shareholder representative determines whether to present these reports to RBC's Licensing, Audit and General Purposes Committee (governance) and/or its Overview and Scrutiny Panel (performance).
- The Shareholder will feedback comments from Cabinet, Council, PPAB, O&S LA&GP to Rushmoor Homes Ltd as necessary.

13.0 The RHLtd Board

13.1 The members of the RHLtd Board are:

- Cllr Paul Taylor
- Cllr Keith Dibble
- Cllr Marina Munro

13.2 The previous business plan stated that at audit of board member skills would be undertaken. This has taken place and highlighted the need for increased development skills and knowledge of residential property development. Training has been provided and the Board have approved the recruitment of a Non-Executive Director with residential development experience.

14.0 Conclusions

14.1 The company has strengthened staff and Board member skills which has allowed the development programme to progress at a good pace, ensuring key programme milestones are met.

14.2 Despite the impact of economic challenges to the construction and housing markets, programme reviews and adjustments mean that the development programme remains viable over the term of the 60-year business model.

14.3 This business plan looks forward to the next five years of operation for RHLtd. During this time the company plans to deliver on its programme of 43 homes on council owned sites and acquire a further 82 homes at Union Yard.

14.4 Effective housing and property management will need to be developed with the company's partner LRG Romans to ensure residents receive the excellent level of service the company aspires to deliver.

14.5 The company's portfolio has started to generate a good level of rental income from the eight properties in management and is on target to have 133 good quality, thermally efficient homes in management and therefore is placed to meet is objective of being a highly regarded landlord in the borough.

Appendix One – Market Profiles

Appendix Two – Programme Summary

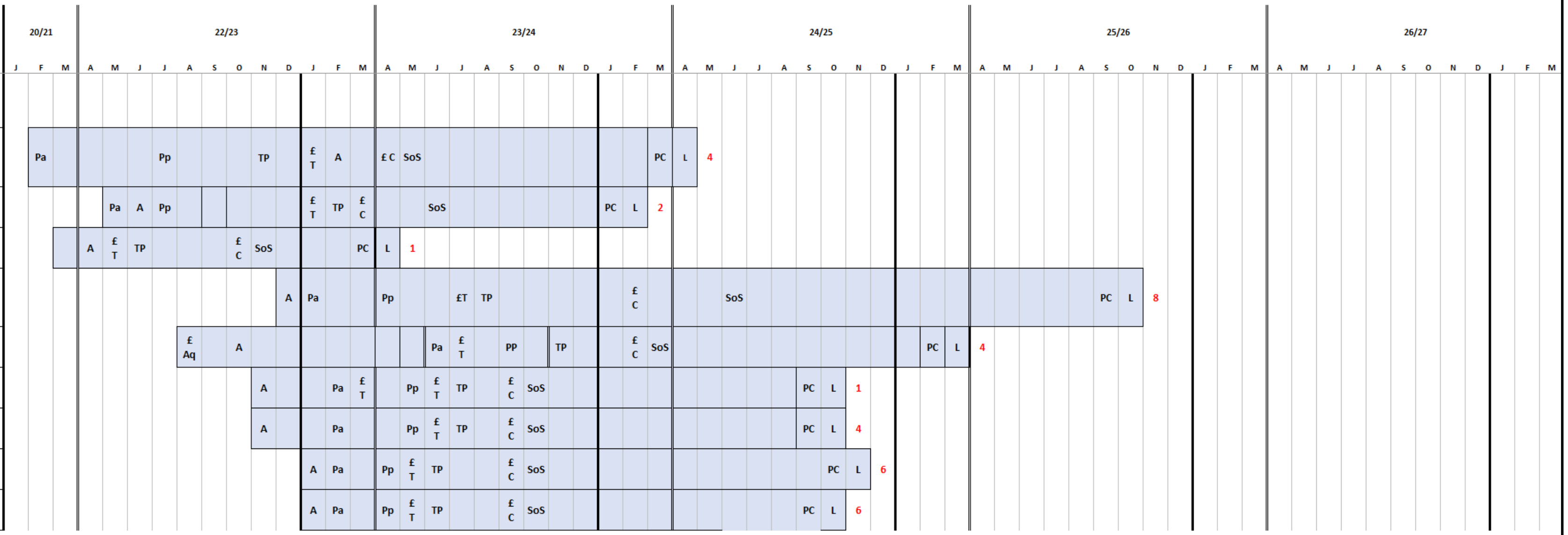
Rushmoor Homes Ltd Delivery Programme Forecast (conservative)

Financial year

Calendar Month

Month from co formation

	Scheme	Units
Site 4	LA 69 Victoria Road & LA 3a Arthur Street 4 x 1 bed flats on LA 69 Victoria Rd with parking on LA 3a Arthur St	4
Site 13	9a Wellington Street, A 2 x 1 bed flats subject to planning	2
Site 17	57 Cambridge Road, A 1 x 4 bed house	1
Site 2	Land at Churchill Crescent, F 14 units, 1 detached house subject to planning 13 for market rent, 2 affordable	8
Site 8	237 & 235 High Street Aldershot 5 x 1 bed maisonettes 1 x 2 bed	4
Site 15	Manor Park Cottage NB, A 4 x 1b maisonettes houses subject to planning	1
Site 6	Fleet Road Scout Hut, F 3x 2b 4p house subject to planning	4
Site 12	Redan Road, A 3x 2b 2 x1b flats subject to planning	6
Site 14	Pool Road Depot, A 3x 2b4p houses subject to planning	6
		136



Pa = Planning Application
Pp = Planning Permission
A= Cabinet/ Board approval
T = transfer
TP - Tender process commences
C = contract let
SoS = start on site
PC = completion
L = letting
£ = potential drawdown
A = Aldershot
F = Farnborough

Appendix 3 – Risk Register

Risk No.	Risk Description	Risk Mitigation Owner	Initial Risk Value			Risk Action	Actions	Residual Value			Date Closed
			Likelihood	Impact	Risk Value			Likelihood	Impact	Risk Value	
1	Increase in Public Works Loan Board interest charges		4	4	16	TREAT (Mitigate to reduce risk, controls)	Reprofile business plan, with senstitivities, to understand interest rate risk impact, keep a live exit strategy, explore other funding sources	4	3	12	
2	Changes in national policies restrict RBC's ability to fund including the need to make Minimum Revenue Provision in relation to its borrowing to fund RHLtd		2	3	6	TREAT (Mitigate to reduce risk, controls)	Reprofile business plan to review impact. Consider alternative funding sources. Consider disposals and exit strategy.	2	2	4	
3	Changes in local priorities restrict RBC's ability to fund including if there was a need to make Minimum Revenue Provision in relation to its borrowing to fund RHLtd		3	4	12	TREAT (Mitigate to reduce risk, controls)	Reprofile business plan to review impact. Consider alternative funding sources. Consider disposals and exit strategy.	3	3	9	
4	Reduced rental values - downturn in market and risk of introduction of rent controls		3	3	9	TREAT (Mitigate to reduce risk, controls)	Consistent monitoring of rental market and business plan to determine if sale of property is appropriate.	2	3	6	
5	Reduced capital growth rate		1	3	3	TERMINATE (eliminate risk)	Have a live exit strategy in place, and review continued investment appetite	1	2	2	
6	Repairs costs rising		3	4	12	TREAT (Mitigate to reduce risk, controls)	A good understanding of the condition of the property in the portfolio and age and replacement date of building elements Keep under review to determine whether sale of property is appropriate. Tender repairs contract regularly.	3	3	9	
7	Increase in construction costs significanlty above assumptions in Businss Plan		3	3	9	TERMINATE (eliminate risk)	Re run business plan to understand impact. Open tendering of construction contracts and consider use of fixed price contracts. Consider disposals and exit strategy, if costs will not be covered by rents	3	2	6	
8	Poor project management leading to cost increases/delays/		2	3	6	TREAT (Mitigate to reduce risk, controls)	Assess need for external project management expertise. Thoroughly risk assess project prior to commencement and during construction period. Be clear about contractural responsibilities and include provision in scheme costs for client variations or do not permit client changes once contract is signed	1	2	2	
9	Business plan not performing as expected		2	3	6	TREAT (Mitigate to reduce risk, controls)	Review underlying assumptions, and assess if relevant in current climate, rerun with sensitivities to provide options , and implement stragetic changes	2	2	4	
10	Changes to taxation, corporation tax, SDLT, VAT		1	3	3	TREAT (Mitigate to reduce risk, controls)	Take advice as to options to change buisness model to mitigate imapct of taxation changes	1	2	2	
11	Expansion opportunities limited		1	3	3	TREAT (Mitigate to reduce risk, controls)	Review underlying assumptions, and assess if relevant in current climate, rerun with sensitivities to provide options , and implement stragetic changes	1	2	2	
12	Limited capacity to deliver programme - skills and expertise		3	3	9	TREAT (Mitigate to reduce risk, controls)	Consider costs of acquiring staff with relevant skills, training options, use of consultants. Re run business plan with these additional costs and adjust business plan outcomes.	2	2	4	
13	Operational risks - bad debts, damage to property, voids		3	3	9	TREAT (Mitigate to reduce risk, controls)	Specify rigorously and employ a suitably qualified managing agent. Careful tenant selection. Tenant support.	2	2	4	