ANNEX 4

COUNCIL MEETING – 20th FEBRUARY 2020

AGENDA ITEM NO. 5 (4)

ESTABLISHING A LOCAL HOUSING COMPANY:- THE HOUSING COMPANY BUSINESS PLAN

A report from the meeting of the Cabinet held on 4th February 2020

SUMMARY AND RECOMMENDATIONS:

This report presents the five-year Business Plan for the Council's Local Housing Company.

The Council is recommended to:

- Approve the draft five-year Business Plan in Appendix One to be submitted to the Chief Executive of the Council as shareholder representative in substantially the same form, once the company has been incorporated, when it will become the Approved Business Plan for the company.
- Agree the sale of 12 Arthur Street and 154 Ship Lane to the Housing Company at market value subject to the relevant valuation.
- Delegate authority to the Chief Executive as shareholder representative to approve any variations in the delivery programme contained in the Business Plan, provided these variations can deliver the outcomes of the Business Plan, and be achieved within the approved budget.
- Appoint Cllr Paul Taylor as the third member of the Shadow Board and to become a Council appointee to the Company Board of Directors on incorporation of the company.
- Agree the procedures set out in paragraph 4.17 of the report for the agreement of subsequent business plans or project business plans,
- Agree the arrangements for performance and governance reporting set out in para 4.18 of the report

1. INTRODUCTION

1.1 In April 2019 the Council approved the creation of a wholly owned company limited by shares, to deliver housing in the Borough. The approval authorised the Chief Executive, in conjunction with the statutory officers, to establish the company and complete the relevant paperwork as required.

1.2 Progress has been made in preparing

- A shareholder agreement
- A funding agreement
- Articles and Memorandum of Association, and
- The company Business Plan

1.3 A shadow board of directors has been formed and has been meeting regularly.

1.4 This report seeks approval of the company's draft five-year Business Plan (attached at Appendix One).

1.5 This is a key decision due to the level of investment required.

2. BACKGROUND

2.1 The decision to form a local housing company was taken to allow the Council to participate in the local housing market and to achieve financial sustainability. A business case, including a financial model, was approved by Council in April 2019.

2.2 Establishing the housing company is a key priority of the Council's Business Plan April 2019 - March 2022, under the theme "Place".

3. DETAILS OF THE PROPOSAL

General

3.1 Following, the Council's decision to establish a housing company, officers and the shadow board have been preparing the company's business plan and the documentation necessary to incorporate the company

Shadow Board of Directors

3.2 In April 2019 Council approved the appointment of a Shadow Board to comprise the Deputy Leader of the Council and two other members. Currently Cllr Ken Muschamp(Deputy Leader of the Council) and Cllr Keith Dibble (Leader of the Labour Group) are serving as Shadow Board members and until his recent resignation Cllr Woolley was the third Director.

3.3 Under previous approvals the Shadow Board members become the Council's appointments to the Board of Directors on incorporation of the Company. A third member will need to be appointed before incorporation.

3.4 The Board is advised by the Head of Economy, Planning and Strategic Housing, supported by other officers of the Council.

3.5 The Shadow Board has met four times to consider the company documentation, company policies and the draft five-year business plan.

Company documentation

3.6 The Council has engaged Freeths to act as the Council's legal advisers for setting up the housing company. They have prepared the documents required to incorporate the housing company.

The Articles of Association

3.7 This document is based on the Model Articles for Private Companies Limited by shares as set out in the Companies (Model Articles) Regulation 2008. It sets out the way in which the company is run, governed and owned, including the number and appointment of Directors, decision making by the Board of Directors, the responsibilities and powers of Directors, the conduct of meetings and the issue, consolidation and transfer of shares.

The Shareholder Agreement

3.8 This agreement covers the relationship between the company and its only shareholder; the Council. It lists operational matters where the company requires consent of the Council. It allows the company to act in accordance with the Business Plan but any significant departures from the Business Plan require Council consent.

Facility Agreement

3.9 The funding to be provided by the Council to the Housing Company will be in the form of loans covered by this facility agreement.

3.10 Drafts of these documents have been prepared and have been considered and approved by the Shadow Board at their meeting of 24 July 2019. They will be submitted to the Chief Executive as shareholder representative for approval under delegations granted by Council on 11 April 2019.

4. THE FIVE-YEAR BUSINESS PLAN

4.1 A five-year Business Plan has been prepared to cover Company activity for the first years of its operation. It includes a programme to create a property portfolio of 57 units, based on taking a transfer of Council owned properties or sites.

The Sites

4.2 The sites to be used to create the Company's property portfolio are listed in Table 1 below. This list is not fixed. As further work is done on site capacity and planning issues, sites may be removed and others may be added as opportunities arise.

4.3 To deliver its programme, the company will need to take ownership of Council owned properties and sites. This will take place in phases. The Council will be responsible for determining site capacity and will develop proposals to a point where planning permission can be applied for. An option appraisal will be completed for each site. Where the best option, against financial, social or environmental criteria, is for the Council to sell to the Company, the Council will enter into discussions with the Company to achieve a disposal at the appropriate open market value

4.4 A price will be agreed at which the land/property will be transferred. The Company will need to satisfy itself that the price agreed is no more than the appropriate open market value for its purpose; does not compromise the viability of its programme to deliver homes for private market rent; and allows it to meet its performance measures as set out in its business plan.

4.5 It is proposed that approval is sought to agree the transfer of 12 Arthur Street and 154 Ship Lane. It is proposed that Cabinet grants authority to sell at the open market value subject to the relevant valuation.

Table 1: The sites

Site	Potential no. units	Estimated completion
12 Arthur Street (A)	3	2020/21
Ship Lane Cemetery Lodge (F)	1	2020/21
Land adj. 3A Arthur Street (F)	4	2020/21
Land adj. 69 Victoria Road (F)	2	2020/21
Land at Churchill Crescent (F)	8	2021/22
237 High Street, (A)	6	2021/22
Redan Road Depot (A)	6	2021/22
Pool Road Depot (A)	6	2021/22
Manor Park Cottage New Build (A)	1	2022/23

Land adj Fleet Road Scout Hut (F)	6	2022/23
Union Street East Car park (F)	8	2022/23
11 Wellington Street (A)	2	2022/23
Land at Water Lane (F)	2	2023/24
Manor Park Cottage (A)	1	2023/24
Manor Park Lodge (A)	1	2023/24

Programme

4.6 The first eight sites in the programme are allocated for transfer/development between 2020/21 - 21/22. The eight sites are divided into four tranches of activity

Tranche One

- 12 Arthur Street, Aldershot – transfer of an existing property
- 154 Ship Lane, Farnborough – transfer of an existing property

Tranche Two

- Land adjacent 3a Arthur Street, Aldershot – development site
- Land adjacent 69 Victoria Road, Aldershot – development site

Tranche Three

- Land at Churchill Crescent – development site
- 237 High Street – development site

Tranche Four (Scheme development yet to start)

- Redan Rd
- Pool Rd

Financial modelling

4.7 Financial modelling for the development sites in the first three tranches has used cost and valuation figures derived from architects, valuers and from comparable sites. The remainder of the programme was modelled using generic assumptions. As the programme progresses more accurate costs will feed into the model.

4.8 The modelling produces financial information on company expenditure to create its portfolio of assets and the resulting requirement for funding from the Council.

4.9 Over the first five years of operation it is anticipated that the Company will need to borrow approximately £11,289,900. The current proposed profile of borrowing is set out below.

Table 2

	Q4 2019/20 £'000	**2020/21 Yr 1 £'000**	**2021/22 Yr 2 £'000**	**2022/23 Yr 3 £'000**	**2023/24 Yr 4 £'000**	**2024/25 Yr 5 £'000**
Finance required for period	0.	3,194.5	5,522.8	1768.6	703.7	100.3
Cumulative finance required	0	3,194.5	8,717.3	10,485.9	11,189.6	11,289.9

4.10 Income in the form of net rent from the properties created, will be used to repay loans from the Council. The model demonstrates that by year 15, debt will peak at £11,770,300 then start to decline as rental income will be sufficient to start paying down loans. By year 44, the loans will be discharged.

4.11 Further opportunities to grow the portfolio are not factored into the model, however, additional units could be added by acquisition of properties or sites from the market. This would increase the loan requirement but could generate additional income and further opportunity for capital growth.

4.12 The model currently shows a consistent rate of return to the Council (as 100% shareholder and lender) of 2.5%. This is achieved without factoring in any capital growth and assuming rent and cost inflation for the first three years are 1.3% and 2.2% respectively and 2.5% thereafter.

Funding

4.13 The Company is wholly reliant on the Council for funding. This will take the form of loans to buy property from the Council and to fund development costs. Current financial modelling based on 15 sites and 57 dwelling units indicates an eventual peak requirement of £11,770,300 on which the Council will charge an interest rate of 5.5%.

4.14 To finance these loans, the Council will borrow as part of its overall Treasury Management Strategy. The current financial model has been prepared on the basis that long-term funding can be obtained at 3.0%. The Council approved its annual Treasury Management Strategy & Annual Capital Strategy for 2019/20 on 21 February 2019 and the potential borrowing and capital expenditure requirements in relation to the Company were included within these strategies. Future financial years' compilation of both the annual Treasury Management & Annual Capital Strategies will include amounts to ensure the Council's capital expenditure and borrowing commitments to the Company.

4.15 The margin between the rates specified at 4.13 & 4.14 will provide the Council with an average net income of £283,000 each financial year (measured over the first 10-year operation of the company). This net income amount will be achieved once the Company has developed its initial target unit volume of 57 dwellings (currently planned to be achieved in the 4th year of Company operations).

4.16 The total returns to the Council are shown in Table 3, attached at Appendix Two.

Approval of the Business Plan

4.17 The Business Plan covers a rolling five-year period and will be updated annually or in circumstances where the Company wishes to pursue opportunities outside the parameters of the Approved Business Plan. Provided the overall funding requirement is not to be exceeded and the number of units to be produced is no lower than set out in the Approved Business Plan, the Company can amend the way the programme is to be delivered by seeking shareholder consent which will be referred to the Council's Cabinet.

Governance

4.17 Governance arrangements for the Company are set out in the Articles of Association, however, because it is a Company wholly owned by the Council, there are additional governance arrangements. These are set out in section 16 of the Business Plan and cover Company reporting to the Chief Executive as shareholder representative and reporting by the Shareholder representative to Council; Cabinet; Licencing, Audit and General Purposes Committee; Overview and Scrutiny Panel and Policy and Projects Advisory Board, as appropriate. A summary of these arrangements is set out in the diagram below.

Annual Cycle of Rushmoor Homes/Council Governance

Rushmoor Homes Limited
Prepare Business Plan and Budget

↓

Chief Executive as Shareholder representative receives Annual Budget and Business Plan and presents to Cabinet and responds to Rushmoor Homes Limited (if necessary)

↓

Cabinet approves any required land disposals and recommends the Annual Budget and Business Plan and Investment requirement to Council for approval

↓

Council
Approves Annual Budget and Business Plan and Investment in the company

↓

Chief Executive as Shareholder representative receives report on half year review against Business Plan from Rushmoor Homes Limited and reports it to LAGP (governance) Overview and Scrutiny (Performance) and responds to Rushmoor Homes Limited (if necessary)

↓

Chief Executive as Shareholder representative receives report – Full year review against Business Plan from Rushmoor Homes Limited and consults with Overview and Scrutiny/LAGP

Operational Matters

4.19 The Company will use Rushmoor Borough Council staff to conduct its business, aided by specialist consultants where necessary. A set of policies to cover rents, rent arrears, lettings and repairs and maintenance have been considered by the Shadow Board. The Company will procure experienced managing agents to provide tenancy and property management services.

5. EXTERNAL SCRUTINY

5.1 The Council's Treasury Management consultants, Arlingclose, have had an opportunity to review the Business Plan. A summary of their comments and adjustments made to the financial model and Company Business Plan in response, is contained in Appendix Three. The changes are modest. As a consequence the company will need to borrow £85,800 less from the Council. This is of benefit to the Company but will marginally reduce the amount received by the Council in interest charges.

6. IMPLICATIONS

Risks

6.1 A risk register is attached at Appendix Four. The risks relate to reductions in income from the Company's portfolio and increases in its costs. These events could increase Company indebtedness such that it can no longer be considered a going concern. In these circumstances the Council would not receive repayment of its loans and interest. Once a portfolio has been created these risks can be mitigated by an exit strategy relying on disposal of units. This risk is higher in the first five years of trading and at times where the Company's asset base is below or close to its debt liabilities.

Legal Implications

6.2 The Company will be a separate but wholly owned legal entity. Legal advice has been sought on the appropriate structure and documentation required. Proper governance arrangements are proposed to manage performance and to provide scrutiny.

Financial and Resource Implications

6.3 The creation of the Company requires a significant investment on the part of the Council, however, it represents an opportunity to participate in the housing market and to make a return on the capital invested.

6.4 The table in Appendix Two shows the net yield to the Council in relation to interest income and costs on borrowing, and the net yield arising from use of Council staff and start up costs. Overall the table shows the Council will benefit from an annual income of £293k by year five of operation, based on the current portfolio of properties.

6.4 The current level of development activity proposed can be supported by existing Council staff with assistance from specialist consultants. Any greater volume of work or shorter timescales would require further resources.

Equalities Impact Implications

6.5 There are no equalities issues arising from this report.

Other

6.6 The Council will continue to meet the holding costs for properties in the list at paragraph 4.6 of this report until such time as the properties are transferred to the Housing Company.

7. CONCLUSIONS

7.1 A wholly owned Company will give the Council freedom to participate in the housing market, to meet housing needs and to achieve greater financial sustainability. Following a Council decision to set up a company, a five-year business plan has been prepared with the housing company shadow board for the Council's consideration. This represents an important stage in meeting one of the Council's key objectives and provides a firm basis from which to grow a housing business.

BACKGROUND DOCUMENTS:

Council report 11 April 2019 Proposal for the establishment of a Council owned Housing Company.

COUNCILLOR MARTIN TENNANT
MAJOR PROJECTS AND PROPERTY
PORTFOLIO HOLDER

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Appendix 1: "Rushmoor Homes Ltd" Business Plan April 2020 to March 2025
Appendix 2: Table: Net income received by the Council
Appendix 3 Table of comments from Arlingclose review of Business Plan and responses and amendments to Business Plan
Appendix 3: Risk Register

APPENDIX 1

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Draft Local housing Company Business Plan

Executive Summary

This is the first business plan of the newly formed Rushmoor Homes Limited.

The company is a wholly owned company limited by shares. Rushmoor Borough Council is the sole shareholder and owns 100% of the company.

The company has been set up by Rushmoor Borough Council to meet a number of objectives. The principal aim is to increase housing supply by providing good quality private rented homes in the borough as well as operating in a commercial manner that will yield returns to the Council.

The company aims to achieve a portfolio of approximately 50 – 60 homes over the first five years of operation. It will use properties and sites that are currently in the ownership of Rushmoor Borough Council but will consider opportunities to acquire land or properties to expand its holdings.

The plan provides an indicative programme that shows a graduated start to its developing its portfolio: delivering four units in the first year and six units in the second year; gaining momentum by year three and four when 26 units and 18 are expected; followed by 1 unit in year five.

To deliver this programme the company will secure finance from the Council to fund development and operating costs. The debt incurred will accumulate to a total of £11,770,700 in year 15 after which it will decline and be paid off by year 44. The programme as currently modelled does not include planned sale of properties.

The company expects to achieve net rents of £560,000pa by year five. These will be used to cover operating costs, finance costs and tax.

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The company is operating in an area of high housing demand. Local rentals have not significantly increased in recent months. Although past trends cannot predict future performance, they indicate strong growth has occurred over the long term. The recent RICS Residential Market Survey predicts rental growth of 2% over the next twelve months and increasing to 3% by the 5 Year time horizon. Employment levels remain strong so that housing demand can be translated into transactions. In this market the company aims to provide homes for working households with an income of between £30,000 and £60,000. The expected programme is comprised primarily of one and two bedroom homes.

This business plan provides detail on the first four properties/sites to be acquired/developed by the company. The property transfers and the funding that is required by Rushmoor Homes for its first year of trading is set out in the plan for approval by its Shareholder.

Rushmoor Homes Ltd is funded 100% by Rushmoor Borough Council. To determine the level of funding it requires and to continually monitor the viability of its business plan the company uses a financial model that was developed with the Council. This is used to evaluate individual development schemes as well as the complete programme.

In its first year the company will contract to use Council staff to carry out the day to day functions of the business, with consultants employed where additional expertise is needed. Monitoring of performance will be carried out by the Council, as shareholder, through governance procedures established by the Council.

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1.0 Introduction

This business plan sets out the aims of Rushmoor Homes Limited for the first five years of its operation. The plan takes account of the housing market context within which the company will work and the risks that may arise from operating in this environment. Rushmoor Borough Council, as the company's sole shareholder, has provided the company with a set of objectives and targets which will be monitored by the Council as shareholder and through agreed governance arrangements. A prospective development programme is set out based on a limited portfolio of properties and sites currently in the ownership of Rushmoor Borough Council, to be delivered through the company's proposed work plan.

Underpinning the company's activity is the ability to draw finance from the Council and the plan identifies the resources required to deliver the target number of new homes over a five year timescale.

2.0 Background

Rushmoor Homes Ltd was set up following a business case prepared by Rushmoor Borough Council for the establishment of a housing delivery vehicle to allow the Council to participate directly in the housing market. It is a wholly owned company limited by shares. The company is run by a Board of Directors appointed by its shareholder.

3.0 Company purpose

The purpose of the housing company, as defined by Rushmoor Borough Council, is to participate directly in the housing market by providing quality homes for rent. It will take a transfer of the Council's existing residential properties and create a residential private market rent property portfolio. It will seek to help the Council with its need for affordable and temporary accommodation provided this can be done without significantly compromising its financial viability and where a company is the best means of achieving the required outcomes;

As the sole shareholder, Rushmoor Borough Council has influence over outputs e.g. type of housing, rents, returns to the Council which it will exercise through the approval process for this Business Plan.

4.0 Company Values

The way in which the company operates is an important part of the business plan. The company strives to become the best landlord in the borough and seeks to become:

- A trusted partner of its shareholder: Rushmoor Borough Council

- A trusted private sector landlord providing quality homes and services

- A business that operates with integrity and treats tenants, contractors and partners with respect.

- A learning organisation that acknowledges and learns from mistakes, and recognises good work.

5.0 Company Objectives

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;
- to 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);
- to remain financially viable and commercially sustainable;
- to assist the Council in meeting requirements for affordable housing and temporary accommodation where a company is the best means of achieving the required outcomes;
- to provide an efficient landlord service including housing management and maintenance;
- to 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.

Potential Customers

The company will focus on providing good quality, well maintained homes. It will initially offer homes to small, working households whose incomes will be broadly in the range of £30,000 -£60,000pa. The properties will be let on 6 month assured shorthold tenancies. These will continue as periodic tenancies provided tenants pay their rent and abide by other terms of their tenancy. The company will take a commercial approach to letting its homes, making sure tenants have the ability to pay their rent.

The company's aspiration is to be commercially successful so that in time, provided its financial viability is not significantly compromised, the company could consider introducing an element of affordable/discounted housing to meet the needs of those on lower incomes.

Modelling of scenarios with varying amounts and types of housing at a discounted rent (affordable) indicate that this is unlikely to be possible without some form of subsidy in the short/medium term. The Company will need to substantially out perform its business plan to build a surplus if it is to provide affordable housing without subsidy.

6.0 Targets

The company's targets are as follows:

- To deliver 57 homes for private market rent by 2023/24
- To put in place a pipeline of future properties to take forward a programme beyond 2023/24.
- To provide homes for rent where the asset value is greater than total scheme costs and shows a return on investment of 2% (excluding capital growth in portfolio assets).
- Repay initial loans by year 44
- Provide the Council with £283,000 net income on average over the first 10 years.

An internal rate of return that takes account of growth in property values has not been calculated because of the difficulty in predicting house prices over a 40 year period. However, for each project, monitoring will be carried out to determine when sale of a property could increase the overall rate of return.

7.0 Returns to Shareholder

As well as helping to meet housing need the company seeks to provide a commercial return to its shareholder. To achieve this and ensure sustainability the company will:

- Pay a margin on loans from RBC
- Use income to pay down debt within 44 years
- Monitor performance of assets to provide advice on whether disposals could be considered if cash is required by RBC
- Maximise income, and efficiency of property management services.
- Pay the Council commercial rates for Council staff working on company business.
- To discharge debt before paying dividends.

8.0 The Programme

In the first five years [Rushmoor Homes] will seek to create a property portfolio as shown in table 3. This is based on property currently in the ownership of the Council.

Table 3: Property Portfolio

	Q4 2019/20	Full Yr 2020/21	Full Yr 2021/22	Full Yr 2022/23	Full Yr 2023/24	Full Yr 2024/25
Number of Properties transferred	0	4	0	0	2	0
Number of Properties developed and completed	0	6	26	18	1	0

Number of properties acquired	TBC	TBC	TBC	TBC	TBC	TBC
Cumulative number of properties	0	10	36	54	57	57

This programme is based on taking a transfer of Council owned properties/sites. In a competitive market this will be the easiest way to generate units in the short term. Additional units could be added by acquisition of individual units from the market or by taking development opportunities if they arise. It is likely any such acquisitions will require purchase at discount to the market sale values

The programme will be financed by Rushmoor Borough Council in the form of loan notes charged at 5.5% pa.This is a commercial rate for lending to a newly formed wholly owned company.

A more detailed programme of work for the first five years of operation is set out in appendix 1. The business plan will be reviewed annually and will take account of any changes arising from sites falling out of the programme or new sites being added.

9.0 Company Financial Profile

The following tables set out the key income and expenditure for the company together with its requirement for capital. The costs included in the business plan are based on current estimated costs for the two existing properties being transferred and estimates for two initial development schemes which have been designed but are subject to planning permission. These properties are:

- 12 Arthur Street, Aldershot – transfer only
- Ship Lane Cemetery Lodge, Farnborough – transfer only
- Land adjacent 3a Arthur Street, Aldershot - development
- Land adjacent 69 Victoria Road, Aldershot – development

Further detail on these sites is contained in appendix two. As proposals for these four sites are developed, current appraisals will need to be revised to take account of more accurate information as it becomes available.

The second phase of the programme includes a site at Churchill Crescent which presents an opportunity to achieve approximately 8-12 units. Again current appraisals will need to be revised as the scheme is finalized.

Costs all other schemes in the programme use the assumptions developed for the financial model. As the initial schemes move through the development process costs will be tested and confirmed and future schemes will start to be developed in detail. Cost inflation is included in the model at 2.2% for the first three years of operation and 2.5% from year four.

The financial model will continue to be updated with this information to ensure that individual projects and the programme remain viable. This information will inform subsequent updates to the Business Plan.

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Table 4 : Company Assets and Expenditure on Assets

	Q4 2019	Full Yr 2020/21 Yr 1	Full Yr 2021/22 Yr 2	Full Yr 2022/23 Yr 3 £000	Full Yr 2023/24 Yr 4	Full Yr 2024/25 Yr 5	Full Yr 2034/35 Yr 15	Full Yr 2044/45 Yr 25	Full Yr 2063/64 Yr 44
Asset expenditure in period									
Land transferred from RBC for shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capitalised expenditure on assets	0.0	2,094.4	4,794.7	1,527.4	118.5	0.0	0.0	0.0	0.0
Land transferred from RBC for loan note	0.0	976.5	540.1	80.0	475.0	0.0	0.0	0.0	0.0
Total - Asset expenditure in period	**0.0**	**3,070.9**	**5,334.8**	**1,607.4**	**593.5**	**0.0**	**0.0**	**0.0**	**0.0**
Assets cumulative									
Land transferred from RBC for shares	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capitalised expenditure on assets	0.0	2,094.4	6,889.1	8,416.5	8,535.0	8,535.0	8,535.0	8,535.0	8,535.0
Land transferred from RBC for loan note	0.0	976.5	1,516.6	1,596.6	2,071.6	2,071.6	2,071.6	2,071.6	2,071.6
Total - Assets cumulative	**0.0**	**3,070.9**	**8,405.7**	**10,013.1**	**10,606.6**	**10,606.6**	**10,606.6**	**10,606.6**	**10,606.6**

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Table 5: Company Balance Sheet

	Q4 2019	Full Yr 2020/21 Yr 1	Full Yr 2021/22 Yr 2	Full Yr 2022/23 Yr 3 £000	Full Yr 2023/24 Yr 4	Full Yr 2024/25 Yr 5	Full Yr 2034/35 Yr 15	Full Yr 2044/45 Yr 25	Full Yr 2063/64 Yr 44
Assets									
Assets (Cumulative)	0.0	3,070.9	8,405.6	10,012.9	10,606.4	10,606.3	10,606.3	10,606.6	10,606.7
Assets cash (Cumulative)	-	-	-	-	-	-	-	-	565.0
Net all assets (Cumulative)	0.0	3,070.9	8,405.6	10,012.9	10,606.4	10,606.3	10,606.3	10,606.6	11,171.7
Financing									
Accumulated (Profit)/Loss	0.0	123.7	311.8	473.1	583.3	683.7	1,164.1	(46.9)	(11,171.6)
Financing - Loans	0.0	(3,194.5)	(8,717.3)	(10,485.9)	(11,189.6)	(11,289.9)	(11,770.3)	(10,559.6)	0.0
Financing - Equity	0.0	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)
Total finance	0.0	(3,070.9)	(8,405.6)	(10,012.9)	(10,606.4)	(10,606.3)	(10,606.3)	(10,606.6)	(11,171.7)

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Table 6 A Company Profit and Loss : Income

	Q4 2019	Full Yr 2020/21 Yr 1	Full Yr 2021/22 Yr 2	Full Yr 2022/23 Yr 3 £	Full Yr 2023/24 Yr 4	Full Yr 2024/25 Yr 5	Full Yr 2034/35 Yr 15	Full Yr 2044/45 Yr 25	Full Yr 2063/64 Yr 44
RENT INCOME (gross)	0	(44,400)	(197,500)	(528,800)	(666,800)	(705,700)	(903,400)	(1,156,400)	(1,848,700)
Voids and bad debts 4%	0	1,800	7,900	21,200	26,800	28,400	36,300	46,500	74,300
Management fee 10% gross rent (incl.marketing and letting)	0	4,400	19,800	53,100	67,000	70,900	90,700	116,100	185,700
Inventory costs	0	200	900	2,300	2,800	3,000	3,800	4,900	7,800
Insurance	0	600	2,600	6,900	8,500	9,000	11,500	14,700	23,600
Gas safety	0	200	1,000	2,700	3,400	3,600	4,600	5,900	9,400
Routine maintenance	0	1,500	6,900	18,300	22,800	24,000	30,700	39,300	62,900
Service charge	0	600	3,200	8,900	11,000	11,400	14,600	18,600	29,800
Major repair provision	0	0	0	0	0	0	12,000	15,400	24,600
Total deductions	0	**9,300**	**42,300**	**113,400**	**142,300**	**150,300**	**204,200**	**261,400**	**418,100**
NET RENT	0	**(35,100)**	**(155,200)**	**(415,400)**	**(524,500)**	**(555,400)**	**(699,200)**	**(895,000)**	**(1,430,600)**

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Table 6B Company Profit and Loss: Operating Costs

		Yr 1	Yr2	Yr 3	Yr 4	Yr 5	Yr 15	Yr 25	Yr 44
OPERATING COSTS									
Contract payments to RBC (*) for:	0	95,000	35,900	36,800	37,700	38,600	49,500	63,400	101,300
Property management									
Acquisition and Development	If necessary external company/consultant costs may need to be added here								
Financial advice									
Accountancy									
Legal									
Office accommodation									
Telephony and IT									
Banking costs									
Printing and Stationery									
Travelling and Entertainment									
Training									
Consultants fees									
TOTAL OPERATING COSTS	0	95,000	35,900	36,800	37,700	38,600	49,500	63,400	101,300

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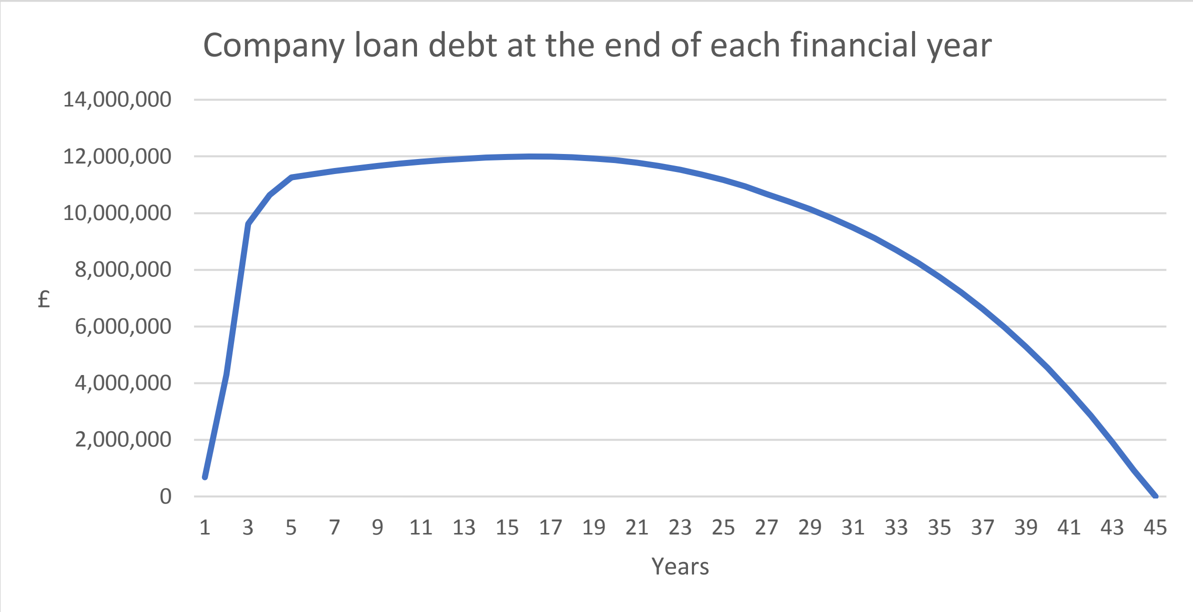
Table 6C Company Profit and Loss: Finance, Taxation and Net Profit and Loss

FINANCING AND TAXATION									
Interest payments	0	63,800	307,400	539,900	597,000	617,200	646,500	586,800	7,400
Corporation Tax	0	0	0	0	0	0	0	4,700	250,100
TOTAL FINANCE & TAX COSTS	0	63,800	307,400	539,900	597,000	617,200	646,500	591,500	257,500
*** Includes £60,000 set up costs in first full year**									
NET PROFIT(-)/LOSS	0	123,700	188,100	161,300	110,200	100,400	(3,200)	(240,100)	(1,071,800)

10.0 Loan Debt

To bring forward the programme as set out in section 8.0 the total loan debt incurred over the first five years of operation is £11,375,600. This will increase to a peak of £11,996,700 by year 15 before beginning, gradually to decline.



11.0 Development Programme Tasks

For the existing properties that are to transfer to the Housing Company the following tasks need to be completed

- Transfer of site / property with associated valuation and legal work
- Taking properties into management

For each of the development sites listed the following tasks need to be completed

- Transfer of site / property with associated valuation and legal work
- Novation of any contracts currently in place with the Council
- Planning application to be handled by consultant architects
- Planning consent achieved
- Building regulations consent
- Preparation or employers requirements
- Tender
- Tender evaluation
- Pre contract work
- Contracts signed
- Contract lead in
- Start on site
- Project monitoring
- Completion
- Handover
- Letting

In addition the company will need at the appropriate times to:

- Explore options for acquiring properties on the open market, offering a solution to empty property owners and acquiring development opportunities
- Explore options for providing housing at a discounted rent and the opportunities to obtain subsidy to enable this to occur
- The level of activity shown above can be delivered using existing RBC staff contracted to the company with support from consultants. A more aspirational level of activity would need additional staff resources.

In the period following set up the company will need to establish its policies on issues such as rents, tenancies and repairs and maintenance, along with its brief for developments.

Once into its third year of operation it will be in a position to investigate and take up additional development opportunities and to consider whether it can provide a limited number of affordable homes in future years.

12.0 Operational Management

Rushmoor Homes has contracts with Rushmoor Borough Council for staff that are carrying out the following functions

- Administration and support of the Company and its Board
- Purchase of sites and properties
- Coordinating planning applications
- Commissioning architects
- Commissioning and overseeing managing agents
- Assessing Company funding requirements
- Entering into Loan documents
- Administering invoicing and payments
- Preparing Annual accounts
- Preparing VAT
- Tax accounting

These staff are charged to Rushmoor Homes on a cost recovery basis.

To assist with the management of the tendering and construction phase of the development programme it is possible that the company will procure development management services from another Council owned housing company, registered provider or other commercial partner.

Property management

In order to provide good quality property management the Company will procure experienced managing agents using a specification that reflects the property management policies of the company.

In time and when there is sufficient scale the company will give consideration to whether these services or elements of these services can be taken in house.

13.0 Operating Context and the Housing Market

Initially the company's activity will be focused in the borough of Rushmoor. In time its property portfolio may expand into the local housing market area and beyond.

Based on market information set out in this section the company will be operating in a market where there is continuing demand for privately rented homes. There may be competition at the top end of the market with the new homes being marketed by Grainger plc, however, if the company pitches its target tenants correctly and provides a professional landlord service it is likely to secure tenants and minimise voids.

Growth in capital values has slowed recently but over the long term (based on past trends) the company can expect to see gains in the capital value of its portfolio.

Performance of the local housing market

Rushmoor is an area experiencing high housing demand which is not met in full by housing supply. As a consequence prices have risen substantially. For the principal post code areas in the borough, Zoopla (May 2019) reports a 20% increase in prices over the last five years. The last 12 months, however, have shown an increase in prices of under 1%. The growth in prices for flats has been lower than for "all property types". There is a continuing issue with affordability and access to home ownership with a median house price to median income ratio of 9.16[1]. The general trend indicates a level of house price growth that has the potential to capital returns on investment above those represented by rental return only.

Following the national trend, the number of households in privately rented accommodation has increased significantly[2]. Census data on tenure by local authority area showed an increase in households renting from private sector landlords from 6.6% in 2001 to 17.6% in 2011. It is expected that difficulties in saving for a deposit, which remains a particular challenge in the South East, strict mortgage lending criteria and high prices means many households will have to rent privately to meet their housing needs.

As well as those who use the private rented sector because of difficulties in accessing home ownership there are others who choose this tenure for its flexibility and others who are supported in the sector through the welfare system.

In general terms private renters tend to be younger (56% under 44). Single person households and couples with no dependent children account for 48% of households in this sector and 63% of households are in full time employment.[3]

[1] (Source: Office for National Statistics, house price to residence based earnings ratio April 2019)

[2] The English Housing Survey: Private Rented Sector, 2016-17 reported that the proportion of private rented sector households has doubled since 1996-97 and the overall size of the private rented sector has increased over this time from 2.1 million households in 1996-97 to 4.7 million households in 2016-17. Growth was particularly strong after 2006-07 but appears to have slowed in more recent years.

[3] (Source: Ministry of Housing Communities and Local Government Statistical data sets Table F3101)

Table 1: Rents (£) per calendar month

Rushmoor	Room	1 bed	2 bed	3 bed	4 bed+
Median private rent	461	744	941	1,162	1,498

Source: Private Rental Market Statistics, Valuation Office Agency April 2018 – March 2019

Table 2: Current Asking Rents Zoopla Sept 2019

Post code	**Property Type**	
	1 bed flat	**2 bed flat**
GU11	£733 pcm (11)[4]	£959 pcm (17)
GU12	£696 pcm (8)	£870 pcm (13)
GU14	£807 pcm (39)	£1,123 pcm (21)

Employment and Incomes

In March 2019 1.2% of Rushmoor's working age population (16 -64) were claiming out-of-work benefits principally, for the reason of being unemployed. This indicates high levels of employment in the borough

Median annual incomes are £32,209 (£2,684 pcm)and lower quartile incomes £23,383 (£1,948 pcm). At this level of income a number of rents in table 2 would represent more than 30% of gross income for a single earner household, therefore, the company's rental offer will need to be targeted at those earning above median incomes or households with two incomes.

Annual income growth in the UK as at March 2019 was 3.2% (year on year 3 months average)

Buy to let

The private rented sector in Rushmoor is dominated by landlords owning a small number of properties. Many of these landlords will have acquired their properties under buy to let mortgages.

Tax changes which increased stamp duty on buy to lets; the phasing out of higher rate tax relief and strict mortgage lending criteria may have the effect of reducing the number of Buy to Let landlords.

Private sector investment in private rent

This sector is relatively new to Rushmoor. As part of the Wellesley development a number of private rent units are being developed. The first of these are currently being let.
Developed by Grainger plc, they are flats aimed at professional people. Asking rents are over £900 per month. Build to rent is helpful on larger development sites generating income without competing with sales, therefore, Grainger may continue to include this form of tenure in the private sector element of the 4850 new homes to be delivered at Wellesley.

[4] Brackets indicate sample size

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The future

Past trends would indicate good levels of rental and house price growth. In the short term this may be compromised by the effects of Brexit, particularly a no deal Brexit. However, the need for housing persists, whether this translates into housing demand will be determined by whether income are sufficient to meet deposit requirements and borrowing costs, particularly if mortgage interest rates rise.

The Nationwide House Price Index July 2019 showed annual house price growth remained below 1% with a modest month on month rise in house prices of 0.3% after seasonal adjustments. Their survey data suggests consumer confidence remains subdued. Price growth and market transactions are likely to remain at current levels supported by rising employment, earnings growth and low borrowing costs.

Saville's UK Housing Market Update September 2019 reported that house prices remained flat with annual growth a 6%. Transaction levels have reduced and are unlikely to change due to the current economic and political uncertainty.

Local asking rents collected from Rightmove also show limited growth over the 9 months from February 2019 to November 2019. For this reason modelling has used rental inflation rates of 1.3% for the first three years of the programme, rising to 2.5% in year four.

Mortgage rates are rising and further rises will limit the capacity for further house price growth.

These measures of the housing market will continue to be monitored regularly.

14.0 Risk and Exit Strategy

Funding costs – in its early life the company will be dependent on Rushmoor Borough Council finance. The terms on which this is available may change depending upon circumstances prevailing at the time.

Funding availability – Changes in national or local priorities and policies may restrict RBC's ability to provide funding.

Rental income – the Company relies on rental income to fund its operations and to make a return. Rental income could be at risk if there is a downturn in demand fuelled by decreasing incomes or rental inflation falls below cost inflation. Rents could be affected by national policy changes, for example rent controls.

Capital growth – while house price inflation has not been factored into the financial model, the Company could sell its assets (with the approval of RBC) at which point any capital growth will be realisable. Because of the cyclical nature of the housing market there will be times when house price inflation slows, if this occurs it could affect the return that is achievable.

Increased Costs – the company is at risk of rising costs across a range of its functions including repairs costs, construction cost, poor project management

Expansion – although an indicative initial portfolio of properties has been identified opportunities to expand may be limited in a highly competitive housing and land market. In addition as more detailed site investigation and appraisals are carried out some sites in the indicative programme may not proceed. In the event that expansion is possible the company will need to monitor the effect that its activities are having on the local market.

Capacity – In order to build out the programme more quickly than currently scheduled or to increase the programme, the number of staff, their skills and expertise, would need to be increased.

Operational risks – these centre around tenancy management and the risk of bad debts, damage to property and voids all of which can affect net rental income. For this reason ensuring the quality of managing agent and careful selection and support for tenants is important.

National policy – There is some uncertainty about the role of local authority controlled companies with little clarity on policy from government. There is a risk that government may not sanction continued use of companies to provide housing although there has not been any further guidance following the Social Housing Green Paper "published in August 2018.

A risk register is attached at appendix three.

Exit Strategy

The company will monitor quarterly risks against a number of thresholds and in particular will check the following risk indicators

- Demand for rental units
- Rental values and rental inflation over time
- Sale values
- Cost inflation over time
- Regulatory changes affecting the operation of the rental market

If these are exceeded the company will consider implementing a exit strategy as outlined below :

The company will procure asset valuations as required.

If there are changes in the 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.

If the effect is that the company's ability to generate a profit or repay its debt is impaired compared with the baseline model, 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 isage of assets to determine if better value from alternative letting strategies can be achieved

This quarterly review of risks, any modelling and consequential review of costs and performance will be reported to the Housing Companies Board and if in the view of the Board appropriate the Council as shareholder.

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

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 into 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

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.

15.0 Development and Approval of the Business Plan

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 into property transactions and into contracts as set out in the Approved Business Plan.

The Business plan approval process will require 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.

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

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.

16.0 Governance

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

- Annually the Board prepares its Business Plan and its budget for the Chief Executive of Rushmoor Borough Council, as shareholder, to present to RBC'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 presents these reports to RBC's Licensing, Audit and General Purposes Committee (governance) and its Overview and Scrutiny Panel (performance)
- The Board prepares a full year report on progress against the Business Plan and company governance for the Chief Executive of RBC, as Shareholder, and the Chief Executive will present this report and consult with Policy and Projects Advisory Board, Licensing Audit and General Purposes Committee and Overview and Scrutiny Panel.
- The Shareholder will feedback comments from Cabinet, Council, PPAB, O&S LA&GP to Rushmoor Homes Ltd as necessary.

17.0 Conclusions

This business plan outlines proposals for the first years of Rushmoor Homes' operation. It shows a programme for delivering 55 homes for private market rent that will contribute to providing good quality homes in this tenure and provide a return to the company's shareholder; Rushmoor Borough Council.

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Appendix One

Indicative Programme

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Financial year		19/20			20/21												21/22												22/23												23/24											
Calendar Month		J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M	A	M	J	J	A	S	O	N	D	J	F	M
Year		1												2												3												4														
Month		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51
Scheme																																																				
12 Arthur Street	3	T	L																																																	
Ship Lane Lodge	1	T	L																																																	
LA 3A Arthur Street	4					S								C	L																																					
LA 69 Victoria Road	2					S								C	L																																					
Land at Churchill Crescent	8									S								C	L																																	
237 High Street Aldershot	6									S								C	L																																	
Manor Park Cottage NB	1																			S								C	L																							
Fleet Road Scout Hut	6																			S								C	L																							
Redan Road	6																S								C	L																										
Pool Road Depot	6																S								C	L																										
Union Street East	8																						S							C	L																					
11 Wellington Street	2																														S						C	L														
Water Lane	2																																	S							C	L										
Manor Park Cottage	1																																										T	L								
Manor Park Lodge	1																																										T	L								
Year totals				4												6												26												18												3
Programme totals	57																																																			

T=transfer, L=letting, S=start on site, C=completion

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Appendix Two

1. 12, Arthur Street.

Site details	
Address	12 Arthur Street Aldershot GU11 1HL
Description	3 Flats in converted Victorian house Flat 1 - 581sqft/ 53.94sqm Flat 2 – 594sqft/ 55.17sqm Flat 3 – 700sqft/ 65.08sqm
Site Area	133sqm
Title	Registered HP733478
Access to Highway	Confirmed against Planning Map
Planning	Planning permission granted 29 03 2017 for change of use from B3 to C3 use.
Utilities	Checked 2016 - new requests required
Valuation	Carter Jonas April 2019 £540,000 residential use with vacant possession £486,000 residential use, flats let on assured shorthold tenancies
Option appraisal	To be completed
Financial appraisal	IRR over 50 years 4.7%. NPV at 5% shows payback by year 55
Return on costs	7%
Cost to value	68%

Indicative Programme

		2019/20							2020/21	
Calendar Month 2019/2020		**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**
Project Month		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
12 Arthur Street										
Valuation	✓									
Option Appraisal										
Cabinet Report to transfer site to Housing Co.										
Transfer										
In management										

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12 Arthur Street

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2. Ship Lane Cemetery Lodge, 154 Ship Lane, Farnborough

Site details	
Address	Ship Lane Farnborough
Description	3 bedroom house let on assured shorthold tenancy
Site Area	133sqm
Title	Registered HP812119
Access to Highway	See attached GIS plan
Planning	Established residential use
Utilities	Checked 2016 new requests required
Valuation	Estimated £500,000 to be confirmed
Option appraisal	To be confirmed
Financial appraisal	IRR over 50 years 8.227% NPV @5% shows payback at year 31
Return on costs	1.2% (net rent/purchase price)
Cost to value	80 - 90%

Indicative Programme

		2019/20							2020/21	
Calendar Month 2019/2020		**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**
Project Month		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Ship Lane Cemetery Lodge										
Valuation	✓									
Option Appraisal										
Cabinet Report to transfer site to Housing Co.										
Transfer										
In management										

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154 Ship Lane

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3. Land adjacent 3a Arthur Street, Aldershot

Site details	
Address	Arthur Street Aldershot GU11 1HJ
Description	Vacant site last used for parking – 5 - spaces
Site Area	150sqm
Title	Registered HP781025
Access to Highway	GIS plan attached
Planning	Term contract parking 89/00035/RBC
Utilities	Checked 2016. New requests needed
Valuation	Market value for residential with planning permission £55,000 (excluding S106 contributions) Market value without planning permission £122,000
Option appraisal	TBC
Financial appraisal	IRR over 50 years 4.8% NPV@5% payback by year 53
Return on costs	3.6% (Net rent £30,590/ costs £864,360)
Cost to value	111% costs £864,360/GDV £775,000

Indicative Programme

		2019/20							2020/21	
Calendar Month 2019/2020		**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**
Project Month		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Land adjacent 3a Arthur Street										
Valuation	✓									
Option Appraisal										
Cabinet Report to transfer site to Housing Co.										
Transfer								★		
Pre application discussions										
Apply for Planning Permission										
Planning consent								★		
Develop Specification										

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Land adjacent 3a Arthur Street

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4. Land adjacent to 69 Victoria Road

Site details :	
Address	Car Park adj 69 Victoria Road Aldershot GU11 1SJ
Description	A vacant car park at the junction of Arthur Street and Victoria Road. Used informally as car parking
Site Area	172sqm
Title	HP809050 attached
Access to Highway	GIS plan attached
Planning	Checked 2019 - no record of planning permission
Utilities	Checked 2016 new request needed
Valuation	£0 market value with residential planning permission £60,000 market value without planning permission
Option appraisal	TBC
Financial appraisal	IRR 4.5% over 50 years NPV @ 5% shows payback at year 56
Return on costs	3.8% Net rent £16,456/Costs £430,156
Cost to value	97% Costs £430,156/GDV £440,000

Indicative Programme

		2019/20							2020/21	
Calendar Month 2019/2020		**O**	**N**	**D**	**J**	**F**	**M**	**A**	**M**	**J**
Project Month		**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	
Land adjacent 69 Victoria Road										
Valuation	✓									
Option Appraisal										
Cabinet Report to transfer site to Housing Co.										
Transfer								★		
Pre application discussions										
Apply for Planning Permission										
Planning consent								★		
Develop Specification										

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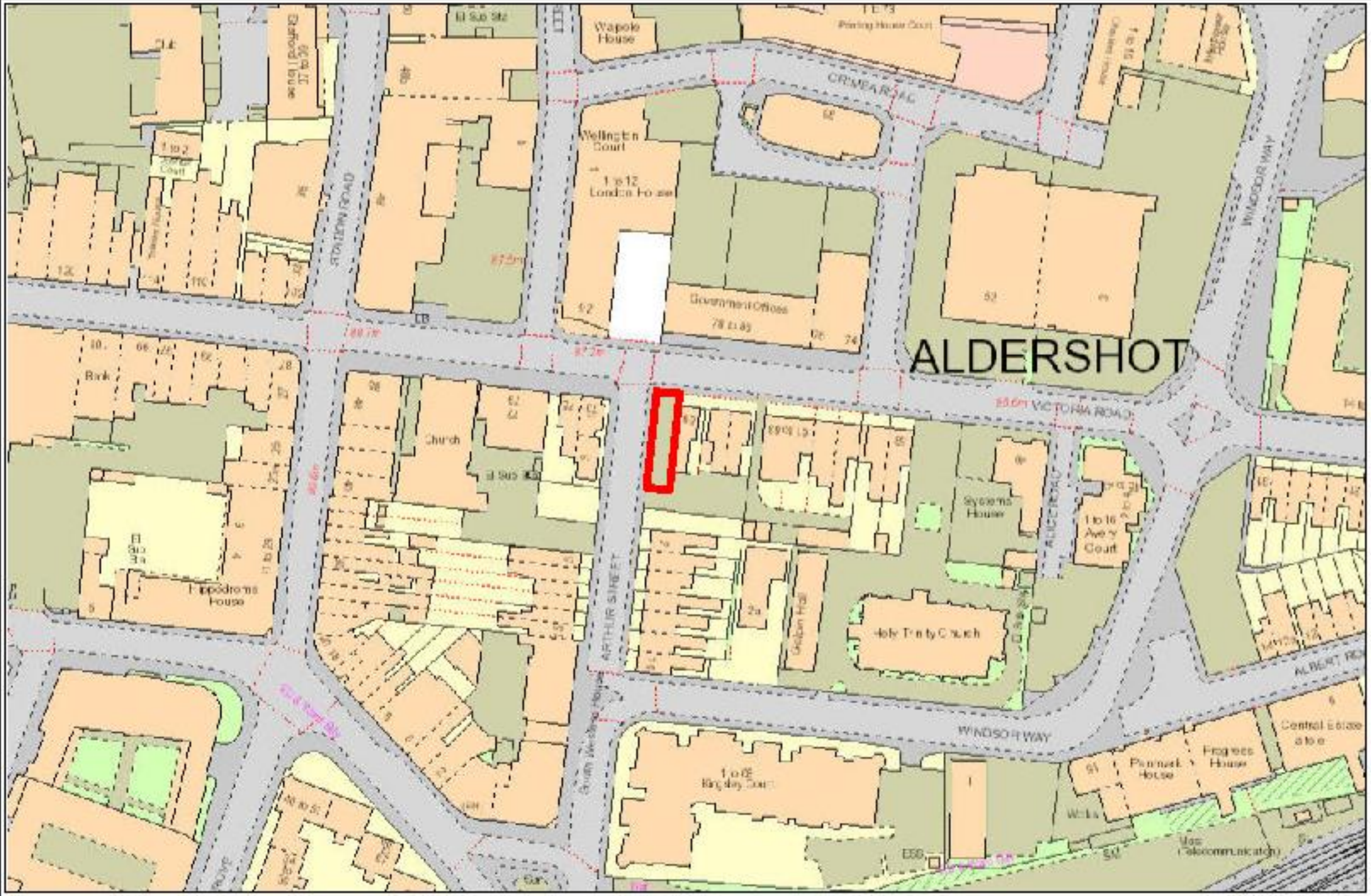

Land adjacent 69 Victoria Road

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5. Land at Churchill Crescent

Site details	
Address	Land at Churchill Cres Farnborough GU14 8EL
Description	Amenity space
Site Area	To be confirmed
Title	Registered HP662356
Access to Highway	confirmed
Planning	
Utilities	Checked 2016. New requests needed
Valuation	Currently included in model at £120,000 RICS valuation commissioned
Option appraisal	TBC
Financial appraisal	
Return on costs	
Cost to value	

Calendar Month	M	A	M	J	J	A	S	O	N	D	J	F
Project Month	1	2	3	4	5	6	7	8	9	10	11	12
Land at Churchill Crescent												
Instruct Valuers												
Valuation												
Preparation of planning submission												
Option appraisal												
Planning consent												
Cabinet report re transfer to housing co.								15				
Transfer										**Aug**	**2020**	→

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Land at Churchill Crescent

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Appendix Three

Risk No.	Risk Description	Risk Mitigation Owner	Initial Risk Value: Likelihood	Initial Risk Value: Impact	Initial Risk Value: Risk Value	Risk Action	Actions	Residual Value: Likelihood	Residual Value: Impact	Residual Value: Risk Value	Date Closed
1	Increase in Public Works Loan Board interest charges		1	3	3	TREAT (Mitigate to reduce risk, controls)	Rerun business plan, with sensitivities, to understand interest rate risk impact, keep a live exit strategy	1	2	2	
2	Changes in national or local priorities and policies restrict RBC's ability to fund		2	3	6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Consider alternative funding sources. Consider disposals and exit strategy.	2	2	4	
3	Reduced rental values - including risk of introduction of rent controls		2	3	6	TERMINATE (eliminate risk)	Consistent monitoring of rental market and business plan to determine if sale of property is appropriate.	1	2	2	
4	Reduced capital growth rate		1	2	2	TERMINATE (eliminate risk)	Have a live exit strategy in place, and review continued investment appetite	1	1	1	
5	Repairs costs rising		2	3	6	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	1	2	2	
6	Increase in construction costs		2	3	6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Open tendering of construction contracts. Consider disposals and exit strategy, if costs will not be covered by rents	2	2	4	
7	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	
8	Business plan not performing as expected		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	
9	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	
10	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	
11	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	
12	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	
13			1	1	1			1	1	1	

APPENDIX 2

TABLE 3	Q4 2019 £000	Full Yr 2020/21 Yr 1 £000	Full Yr 2021/22 Yr 2 £000	Full Yr 2022/23 Yr 3 £000	Full Yr 2023/24 Yr 4 £000	Full Yr 2024/25 Yr 5 £000	Full Yr 2034/35 Yr 15 £000	Full Yr 2044/45 Yr 25 £000	Full Yr 2063/64 Yr 44 £000
Income received for interest charges to the company	0.0	63.8	307.4	539.9	597.0	617.2	646.5	586.8	7.4
Cost of Council borrowing	0.0	34.8	167.7	294.5	325.6	336.7	352.6	320.1	4.0
Net yield to the Council in relation to interest income/costs on borrowing	**0.0**	**29.0**	**139.7**	**245.4**	**271.4**	**280.5**	**293.9**	**266.7**	**3.4**
Income from company for supply of Council staff	0.0	95.00	35.9	36.8	37.7	38.6	49.5	63.4	101.3
Direct employment costs of Council staff supplied to company plus other direct costs incurred	0.0	65.0	24.0	25.0	25.0	26.0	33.0	42.0	68.0
Net yield to the Council in relation to Council staff and initial start-up costs	**0.0**	**30.0**	**11.9**	**11.8**	**12.7**	**12.6**	**16.5**	**21.4**	**33.3**
Total all net income received by the Council	**0.0**	**59.0**	**151.6**	**257.2**	**284.1**	**293.1**	**310.4**	**288.1**	**36.7**

APPENDIX 3

COMMENTS CONTAINED WITHIN THE ARLINGCLOSE REVIEW	RESPONSES AND AMENDMENTS TO THE BUSINESS PLAN RELATING TO COMMENTS WITHIN THE ARLINGCLOSE REVIEW
1.4 The cost of recharges of support costs from the Council are only being inflated by 1.5% and not at the rate of inflation used for all other costs.	The financial model (and resulting tables of financial information shown in the Business Plan tabled at the Shadow Housing Board 09 12 2019) has now been updated to apply the inflation rate used for all other costs raising the rate up to 2.5%
1.5, 3.14 & 3.15 Rental inflation has been set at 2.5% in the model but the latest data available suggests that this is only 1.3%.	Local rental figures have been checked. These indicated a slowed growth rate therefore, the financial model (and resulting tables of financial information shown in the Business Plan tabled at the Shadow Housing Board 09 12 2019) has now been updated to apply an income inflation rate of 1.3% for the first 3 years of the company operation … then from month 37 onwards the income inflation rate has been reset to 2.5%
3.16 Cost price inflation has been modelled at 2.5%. With the current average of all CPI forecasts monitored by HM Treasury being 2.2% we are happy that 2.5% is used in the model.	The financial model (and resulting tables of financial information shown in the Business Plan tabled at the Shadow Housing Board 09 12 2019) has now been updated to apply a cost inflation rate of 2.2% for the first 3 years of the company operation, then from month 37 onwards, the cost inflation rate has been reset to 2.5%
1.6 & 3.17 One of the main risks outlined in the business plan is a change in the cost of funding and this has recently taken place with the change in PWLB rates announced on 9th October 2019. The 50-year PWLB rate is currently higher than the 2.80% used in the model and the cost of debt should be increased.	It is acknowledged that the PWLB rate has increased. The financial model (and resulting tables of financial information shown in the Business Plan tabled at the Shadow Housing Board 09 12 2019) has now been updated for the potential that the PWLB 50-year rate is 3.0% (Published rate 3.20% less "certainty adjustment" of 0.20%). An ongoing review of the published PWLB rates is being undertaken by the Finance Unit of the Council. The commercial interest rate charged into the company model remains at 5.5%. The result of the increase in PWLB borrowing therefore does not directly affect the company financial model but does result in a modestly lower return on interest yield (commercial rate minus the PWLB long-term rate) to the Council (when compared to previous versions of the company financial model).
1.7 Assumptions have been made in the model around taxation and the treatment of the loan interest charged to the company by the Council, this may need to be revisited. It is also noted that State Aid has not been mentioned.	These comments (at 1.7) made by Arlingclose expand to content related to the following paragraphs of their Review document … 4.6, 4.7 & 4.8. References in these (Arlingclose) paragraphs are made to "Transfer Pricing", "Thin Capitalisation" & “State Aid” See the following cells, each with comment on "Transfer Pricing", "Thin Capitalisation" & State Aid”.

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"Transfer Pricing"	The UK's transfer pricing legislation details how transactions between connected parties are handled and in common with many other countries is based on the internationally recognised 'arm's length principle'. The 'arm's length principle' applies to transactions between connected parties. For tax purposes such transactions are treated by reference to the profit that would have arisen if the transactions had been carried out under comparable conditions by independent parties. The Council intends to make land transfers to the company at market value subject to use for market rent and provide Council staffing resources at full cost recovery … i.e. cost of (proportionate employment) + element of Council overheads. Some of the sites are marginal for housing use. It may be that the Council will sell these sites for no consideration in order to enable a viable scheme to be developed. In these circumstances the Council may rely upon disposal for less than best consideration on the grounds that it will help secure improvement of economic, social or environmental wellbeing of its area. This would be an approach that the Council might adopt if it wished to secure housing with a Registered Provider or a private company in these circumstances. Therefore it is not considered that there are any circumstances intended where the transfer price of goods or services between the two parties varies from the "transfer pricing" principle.
"Thin Capitalisation"	It should be noted that taxation advice had previously been sought from Freeths who produced a Tax Advice review for the Council in June 2018. It is notable in this review that the subject of "thin capitalisation" was considered. A summary of the comments from Freeths about this matter were contained in their document > "A key corporation tax consideration for the wholly owned company (WOC) will be the deductibility of finance costs – as the WOC's finance will be provided by a connected party (the Council), it will be important to ensure that all transactions between the WOC and the Council take place on arm's length terms. With regard to finance costs, there are two important points to keep in mind: There are specific rules which can apply to limit the amount of interest expenses which can be deducted when computing profits. These rules typically apply where finance is provided by a connected party and the rate of interest is considered to be excessive (thereby reducing the level of profits subject to corporation tax). *These rules are unlikely to be relevant as the Council is required to transact with the WOC on commercial terms in order to comply with the Council's non-tax obligations.* It will however be important to note that it may in future be necessary to evidence the commerciality of the loans for tax purposes in future. The 'Corporate Interest Restriction' rules have recently been introduced: These rules apply to limit the amount of interest that a group may deduct when calculating profits. The deductible group interest expense is limited, with the limit calculated using group earnings before income tax depreciation and amortisation (EBITDA). The rules will only apply to limit deductible interest if the aggregate net interest cost of the group exceeds £2m. With regard to the WOC, the current funding cost is expected to be in the region of c£14m, and the proposed rate of interest charged to the WOC is in the region of 5% to 5.5%. Therefore the WOC will have an interest expense of c£700k to c£770k and will be below the current £2m threshold.

	It will however be important to consider loans made to the WOC, both in the context of any other group lending made by the Council and also if a later decision is made to expand the activities of the WOC, such that the £2m threshold could be breached.
“State Aid”	State Aid is an advantage that may be given by public authorities to undertakings (any entity which places goods or services on the market) which may distort competition and affect trade in the European Union. Hence, determination of State Aid implications needs to be considered in the circumstances of the Council lending funds to the company. Quantification of State Aid can be calculated by modelling the Net Present Value (NPV) of the Council's investment (into the company) using both the "offered rate" (to show the actual cost to the company) compared to a "reference rate" (an equivalent rate that the company would be able to procure in the market). The calculation is performed over three-year rolling periods utilising a discount rate that is linked (by adding 100 basis points) to a Base Rate that is calculated in accordance with communications from the European Commission. This Base Rate is derived from 1-year money market rates (1-year IBOR) and is fixed by the EC. Observation on-line in November 2019 shows a rate of 0.90%. For borrowers that do not have a credit history or a rating based on a balance sheet approach, such as certain special-purpose companies or start-up companies, it is noted that the base rate should be increased by at least 400 basis points in order to determine the reference rate. A reasonable assessment of the Council’s lending to the company reveals a rate “offered” of 5.50% and a “reference” rate of 4.90% (0.90% + 400 basis points). There is room therefore for the “reference” rate to be increased by a further 60 basis points to match the “offered” rate. If the “offered” rate exceeds the “reference” rate then the calculation described in this cell will have no relevance. If the reference rate is found to exceed the offered rate then a de minimis regulation is employed that sets a threshold figure below which the above quantification will not apply because it will be assumed that the aid will not distort competition. Currently this de minimis limit is 200000 Euros (measured over a three year rolling period).
1.8 The Councils suggested MRP policy will have a major impact on the returns to the Council and this should be cleared with the Councils external auditor.	The Council’s policy on Minimum Revenue Provision (MRP) is approved in advance of each financial year at each Full Council in the latter half of February preceding the coming financial year … e.g. the MRP for the year 19/20 was contained within Appendix 3 of the Annual Treasury Management Strategy and Annual Non-Treasury Investment Strategy 2019/20 Agenda item No. 6(3) within the agenda for Full Council 21st February 2019. Page 221 of the agenda pack. Reference within the MRP for 19/20 provides the following: “1.7 Where loans are made to other bodies and designated as capital expenditure, no MRP will be charged. However, the capital receipts generated by the repayments on those loans will be set aside to repay debt instead.” The above reference will appear within future MRP policies submitted to the Council for approval.

APPENDIX 3

1.9 The business plan includes all the relevant information expected by the guidance issued by the Secretary of State, but some additional information should be included:	Arlingclose make specific reference to the following: • Market assessment • Affordable Rent • Risks • Exit Strategy Each of these references is reviewed in the following cells
"Market assessment"	Recent conversations with a leading agency in the area indicate that although there has been a slowdown in the sales market there remains high demand for housing for rent with homes letting quickly. It was the view of the agents that prices are starting to rise due to demand vs supply. In the earlier part of the year there had been a significant level of new supply locally which while it had not materially affected letting rates had limited the ability to increase initial rents. However annual rent reviews are not meeting market resistance to increases.
"Affordable Rent"	A version of the financial model has previously been tested in relation to affordable rent housing units. Advice was given by a consultant appointed by the Council (Regenco) on this matter. Building development costs were linked to the introduction of a capital grant injection held on the company balance sheet during the time of creation, and related rental income estimates were subsequently reduced to accord with the terms of "affordable rent". The grant lays dormant on the company balance sheet as time progresses producing a corresponding lower company debt (interest) requirement, but this is exceeded by the resulting reduction in rental income. From a financial stance the conclusion was that the impact of dealing with affordable housing is unlikely to enhance Business Plan prospects and would be significantly negative without capital subsidy. The company could therefore not undertake this type of housing unless it was in receipt of subsidy or had become established and generated a surplus which with the Council it wished to invest in this way.
" Risks"	The risk rating for increases in the Public Works Loan Board interest charges has been adjusted to reflect that changes have occurred recently. Although these recent changes have not significantly adversely affected the business plan the risk of such changes occurring has been increased. An additional risk has been added to reflect the possibility of changes in central government's approach to the use of wholly owned companies to delivery housing.
"Exit Strategy"	In the context of the housing company its "Exit Strategy" is a contingency plan that could be executed by the Council (as business owner) to liquidate its assets and carry out disposal of the tangible business assets once predetermined criteria has been met or exceeded. An Exit Strategy taking account of the matters set out below has now been developed and is included within the Business Plan The prospect of the company's forward financial/operational plans being significantly impaired by the following predetermined criteria should be included in its Exit Strategy: • Changes in Government legislation regarding private landlord operations (that may result in cost increase or income restriction)

	• Local economic changes affecting private landlord operations (that may result in cost increase or income restriction/significant void periods) • A long & continued decline in property valuations • Imposition of Government changes in Local Authority lending methodology • A change in the Council's treasury management policy resulting in PWLB (or other) funding becoming too expensive to negotiate an ongoing commercial rate for the company's borrowing … leading to the other lending options from other potential funders becoming too high to consider as an alternative funding solution • Change in the Council's stance regarding its control and ownership of a company • Failure of building contractors to complete on time and/or within budget plan The company should therefore consider continued monitoring of matters such as: • The availability to the Council of its ability to acquire a long-term lending rate (PWLB & other) … linked to the commercial rate that the company will be required to undertake • The availability of other (private) funding solutions • Local market availability of private rented units • Local market rent indices • Local market property valuations • Cost inflation • Government/Local changes in the requirements on private landlord management of their dwelling units It is likely that the financial risks associated with the company are higher during the first 4 years when it is in the development stage of the 15 sites/57 units. Contingency plans in order to mitigate financial burden and operational disruption should be raised in advance for all site developments. A summary of these individual contingency plans should be constantly monitored including a quantification of a financial loss measure that could trigger the need for the company to exit the market and wind the business up.
5.1 If the Council is relying on the use of the Localism Act 2011 and pre-commencement powers to deliver housing, then there is a specific provision within the 2011 Act which require that where activities are carried out for a commercial purpose then this must be through a company structure … continued in paragraphs 5.2 & 5.3	Arlingclose indicate that the Council cannot make a "commercial" charge for the staff who will be utilised to carry out functions for the company. Senior management have been consulted about the matter of making a commercial charge via a private company owned by the Council. In this circumstance it is not considered worthwhile to pursue the creation of a specific company in order to make charges for staffing on a commercial basis. The current financial model now contains cost estimates for the use of Council staff based on the calculation of staffing cost of employment + proportion of administrative and central overheads … charged now at cost + fair apportionment of overheads … not prepared on a commercial basis.

APPENDIX 4

RUSHMOOR BOROUGH COUNCIL

Project Risk Analysis

Housing Company

Project Manager	Project Sponsor
Sally Ravenhill	Karen Edwards Corporate Director

Risk No.	Risk Description	Risk Mitigation Owner	Initial Risk Value: Likelihood	Initial Risk Value: Impact	Initial Risk Value: Risk Value	Risk Action	Actions	Residual Value: Likelihood	Residual Value: Impact	Residual Value: Risk Value	Date Closed
1	Regulatory Change		1	**3**	**3**	TREAT (Mitigate to reduce risk, controls)	Consider regulatory changes. Assess potential for company to adapt to changes. Re run business plan in consultation with Housing Company. Review exit strategy and potential for disposals.	**1**	**2**	**2**	
2	Increase in Public Works Loan Board interest charges		2	3	6	TREAT (Mitigate to reduce risk, controls)	Rerun business plan in consultation with Housing Company. Run sensitivity testing, to understand interest rate risk impact. Check exit strategy and consider appetite for continuing to invest in the Housing company and consider disposals.	2	2	4	
3	Changes in national or local priorities and policies restrict RBC's ability to fund		2	3	6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Consider alternative funding sources. Check exit strategy. Check asset values. Consider disposals.	2	2	4	
4	Reduced rental values - including risk of introduction of rent controls		2	3	6	TERMINATE (eliminate risk)	Consistent monitoring of rental market and business plan. Re run financial modelling in consultation with Housing Company to determine impact and consider if sale of property is appropriate.	2	2	4	
5	Reduced capital growth rate		1	2	2	TREAT (Mitigate to reduce risk, controls)	Have a good understanding of the housing market and asset values. Check appetite for continuing investment in housing assets. Consider potential for disposals in consultation with Housing Company.	1	1	1	
6	Repairs costs rising		2	3	6	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 high cost properties is appropriate. Tender repairs contract regularly	1	2	2	
7	Increase in construction costs		2	3	6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Open tendering of construction contracts. Consider disposals and exit strategy, if costs will not be covered by rents	2	2	4	
8	Poor project management leading to cost increases/delays/		2	3	6	TREAT (Mitigate to reduce risk, controls)	Make sure that the company is employing the necessary expertise in project management. Make sure that the company has processes that thoroughly risk assesses projects prior to commencement and during construction period. Be sure the company is 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		1	3	3	TREAT (Mitigate to reduce risk, controls)	Review underlying assumptions, and assess if relevant in current climate, rerun financial modelling with sensitivities to provide options , and implement stragetic changes	1	2	2	
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. Consider impact of not growing the company for private market rent encourage the company to consider opportunities in other types of housing	1	2	2	
12	Limited capacity to deliver programme - skills and expertise		3	3	9	TREAT (Mitigate to reduce risk, controls)	Make sure the company is employing and retaining staff with relevant skills considers training options and use of consultants. Consider the impact of additional costs on the business plan.	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	