

COUNCIL MEETING – 6TH JULY 2023

AGENDA ITEM 5 (1)

RUSHMOOR HOMES LIMITED BUSINESS PLAN UPDATE 2023-2028

A report from the meeting of the Cabinet held on 18th April 2023.

SUMMARY AND RECOMMENDATIONS:

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

It is RECOMMENDED that the Council approves the Business Plan for the period 2023-2028 as set out in Appendix 1.

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, and which was considered and supported by the Cabinet at its meeting on 18th April.
- 1.4. The capital funding for this Business Plan was agreed as part of the council's budget on the 23rd February 2023.

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 appraised 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 Mar-22	Apr-22 Mar-23	Apr-23 Mar-24	Apr-24 Mar-25	Apr-25 Mar-26	Apr-26 Mar-27
Cash Flow Statement							
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
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. Approving the Business Plan enables Rushmoor Homes Limited to progress the delivery of good quality homes for rent in the borough.