

COUNCIL MEETING – 22ND APRIL 2021

AGENDA ITEM NO. 4 (1)

RUSHMOOR HOMES LTD (RHLtd) - BUSINESS PLAN 2021-2026

A report from the meeting of the Cabinet held on 16th March, 2021.

SUMMARY AND RECOMMENDATIONS

This report presents the second business plan for RHLtd. approved at the Board Meeting on 3rd March 2021, covering the period 2021 – 2026 and the first Shareholder Report covering the first six months of RHLtd's operation.

The Council is recommended to:

- Approve Rushmoor Housing Limited's Business Plan 2021 – 2026 as set out in Appendix 1.
- Authorise the Council's Chief Executive to approve any variations in the delivery methods used to achieve the outcomes of the Business Plan provided it is within the approved budget; and
- Note the funding required to finance the company's operations and acquisition and development programme.

1.0 INTRODUCTION

- 1.1 The Company was incorporated on 22nd April 2020. It is a company wholly owned by the Council.
- 1.2 Under procedures agreed when the company is required annually to prepare a rolling five-year business plan for the Council's approval.
- 1.3 The governance arrangements for the company require a half year report on progress against the business plan to be submitted to the Council's Shareholder representative, the Chief Executive.
- 1.4 This report presents the business plan for 2021/22 to 2025/26 and the 6-month report submitted to the Council's Shareholder representative which has been included.

2.0 BACKGROUND

- 2.1 Since its incorporation the Company has made significant progress:
 - Held regular Board meetings

- Procured a managing agent to deal with the letting and management of its properties
 - Procured legal advisors
 - Prepared to take a transfer from the Council of two properties
 - Prepared a planning application for one site for development.
 - Prepared its branding
- 2.2 There have been challenges, particularly around the impact of Covid-19 but also around site issues, resources available to support the company and a pause following changes to the Public Works Loan Board Lending terms to allow officers to work through the implications for the Council.
- 2.3 The Business Plan 2021-2026 summarises the outcomes of the first year of trading and looks forward over the next five years. It is attached at Appendix 1.
- 2.4 A summary of the first six month's activity is included in its first report to its Shareholder which is attached at Appendix 2.

3.0 PROPOSAL

- 3.1 The second business plan which has been prepared to cover activity for the period 2021-2026 includes a programme for the delivery of 59 homes based mainly on acquiring properties and sites from the Council.

Key Changes

- 3.2 This second business plan varies from the first in the in several areas.
- There is a delay in the delivery timetable – this is due to a number of issues, Covid-19, challenging site issues to be resolved before transfers to RHLtd, more realistic project planning following assessment of workstreams and resources as part of the Council's work to strengthen programme and project management.
 - The indicative programme now yields 59 units rather than 57 following the
 - Addition of two units to the programme resulting from a proposed acquisition of a property in third party ownership and conversion to two flats.
 - Addition of a potential six units at Windsor Way, Aldershot
 - Loss of 2 units from the programme as site proposals were developed further to provide a fully planning policy compliant scheme.
 - Consequential changes to the funding profile, increasing the overall peak debt level by just under £1m to £12.696m and delaying repayment of loans from year 44 to year 45.

The programme

- 3.3 The current list of sites and indicative delivery programme is included within the Business Plan (Appendix 1). This programme drives the financial modelling used to calculate the funding required from the Council to achieve the target number of homes.

- 3.4 The first two properties to be purchased by the Company from the Council are 12 Arthur Street and 154 Ship Lane. Together these will produce four homes for letting in a short timescale.
- 3.5 A planning application for a development on the combined sites at land adjacent to 3a Arthur Street and 69 Victoria Road has been prepared and will be submitted for planning permission by the end of this financial year following successful pre-application discussions. In light of the progress of the project, permission for the Council to dispose of the sites to the Company will be sought in due course. The Council can achieve best consideration for the land while achieving the objectives it has for the Company by disposing of the land at the market value for the proposed purpose (private rent) and an overage clause.
- 3.6 The next sites programmed to be prepared and delivered are: land at Churchill Crescent, Farnborough; and 237 High Street, Aldershot which should both deliver units in 2022/23. The complexities of delivery of these sites mean that a separate report will be submitted to Cabinet for approval in due course.

Financial modelling

- 3.7 The financial model reflects the development programme timetable. The model's general assumptions are updated six-monthly. As scheme proposals become more detailed and site-specific information becomes available, this is used in the model.
- 3.8 The model produces financial information that shows the funding required from the Council. The latest model indicates the need to borrow approximately £12.148m to fund expenditure in creating the property portfolio over the period to 2025/26.

Table 1

Financing Requirement	2020/21 (£m)	2021/22 (£m)	2022/23 (£m)	2023/24 (£m)	2024/25 (£m)	2025/26 (£m)
Financing required for period	0.771	5.436	4.862	0.854	0.117	0.109
Cumulative financing required	0.771	6.206	11.068	11.922	12.039	12.148

- 3.9 The Company will use its income from rents to repay loans and pay interest at 5.5%. Based on its current programme lending will peak at £12,695,569 in year 16. The debt will gradually decline until year 45 when it will be discharged.
- 3.10 In the event that further opportunities to grow the rental portfolio arise, additional funding based on a revised business plan would be required. No assumptions about growth beyond the specific sites identified has been factored into the model at this stage. However, as part of the due diligence with regard to the proposed Union Yard development in Aldershot the Council has modelled scenarios which could include the long-term ownership and

management of the private rented units in the scheme by the Company. Should this option be pursued then further work would be required. The Company would need to review among other matters:

- The alignment of the purchase with the aims of the Company.
- Production of a revised business plan, based on an updated financial model, would need to be submitted by RHLtd to the Council at an appropriate stage.
- The impact on the Business Plan and the key metrics agreed by the Board and the Council, including the ability of the Company to service any additional loans.
- Consideration of the risks of taking on a single large development which exceeds the planned scale of the company to 2024 and potential mitigation.
- The potential benefits of expansion of the company through a single “off the shelf” purchase where the company is not bearing the development risk.
- A review of the market and expected competition for the residential, rental offer in this location.

3.11 Following this review, and subject to the Council proceeding once it had undertaken its appropriate due diligence, a further report would be provided to Cabinet and Council with a revised business plan setting out the financing and borrowing implications.

Funding

3.12 The Company is dependent on the Council for its funding. To finance loans the Council will borrow funds as part of its treasury management strategy. The Council will benefit from the margin between its borrowing from PWLB and the interest paid by the Company at 5.5%. The Council will undertake borrowing in accordance as set out in the Treasury Management Strategy.

3.13 The Council will make interest payments in accordance with the terms of the Facility Agreement with the council, and the interest payable each year will be dependent on the amount and the timing of the drawdowns.

Table 2

Interest Payable profile	2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)
Interest payments to RBC	150	498	643	658

3.14 The estimated amount of interest payable by the Company to the Council is shown in the table above. The actual amount payable in each period will be dependent on the timing of each drawdown and the amount of each drawdown. The Council included an estimate of the total return in the Revenue Budget, Capital Programme and Council Tax Level report to Council on 25 February 2021. In addition to the interest payable, the Council will benefit from contract payments for staff time, estimated at around £36k in 2021/22 increasing to £39k by 2024/25.

3.15 Council approved the Annual Treasury Management Strategy and the Capital Programme on 25 February 2021. These provided the relevant capital expenditure plans and capital financing requirement to facilitate expenditure and lending arrangements in relation to the Company.

Governance

3.15 The governance arrangements put in place by the Council are as shown in figure 1 Appendix 2. Reporting by the Company is to the Council's Chief Executive as shareholder representative. The shareholder representative will report on to Council and its committees as appropriate.

Future Business Plans

3.17 The Company will continue to prepare five year rolling business annually for approval. It will also be required to prepare a new business plan if it wishes to pursue opportunities outside the approved business plan. However, the company is permitted to amend the way the plan is delivered provided the numbers of units produced and the overall funding requirement is not varied subject to application to the Shareholder who will then deal with the matter.

Operational Matters

3.17 RHLtd continues to use the Council's staff to run the company

- Tim Mills RBC Head of Economy Planning and Strategic Housing
- Sally Ravenhill RBC Housing Enabling and Development Manager
- Charlie Heavens RBC Regeneration Officer

3.18 The six-monthly shareholder report noted the retirement of the Company Accountant. Since which time the Council has put in place support on an interim basis through secondment from Grant Thornton. Similarly RHLtd is utilising the services of interim property support employed by the Council.

- Guy Clifton - Senior Accountant and Company Accountant

- Simon Ross - Interim Construction Surveyor

3.19 The estimated payment for use of Council staff in 2020/21 is £37k. A single payment for 2020/21 will be made in April 2021 based on the actual time commitments. In future payments will be made on a quarterly basis again based on actual time commitments. The increasing activity of the Company may see this increase but will be dependent on the exact demands of the programme and how far these can be met by the Council.

3.20 In addition, a managing agent has been procured, LRG Romans, to let and manage the properties and legal advisers Browne Jacobson. Further procurement of valuation and surveying services, employer's agent and architects for the next phase of development schemes are planned early in 2021/22

4.0 IMPLICATIONS

Risks

4.1 A risk register for the Company is included within the Business Plan. This risk register contains detailed risks relating to the company. A higher level risk register for the Council is also included (Appendix 3) which addresses the outcomes and impacts for the Council. The principal risks for the Council, are:

- The Company fails to complete its developments on time and its ability to repay loans and interest is compromised.
- The extent and timing of development does not meet the Business Plan resulting in lower borrowing and hence reduced income to the Council.
- The Company performs badly against its Business Plan and its projected repayment of loans is pushed so far into the future that it no longer meets the test for being a going concern.
- The Council's ability to borrow to finance RHLtd is compromised. The recent changes to Public Works Loan Board guidance illustrated the vulnerability of the housing company model to changes of this nature. The PWLB Lending Terms defines 4 activity areas that the government will support through PWLB lending. This includes Housing delivered through a local authority housing company.
- The Company requires additional funding to allow it to complete developments and realise funds to repay existing loans.

4.2 Mitigation measures for these risks include:

- Regularly performance monitoring and reporting as required to the Council.
- Review of the financial model to sensitivity test the programme, and to develop a new model to provide necessary financial reporting information for an operational company, including cash flow analysis
- Ensuring that the Company has appropriate staff resources.
- Ensuring that an exit strategy is available at any point in time and is managed accordingly. The exit strategy is centred on property sales. The

Council is, therefore, more at risk in the period of time between loans being made and developments completed and income producing. This will occur early in the Company's development programme when its asset base is below or close to its debt liabilities.

- Loan funding will be in accordance with the Council's Borrowing Strategy set out in the Annual Treasury Management Strategy.

Legal implications

- 4.3 The Company is now established as a separate but wholly owned legal entity. The Council has a continuing role in ensuring proper governance and in exercising influence in its role as the only shareholder.

Financial and Resource Implications

- 4.4 Lending to the company is a substantial commitment on the part of the Council but it represents an opportunity to operate in the housing market to achieve the Council's purposes and to participate in regeneration activities. The success of the Company will enable the Council to receive interest on its loans as set out.
- 4.5 The current level of development activity proposed can be supported by existing Council staff with assistance from specialist consultants. This will need to be monitored to make sure developments can be delivered on time. Any greater volume of work or shorter timescales may require further resources.

Equalities Impact Implications

- 4.6 There are no equalities issues identified arising from this report.

5.0 CONCLUSIONS

- 5.1 The progress of the Company during its first year was slower than expected due to a number of factors described earlier in this report. However, work has been completed to ensure that the Company is now in a position to begin to deliver homes for rent. The Business Plan lays out a programme that will deliver approximately 60 units and will regenerate sites currently in the Council's ownership. This will help the Council to meet its objective to create a landlord that provides good quality, well managed private rented homes.

PAUL SHACKLEY
CHIEF EXECUTIVE AND
SHAREHOLDER REPRESENTATIVE

**Rushmoor Homes Limited
Draft Business Plan
2021 - 2026**

Executive Summary

This is the second business plan for Rushmoor Homes Limited (RHLtd). It is good practice to regularly review and update Business Plans to reflect changing circumstances and this is in any case a requirement of the governance arrangements for RHLtdTD. Each plan covers a five-year period. The initial plan was from April 2020 to April 2025 and this plan covers the period from April 2021 to April 2026.

The company is wholly owned by Rushmoor Borough Council (the Council) and was established to meet a number of objectives. Its principal aim is to increase the supply of good quality private rented homes in the borough, meeting housing need as well as operating in a commercial manner to ensure that as a limited company it is operating as a “going concern” and can service its financial obligations including loans from the Council which have to be provided at a state aid compliant commercial rate.

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

to acquire land or properties to expand its holdings.

Since its formation on 22 April 2020, the company has begun to make progress. Managing Agents have been selected, the Board is meeting regularly, and the company is preparing to take transfer of the first two properties from the Council.

Progress on delivering the programme has been slower than expected largely due to the effects of Covid-19, the challenges of seeking to develop in low value areas and property issues to be resolved before transfers take place. The indicative programme for the next five years has been revised to reflect this.

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 maximum of £12,695,569 in year 16 after which it will decline and be paid off by year 45. This differs from the original business plan where debt was expected to peak in year 15, and maximum debt to be £11,770,000 with repayment by year 44. The programme as currently modelled does not include planned sale of properties.

The company expects to achieve net rents of £594,600pa by year 2025/26. These will be used to cover operating costs, finance costs and tax.

The company is operating in an area of strong housing demand. Local rentals have not significantly increased over the last year however, although not a predictor of future performance, past trends show consistent growth over the long term. Employment levels are weakening due to the impact of the Covid-19 pandemic and this may affect demand and rental values.

The company's target market remains 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 RHLtd or its second year of trading is set out in the plan for approval by its Shareholder.

RHLtd is funded 100% by the 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 and for the period of the current Business Plan the company will 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 is carried out by the Council, as shareholder, through governance procedures established by the Council and set out in its constitution.

2.0 Company Purpose

This business plan sets covers the work of RHLtd for the period April 2021 to April 2026. The plan takes account of the housing market context within which the company is working and the risks that may arise from the effects of Covid-19 and Brexit.

The 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. The company's prospective development programme is set out based on a limited portfolio of properties and sites currently in the ownership of the Council,

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.

RHLtd's purpose, as defined by the Council, is to participate directly in the housing market by providing quality homes for market rent. It will take a transfer of the Council's existing residential properties and create a residential private market rent property portfolio. It also aims 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, the 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.

3.0 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 Targets

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 assist the Council in meeting its regeneration and sustainability objectives contributing to a greener borough and improvements in the built environment
- 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 rent 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.

The targets set out in the company's first business plan were 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 sale values is not being relied upon because at this stage the programme is for rent only and does not envisage any property sales. For each project, monitoring will be carried out to determine if sale of a property could increase the overall rate of return of the programme.

First year performance against this first business plan was affected by Covid-19 restrictions, the loss of a key member of the delivery team, staff resources allocated to support delivery and the challenges of developing small sites in low value locations many of which have issues to resolve before they can be purchased by the company.

Progress against first business plan targets

A summary of the expected first year performance against the first business plan is as follows.

First Business Plan Targets	Estimated progress for April 2020 – March 2021
Deliver 10 homes for market rent	4 homes
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)	To be evaluated on a scheme by scheme basis
Repay loans by year 44	Year 45
Provide the Council with an annual income based on interest of 5.5% on loans averaging £283,000 net income over 10 years	£3,500

A review of targets and the capacity to deliver the required outcomes has resulted in a revised programme that changes the funding needed from the Council and RHLtd's repayment profile.

The revised programme is set out later in this Business Plan and will need approval from RHLtd's shareholder, Rushmoor Borough Council.

6.0 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 its financial sustainability the company will:

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

7.0 The Programme

In the next five years RHLtd 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

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
Number of Properties transferred	4	0	0	2	0	0
Number of Properties developed and completed	0	2	35	16	0	0
Number of properties Acquired	0	2	0	0	0	0
Cumulative number of properties	4	6	41	59	59	59

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 may be added by acquisition of individual units from the market or by taking development opportunities if they arise. 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 determined in consultation with the Council's Treasury Advisers and takes account of the Council's obligations regarding State Aid.

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

Challenges around planning requirements have resulted in a reduction in potential units from the sites at Arthur Street and Victoria Road in Aldershot.

8.0 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 one initial development scheme which has been designed but is 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 and land adjacent 69 Victoria Road –development of combined sites.

Further detail on these sites is contained in Appendix 2. As proposals for these three 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 finalised.

Costs for all other schemes in the programme use global assumptions in the financial model which are updated annually. 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 advice received by RHLtd was that 2.5% was a reasonable long-term assumption for inflation. However due to actual rates and short-term projections, it was agreed that a lower rate should be assumed for the initial years. This will continue to be reviewed.

The financial model will continue to be updated with this information to ensure that individual projects and the programme remain viable. The financial model will also continue to be reviewed to improve its functionality and ensure its integrity on an ongoing basis. This information will inform subsequent annual updates to the Business Plan and any interim updates that are required.

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APPENDIX 1

Table 6 A Company Profit and Loss: Income

	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. 2025/26 Yr 6	Full Yr. 2034/35 Yr 15	Full Yr. 2044/45 Yr. 25	Full Yr. 2063/64 Yr. 44
	£	£	£	£	£	£	£	£	£
Rent income – gross	(3,800)	(57,00)	(335,800)	(707,200)	(751,700)	(770,500)	(962,200)	(1,231,700)	(1,969,000)
Voids and bad debts 4%	200	2,300	13,500	28,300	30,100	30,9000	38,500	49,300	78,900
Management fee 9% gross rent (incl. marketing and letting)	300	5,100	30,300	63,900	67,900	69,600	86,900	111,300	177,900
Inventory costs	0	200	1,500	3,100	3,300	3,300	4,200	5,300	8,500
Insurance	100	700	4,500	9,300	9,800	10,100	12,600	16,100	25,700
Gas safety	100	1,600	9,800	20,200	21,300	21,800	27,300	34,900	55,800
Routine maintenance	200	2,200	12,200	25,000	26,500	27,100	33,900	43,400	69,400
Service charge	100	800	5,900	12,100	12,800	13,100	16,300	20,900	33,400
Major repair provision	0	0	0	0	0	0	13,100	16,700	26,800
Total deductions	1,000	12,900	77,700	161,900	171,700	175,900	232,800	297,900	476,400

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NET RENT	(2,800)	(44,100)	(258,100)	(545,300)	(580,000)	(594,600)	(729,400)	(933,800)	(1,492,600)
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Table 6B Company Profit and Loss: Operating Costs

	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. 2025/26 Yr 6	Full Yr. 2034/35 Yr 15	Full Yr. 2044/45 Yr. 25	Full Yr. 2063/64 Yr. 44
	£	£	£	£	£	£	£	£	£
OPERATING COSTS									
Contract payments* to RBC for	95,000	35,900	36,800	37,700	38,600	39,600	49,500	63,400	101,300
Acquisition and development	If necessary external company / consultant costs will need to be added here								
Financial advice									
Accountancy									
Legal									
Consultants fees									
TOTAL OPERATING COSTS	95,000	35,900	36,800	37,700	38,600	39,600	49,500	63,400	101,300

Recharges for staff will include office accommodation, telephone, IT, printing and stationery, travel expenses etc

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APPENDIX 1

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

	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. 2025/26 Yr 6	Full Yr. 2034/35 Yr 15	Full Yr. 2044/45 Yr. 25	Full Yr. 2063/64 Yr. 44
	£	£	£	£	£	£	£	£	£
FINANCING AND TAXATION									
Interest payments	3,500	150,200	497,600	643,100	657,900	664,100	696,600	648,500	69,300
Corporation tax	0	0	0	0	0	0	0	0	249,700
TOTAL FINANCE AND TAX COSTS	3,500	150,200	497,600	643,100	657,900	664,100	696,600	648,500	319,000
NET (PROFIT) / LOSS	95,700	142,000	276,300	135,500	116,500	109,100	16,700	(221,900)	(1,072,300)

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APPENDIX 1

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9.0 Loan Debt

To bring forward the programme as set out in section 8.0 the total loan debt incurred by the fifth year of this business plan is £12,038,000. This will increase to a peak of £12,691,000 by year 15 before beginning, gradually to decline. Debt for the expected programme will be cleared by year 45.



10.0 Development Programme Tasks

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

- Preparation of properties for sale – to be carried out by the Council
- 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

- Preparation of properties for sale – to be carried out by the Council
- 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

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In addition, the company will need at the appropriate time to:

- Explore options for acquiring properties on the open market, offering a solution to empty property owners and acquiring development opportunities
- Explore ways in which to incorporate energy efficiency and sustainability into its development programme
- 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.

Once into its fourth year of operation RHLtd 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.

11.0 Operational Management

In the period leading to and following its registration, the company has established its policies on issues such as rents, tenancies and repairs and maintenance, along with its brief for developments.

RHLtd has contracts with the 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 employers agents
- 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 RHLtd 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 RHLtd has procured experienced managing agents, LRG Romans. They will be contracted for a period of 3 years.

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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.

12.0 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 if necessary to meet the housing need and demand of Rushmoor and subject to advice on whether this is in accordance with guidance on Public Works Loan Board lending.

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 and growth may be further impeded by uncertainty in the wider economy due to the pandemic and Brexit 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 of high housing demand which is not met in full by housing supply. As a consequence prices have risen consistently. A housing fact sheet prepared by the Council provides background information and is at appendix four. There is a continuing issue with affordability and access to home ownership with a median house price to median income ratio of 9.35¹. 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 significantly². 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 (57% under 44). Single person households and couples with no dependent children account for 49% of households in this sector and

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.

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64.6% of households are in full time employment.³

Table 1: Rents (£) per calendar month

Rushmoor	1 bed			2bed		
	LQ	Median	UQ	LQ	Median	UQ
private rent p.c.m.£	700	750	825	850	925	1,050

Source: Private Rental Market Statistics, Valuation Office Agency April 2019 – March 2020

LQ = lower quartile

UQ = upper quartile

Table 2: Current Asking Rents Zoopla Dec 2020

Post code	Property Type	
	1 bed flat	2 bed flat
GU11	£700 pcm (9) ⁴	£940 pcm (12)
GU12	£790 pcm (4)	£875 pcm (3)
GU14	£870 pcm (22)	£1,008pcm (17)

Employment and Incomes

In October 2020 5.5% of Rushmoor's working age population (16 -64) were claiming out-of-work benefits principally, for the reason of being unemployed. This is much higher than in March 2020 before the first Covid 19 lockdown, when the rate was 1.7%.

Provisional figures from the Annual Survey of Hours and Earnings show that in Rushmoor median annual incomes are £32,236 (£2,686 pcm) and lower quartile incomes £19,375 (£1,614 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 close to, or above, the median income or households with two incomes.

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 had the effect of reducing the number of Buy to Let landlords that has been reported nationally. This reduction in supply has the effect of supporting rents.

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

³ (Source: Ministry of Housing Communities and Local Government Statistical data sets Table FA3101 2018/19)

⁴ Brackets indicate sample size

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£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.

As part of our developing relationship with our managing agents we will be undertaking further research on the market and competitors.

The future

Past trends would indicate good levels of rental and house price growth. The effects of the Covid-19 pandemic and Brexit will be felt in the wider economy particularly as the labour market weakens. Consequently, Savills UK Housing Market Update October 2020 predicts that 2020 will show growth in house prices but as unemployment rises and the stamp duty holiday ends it is unlikely there will be continued growth in 2021.

The Nationwide House Price Index October 2020 similarly predicts that market activity will slow from the healthy position in 2020, as the stamp duty holiday ends and unemployment rises.

Local asking rents collected from Rightmove and Zoopla show a slight softening of the market. For this reason a rental inflation rate of 1.3% for the first three years of the programme, rising to 2.5% in year four continues to be used in the programme modelling.

The housing market will continue to be monitored regularly and the marketing strategy agreed with our managing agents.

13.0 Risk and Exit Strategy

Funding costs – in its early life the company will be dependent on RBC 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 for example recent amendments to Public Works Loan Board lending guidelines.

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.

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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. The recent Public Works Loan Board Guidance recognized lending for housing purposes as a legitimate use of such borrowing. The risk remains that Government could revisit such a determination.

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. Further work to ensure the associated metrics are clearly defined and reviewed quarterly.

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 usage 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 Company’s Board and if in the view of the Board it is appropriate, the Council as shareholder.

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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.

14.0 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.

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16.0 Conclusions

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.

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 the Council, as shareholder, to present to the Council's Cabinet.
- RBC's Cabinet agrees any land disposals required by the Business Plan and recommends the Business Plan, the annual budget and investment required to the Council
- The Council approves the annual budget Business Plan and investment in the company.
- The Board prepares a half year report to the Chief Executive, as Shareholder, reviewing progress against the Business Plan. The Shareholder 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 the Council, 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.

This Business Plan outlines proposals for the next five years of Rushmoor Homes' operation and will be reviewed annually or more regularly where required. Despite difficulties in delivery during 2020/21 the company is on course to 59 homes for private market rent that will contribute to the supply of 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

Financial year	20/21												21/22												22/23												23/24																								
Calendar Month	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													
Calendar year													2												3												4																								
Month from co formation	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													
Scheme																																																													
12 Arthur Street	3																																																												
Ship Lane Lodge	1																																																												
LA 69 Victoria Road & LA 3a Arthu	4																																																												
Discounted Rent	2																																																												
Land at Churchill Crescent	8																																																												
237 High Street Aldershot	4																																																												
Manor Park Cottage NB	1																																																												
Fleet Road Scout Hut	4																																																												
Redan Road	6																																																												
Pool Road Depot	6																																																												
Union Street East	8																																																												
11 Wellington Street	2																																																												
Water Lane	2																																																												
Manor Park Cottage	1																																																												
Manor Park Lodge	1																																																												
2a Windsor Way	6																																																												
	59												4												2												35												18												
																																																		TOT 59											

Ca = Council approval
 Pa = Planning application
 T = Transfer
 C = Completion

T = Transfer
 Pp = Planning permission
 S. = Start on site
 L. = Letting

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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 Oct 2020 £525,000 OMV residential use with vacant possession £465,000 OMV residential use, flats let on assured shorthold tenancies £360,000 OMV residential use, restricted to ASTs
Option appraisal	Completed
Financial appraisal	At a value of £465,000 IRR over 60 years 5.6%. NPV at 4% shows payback by year 47
Return on costs	5%
Cost to value	89.1%

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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 with vacant possession
Site Area	133sqm
Title	Registered HP812119
Access to Highway	See attached GIS plan
Planning	Established residential use
Utilities	Checked 2016 new requests required
Valuation	Carter Jonas valuations October 2020 £385,000 OMV residential use with vacant possession £335,000 OMV residential use, flats let on assured shorthold tenancies £210,000 OMV residential use, restricted to ASTs
Option appraisal	Completed
Financial appraisal	At a purchase price of £210,000 IRR over 60 years 8.% NPV @4% shows payback at year 32
Return on costs	6.3% (net rent/purchase price)
Cost to value	100.7%

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154 Ship Lane

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3. Land adjacent 3a Arthur Street and Land adjacent 69 Victoria Road, Aldershot

Site details	
Address	Arthur Street Aldershot GU11 1HJ
Description	Two vacant sites last used for parking. Four one bed flats proposed
Site Area	150sqm & 170sqm
Title	Registered HP781025 &
Access to Highway	GIS plan attached
Planning	Term contract parking 89/00035/RBC (3a Arthur Street)
Utilities	Checked 2016. New requests needed
Valuation	Carter Jonas valuations 2019 3a Arthur Street. Market value for residential with planning permission £55,000 (excluding S106 contributions) Market value without planning permission £122,000 69 Victoria Road Market Value for residential with planning permission £6,500 Market Value without planning permission £66,500 Valuation updates required to reflect re-worked schemes and market changes since 2019.
Option appraisal	TBC
Financial appraisal	To be completed
Return on costs	
Cost to value	

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4. 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	Carter Jonas 2019 Open Market value for residential use with planning permission £650,000 Open Market value residential use with ASTs £450,000 Open Market value residential restricted to letting on ASTs at OMR £390,000
Option appraisal	TBC
Financial appraisal	
Return on costs	
Cost to value	

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Land at Churchill Crescent

Risk No.	Risk Description	Risk Mitigation Owner	Initial Risk Value				Risk Action	Actions	Residual Value			Date Closed	
			Likelihood	Impact					Risk Value	Likelihood	Impact		Risk Value
1	Increase in Public Works Loan Board interest charges		2	3	0		6	TREAT (Mitigate to reduce risk, controls)	Rerun business plan, with sensitivities, to understand interest rate risk impact, keep a live exit strategy	2	2	4	
2	Changes in national or local priorities and policies restrict RBC's ability to fund		2	3	0		6	TERMINATE (eliminate risk)	Re run business plan to understand impact. Consider alternative funding sources. Consider disposals and exit strategy.	2	2	4	
4	Reduced rental values - including risk of introduction of rent controls		2	3	0		6	TERMINATE (eliminate risk)	Consistent monitoring of rental market and business plan to determine if sale of property is appropriate.	2	2	4	
5	Reduced capital growth rate		1	2	0		2	TERMINATE (eliminate risk)	Have a live exit strategy in place, and review continued investment appetite	1	1	1	
6	Repairs costs rising		3	3	0		9	TREAT (Mitigate to reduce risk, controls)	A good understanding of the condition of the property in the portfolio and age and replacement date of building elements Keep under review to determine whether sale of property is appropriate. Tender repairs contract regularly.	3	2	6	
7	Increase in construction costs		2	3			6	TERMINATE (eliminate risk)	Effective scheme management with appropriate gateways Re planning business plan to understand impact. Effective procurement 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/		3	3	0	9	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 contractual responsibilities and include provision in scheme costs for client variations or do not permit client changes once contract is signed	3	2	6
9	Business plan not performing as expected		2	3	0	6	TREAT (Mitigate to reduce risk, controls)	Review underlying assumptions, and assess if relevant in current climate, rerun with sensitivities to provide options , and implement stragetice changes	2	2	4
10	Changes to taxation, corporation tax, SDLT, VAT		2	3	0	6	TREAT (Mitigate to reduce risk, controls)	Take advice as to options to change busines model to mitigate impac of taxation changes	2	2	4
11	Expansion opportunities limited		1	3	0	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 stragetice changes	1	2	2
12	Limited capacity to deliver programme - skills and expertise		3	3	0	9	TREAT (Mitigate to reduce risk, controls)	Consider costs of acquiring additional staff with relevant skills, training options, use of consultants. Re run business plan with these additional costs and adjust business plan outcomes.	2	2	4
13	Operational risks - bad debts, damage to property, voids		3	3	0	9	TREAT (Mitigate to reduce risk, controls)	Specify rigorously and employ a suitably qualified managing agent. Careful tenant selection. Tenant support.	2	2	4

Housing data sheet

Last updated: March 2020

Produced by: Strategy, Performance and Partnerships

Contact: policy@rushmoor.gov.uk

Summary – A higher percentage of people rent in Rushmoor than in the surrounding areas. Rushmoor has a higher percentage of lower Council Tax band properties than its geographical neighbours and lower average house prices. In 2019, the mean average house price in Rushmoor was £312,155, which is a 3.5% increase from £301,724 in 2018. The median average house price was £298,000 in 2019, which is a 1% increase from £295,000 in 2018. On average, it is cheaper to rent in Rushmoor than in the surrounding local authority areas.

Tenure

In 2011, the Census showed that Rushmoor had 36,344 households. 63.5% of these households owned their home, 16.3% were rented from social landlords (Housing Associations) and 17.6% were privately rented. Also, 1.8% of households were living in shared ownership properties (part owned and part rented) and 0.8% of households were living rent free. The following table shows the tenure of households in Rushmoor and the surrounding areas.

2011 Census	Rushmoor	England	Surrey Heath	Guildford	Waverley	Hart
Number of households	36,344	-	33,546	53,973	49,280	35,510
Owned	63.5%	63.3%	76.8%	68.8%	73.7%	78.1%
Rented privately	17.6%	16.8%	12.1%	15.8%	11.3%	12.1%
Rented from social landlords	16.3%	17.7%	9.2%	12.8%	12.3%	7.7%
Shared ownership	1.8%	0.8%	0.8%	1.3%	1.0%	1.1%
Living rent free	0.8%	1.3%	1.0%	1.3%	1.75	1.0%

(Source: Office for National Statistics 2011 Census)

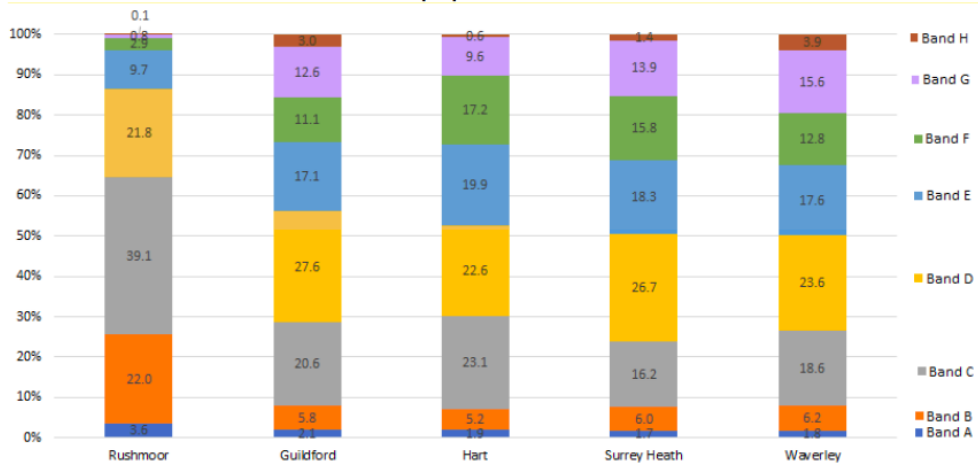
Rushmoor has lower percentages of households that own their own house and a higher percentage that rent from social landlords, than the surrounding areas. However, tenure in Rushmoor is similar to England.

Types of housing in Rushmoor

As of the 31st of March 2019 there were 40,360 Council Tax properties in Rushmoor. The following chart shows the percentage of dwellings in each Council Tax band for Rushmoor and Rushmoor's surrounding local authority areas, in order of the highest percent of band D properties and below. Band D is the base at which Council Tax in an area is set, the amount reduces towards band A and increased towards band H. A higher percentage of housing in Rushmoor is at the lower end of the property market.

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Percentage of dwellings in each Council Tax band in order of the highest to lowest percentage of band D properties and below



(Source: VOA <https://www.gov.uk/government/statistics/council-tax-stock-of-properties-2019>)

In 2019, 86.5% of Rushmoor properties were in band D or below. This is a higher percentage than the South East (which is 71.5% band D and below), and a higher percentage than England as a whole (which is 81.2% band D and below). The table above clearly shows that Rushmoor has a higher percentage of lower band dwellings (band A to D) than its surrounding local authorities, suggesting a higher percentage of smaller dwellings.

House prices

The following table shows the average house prices for Rushmoor and the surrounding areas. The data is the price paid data from the Land Registry for 2019, it shows that the mean average house price in Rushmoor is £312,155 and the median average house price is £298,000. The data includes the sale price of shared ownership properties, which are a lower amount as they are a percentage of the total price.

January to December 2019	Mean house price	Median house price
Rushmoor	£312,155	£298,000
Surrey Heath	£469,396	£411,750
Guildford	£533,734	£425,000
Waverley	£547,752	£450,000
Hart	£445,400	£395,000

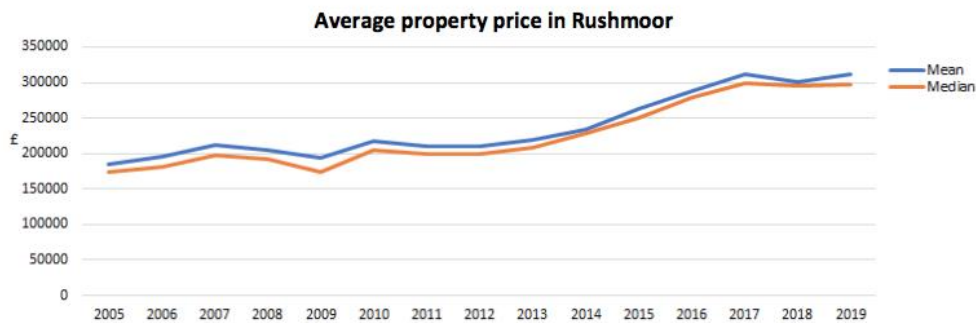
(Source: Contains HM Land Registry data © Crown copyright and database right 2019. This data is licensed under the Open Government Licence v3.0. <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads>)

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The mean and the median house price is lower in Rushmoor than in the surrounding areas, this reflects the higher percentage of properties in lower Council Tax Bands in Rushmoor.

Average price over time

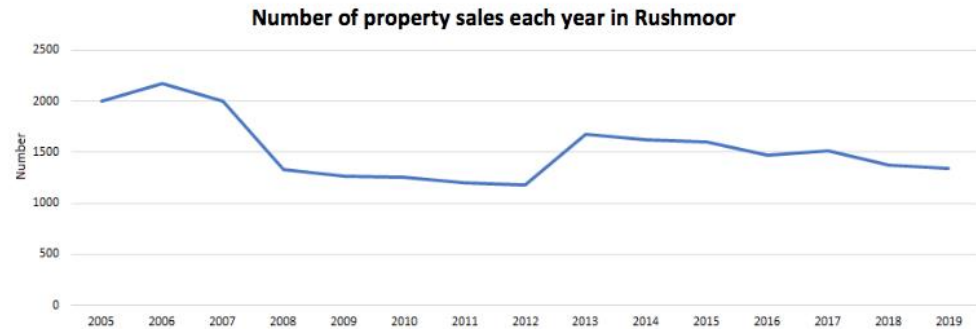
The mean average house price in Rushmoor was £312,155 in 2019, which is a 3.5% increase from £301,724 in 2018. The median average house price was £298,000 in 2019, which is a 1% increase from £295,000 in 2018. The following chart shows the average property price over the past 14 years, clearly showing the impact of the recession on house prices in 2009.



(Source: Contains HM Land Registry data © Crown copyright and database right 2019. This data is licensed under the Open Government Licence v3.0. <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads>)

Number of sales

The following chart shows the number of property sales each year.



(Source: Contains HM Land Registry data © Crown copyright and database right 2019. This data is licensed under the Open Government Licence v3.0. <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads>)

Between 1st January 2019 and 31st December 2019 there were 1,345 houses sales, comprising of 398 sales of terrace houses, 384 sales of semi-detached houses, 348 sales of flats, and 215 sales of detached houses.

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Type of property

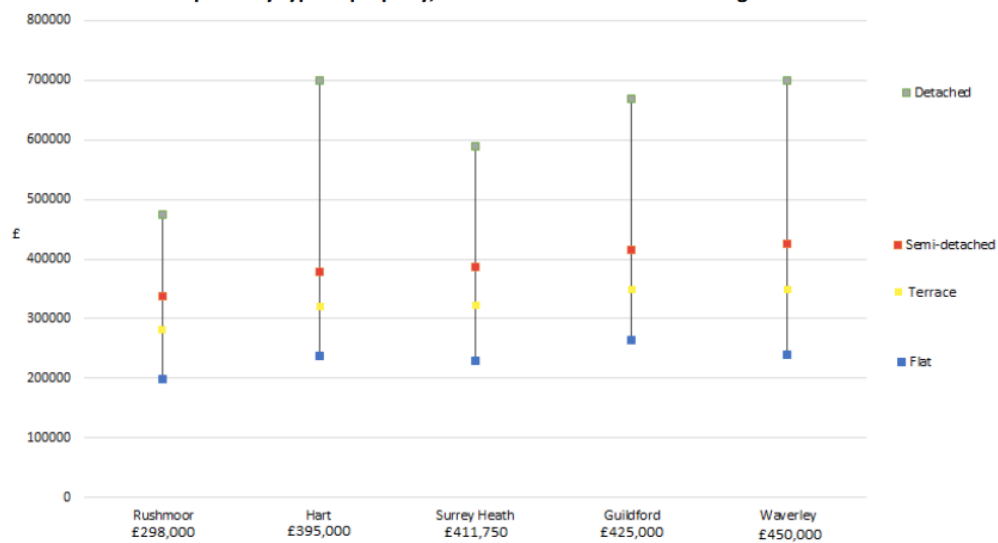
The following table shows the average price for each property type for Rushmoor and by town. Farnborough properties appear to be slightly more expensive than Aldershot properties.

Median (Mean)	Rushmoor	Aldershot	Farnborough
Flat	£198,800 (£195,543)	£186,000 (£186,265)	£210,000 (£204,899)
Terrace	£285,500 (£292,794)	£280,000 (£289,319)	£292,500 (£295,179)
Semi-detached	£337,000 (£340,069)	£327,500 (£333,098)	£340,000 (£345,905)
Detached	£475,000 (£486,892)	£472,750 (£470,138)	£475,000 (£495,684)

(Source: Contains HM Land Registry data © Crown copyright and database right 2019. This data is licensed under the Open Government Licence v3.0. <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads>)

The following chart shows the median house price by property type, in Rushmoor and the surrounding local authorities. The largest difference in house price is for detached properties, there is much less of a difference in the average price of flats.

2019 median house prices by type of property, in Rushmoor and the surrounding local authorities



(Source: Contains HM Land Registry data © Crown copyright and database right 2019. This data is licensed under the Open Government Licence v3.0. <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads>)

DRAFT

Affordability

The following table shows the ratio between the median house price (price paid) January – December 2019, and the median work based earning and the median resident based earnings.

2019 Ratio	Using resident based earnings	Using work based earnings
Rushmoor	9.5	8.5
Surrey Heath	12.2	12.5
Guildford	13.9	15.8
Waverley	13.9	18.8
Hart	12.1	12.2

(Source: NOMIS <http://www.nomisweb.co.uk/reports/lmp/la/1946157308/report.aspx?town=rushmoor> and Contains HM Land Registry data © Crown copyright and database right 2019. This data is licensed under the Open Government Licence v3.0. <https://www.gov.uk/government/statistical-data-sets/price-paid-data-downloads>)

Rushmoor appears more affordable than surrounding authorities using the work based earnings and using the resident based earnings.

Average rental prices

The table below shows the average median monthly rental prices for residential properties in Rushmoor and the surrounding local authority areas.

1 April 2018 to 31 March 2019	Room	Studio	1 bedroom	2 bedrooms	3 bedrooms	4 or more bedrooms	Summary of monthly rents
Rushmoor	£433	£608	£725	£900	£1,195	£1,495	£825
Surrey Heath	£495	£520	£798	£975	£1,250	£1,900	£990
Guildford	£575	£825	£925	£1,250	£1,550	£2,400	£1,285
Waverley	£550	£713	£850	£1,050	£1,350	£2,000	£1,100
Hart	£550	£695	£790	£950	£1,250	£1,700	£985

(Source: Valuation Office Agency <https://www.gov.uk/government/collections/private-rental-market-statistics>)

On average, it is cheaper to rent in Rushmoor than in the surrounding local authority areas. If the average rental price was calculated for a whole year, the data would show that the average yearly cost of renting a property in Rushmoor is £9,900.

The average rental price in Rushmoor in 2018/19, from a private registered provider of social housing is £110.36 a week, which works out at £5,739 a year.

(Source: Department of Communities and Local Government <https://www.gov.uk/government/statistical-data-sets/live-tables-on-rents-lettings-and-tenancies>)

APPENDIX 2

Report on Rushmoor Homes Limited progress on Business Plan

SUMMARY AND RECOMMENDATIONS

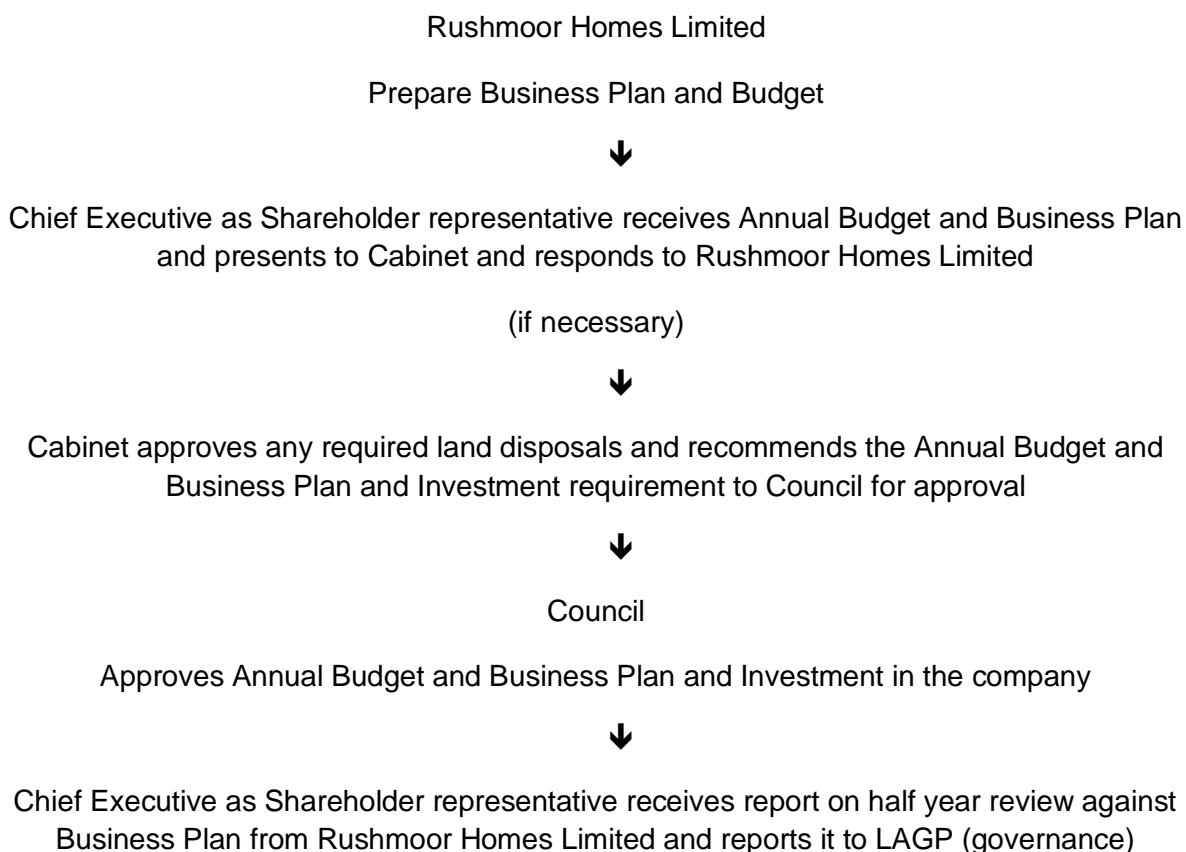
This report on progress against its Business Plan has been prepared by Rushmoor Homes Ltd for the Chief Executive of Rushmoor Borough Council in his capacity of shareholder representative and for his determination of whether there is a need for its consideration by Overview & Scrutiny Committee, Licensing and General Purposes Committee or Policy and Projects Advisory Board.

1.0 INTRODUCTION

1.1 Rushmoor Homes Ltd's first Business Plan was finalised in the early part of 2020 and was approved by the Council at its meeting of 20 February 2020.

1.2 The governance arrangements established for the company can be summarised as follows

Annual Cycle of Rushmoor Homes/Council 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

1.3 This report is the half yearly review against the business plan

2.0 **BACKGROUND**

Setting up the Company

2.1 Following Council decisions to (a) set up a housing company and (b) to approve the draft company business plan, the following has been delivered

- incorporation of Rushmoor Homes Ltd on 22 April 2020
- shareholder approval of the business plan
- Company documentation completed: the Memorandum of Association, Articles of Association, shareholder agreement, facility agreement and a debenture.
- Procurement of a managing agent to manage RHLtd properties

The Business Plan

2.2 The business plan covered the first five years operation of Rushmoor Homes Ltd (RHLtd). It contains the company's targets, development programme and funding requirements. It is to be updated annually.

2.3 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.

2.4 For year one the targets were as set out in the table below along with a report on progress

Table 1

	First six months (22 April –22 October)	Estimate for full year (22 April – 31 March)
Delivery of 10 new homes for market rent	Nil	4
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)	Will be evaluated on a scheme by scheme basis.	Will be evaluated on a scheme by scheme basis
Repay loans by year 44	50	50
Provide the Council with an annual income based on interest of 5.5% on loans taken from the Council of an estimated borrowing of £ 3.2m £283,000 net income on average over ten years	Nil	£10,600

3.0 DELIVERY OF THE PORTFOLIO DEVELOPMENT PROGRAMME

3.1 The Business Plan contained an indicative portfolio development programme on which the financial modelling was based. The current estimated programme is shown in table 2 with Business Plan estimates shown in brackets.

Site	No. Units Current est. (BP est)	Estimated completion
12 Arthur Street (A)	3 (3)	20/21
Ship Lane Cemetery Lodge (F)	1 (1)	20/21
Land adj. 3A Arthur Street (F)	0 (4)	21/22 (20/21)
Land adj. 69 Victoria Road (F)	4 (2)	21/22 (20/21)

Land at Churchill Crescent (F)	8 (8)	21/22
237 High Street, (A)	4 (6)	21/22
Redan Road Depot (A)	6 (6)	21/22
Pool Road Depot (A)	6 (6)	21/22
Manor Park Cottage New Build (A)	1 (1)	22/23
Land adj Fleet Road Scout Hut (F)	6 (6)	22/23
Union Street East Car park (F)	8 (8)	22/23
11 Wellington Street (A)	2 (2)	22/23
Land at Water Lane (F)	2 (2)	23/24
Manor Park Cottage (A)	1 (1)	23/24
Manor Park Lodge (A)	1 (1)	23/24
TOTAL	53 (57)	

3.2 Delivery of the programme has been delayed, in part due to Covid 19 restrictions but also due to the challenges of developing small sites, in low value locations, many of which have issues to be resolved before they can be transferred to the company.

4.0 **SITES UPDATE**

12 Arthur Street

4.2. Converted to 3 flats. These are ready for letting pending the start of the managing agent contract. There is a dispute with the adjoining owner regarding an encroachment which has delayed transfer of the site from the Council to RHLtd. Negotiations are progressing and the Council will indemnify the company for any future costs arising from this encroachment claim.

154 Ship Lane

4.3 To transfer this property to RHLtd in a condition suitable for letting the Council is undertaking refurbishment works. Once these are completed the property will be transferred.

Land adjacent to 3a Arthur Street and 69 Victoria Road.

4.4. These parcels of land are expected to be developed as one scheme with 4 x 1 bed flats on land adjacent to 69 Victoria Road and 4 parking spaces on land adjacent 3a Arthur Street. This form of development provides parking to meet the Council's standards and prevents loss of on street parking.

Land at Churchill Crescent

4.5. Discussions are continuing with Vivid on a joint development.

237 High Street

4.6 Site capacity drawings have been prepared. The potential for developing a wider scheme with adjoining owners has been considered, however, recent valuations suggest that this is not a viable proposition.

Redan Road, Pool Road, Land adjacent Manor Park Cottage, and Land adjacent to Fleet Road Scout Hut

4.7 These sites are included in a specification for the appointment of architects for the next tranche of development schemes.

4.8 There are a range of issues that will need to be resolved in connection with these sites for example resolving trust issues on Redan Road depot site, land swaps to create a more developable site at Pool Road depot, highways issues at Fleet Road.

4.8 No action has yet been taken on the remaining sites.

5.0 REVISED FINANCIAL PROJECTIONS

Company Balance Sheet Year One

	Year One projections £'000s	Revised projections £'000s
ASSETS		
Assets -cumulative	3,070.9	674.9
Assets cash	0	0
Net all assests	3,079.9	674.9
FINANCING		
Accumulated (profit)/loss	123.7	95.9
Financing - loans	(3,194.5)	(770.7)
Financing - equity	(0.1)	(0.1)
Total finance	(3,070.9)	(674.9)

Company Profit and Loss: Income

	Year One projections £	Revised Projections £
RENT INCOME (gross)	(44,400)	(12,700)
Deductions	9,300	3,000
NET RENT	(35,100)	(9,700)
OPERATING COSTS	95,000	95,000
FINANCING AND TAXATION		
Interest payments	63,800	10,600
Corporation Tax	0	0

Total finance and tax costs	63,800	10,600
NET (PROFIT)/LOSS	123,700	95,900

Interest payments

5.1 Based on the estimates included in the business plan, RHLtd would pay the Council £63,800 interest in the current financial year. Based on current estimates this will be £10,600.

6.0 COMPANY MANAGEMENT

Staffing

6.2 RHLtd is staffed by Council employees for which RHLtd pays a charge. In the first six months of operation 270.9 hours were devoted to housing company work to a value of £14,651.

6.3 The staff working for RHLtd are

- Head of Economy, Planning and Strategic Housing
- Project accountant (now retired)
- Housing Enabling and Development Manager
- Regeneration and Property Graduate Trainee

6.4 Support is provided from time to time from

- Procurement Officer
- Legal Services

Other support

6.5 RHLtd is formalising the appointment of LRG Romans as its managing agent.

6.6 Procurement for independent legal advice is underway.

The Board

6.7 The Board of Directors comprises

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

6.8 The Board meets every six weeks. Each meeting is minuted and actions recorded in an action log.

6.9 The Board is supported by officers.

Audit Review

6.10 During the first six months an Audit Review of the Housing Company and Rushmoor Development Partnership was undertaken and is anticipated to report in the second half of the year.

7.0 **CONCLUSION**

7.1 In terms of establishing the company and putting in place the support it needs to develop and manage properties; good progress has been made. The focus will now be on development so that the company can begin to deliver on its business plan objectives. Potential risks to delivery are Covid 19 and any further lockdowns, staff resources and the challenges of developing small sites, many of which have problems to resolve.

Council Risk register RHLtd

Matrix & RAG Risk Rating

Severity of Outcome (S)	4					High Risk		Strongly consider further mitigation, tolerating risk is unlikely to be acceptable	
	3						Med. Risk		Tolerable if risk/exposure is acceptable at senior level
	2						Low Risk		Additional action may not be necessary to manage risk
	1								
		1	2	3	4				
	Likelihood of Occurrence (L)								

Rating Consistency Guidance

	Likelihood of Occurrence (L)	Severity of Outcome (S)
1	Very unlikely Very unlikely to occur, (no history or near misses etc). Less than 5% probability.	Minor Risk to specific role. Legal action unlikely. No significant illness or injury. Negative customer complaint. Financial impact negligible.
2	Unlikely Unlikely but may occur (may have happened, but not within past 5 years). Is not expected to happen in next 5 years, less than 25% probability	Moderate Risk to normal continuation of service. Legal action possible but defensible. Short term absence/minor injury. Negative customer complaints widespread. Financial impact manageable within existing Service budget.
3	Likely Likely to occur (or already happened in the past 2 to 5 years). Is expected to happen in the next 2 to 5 years, 25 - 50% probability	Significant Partial loss of service. Legal action likely. Extensive injuries or sickness. Negative local publicity. Significant fine. Financial impact manageable within existing Corporate budget - but not Service.
4	Very likely Very likely to occur (or has already happened in the past year), may occur frequently. Is expected to happen in the next year, more than 50% probability	Major Total loss of service. Legal action likely & difficult to defend. Death or life threatening. Negative National publicity. Imprisonment. Financial impact not manageable within existing funds.

Risk Register : RBC Risks connected with Rushmoor Homes Ltd

Risk Title	Suitable for Public Register Y / N	Risk Type: Service (S) Escalated Service (ES) Standing Corp. (SC) Strategic (ST)	Risk Owner	Risk Description & Potential Outcomes (reasonable worst-case scenario)	Existing Controls / Mitigation	Additional Mitigation Planned – including Timelines/Deadlines	Risk Score		Risk Category / RAG Rating
							L	S	
RHLtd fails to complete its developments on time and its ability to repay loans and interest is compromised.	Y	ST	TM	Income stream from RHLtd lower than expected with impact on Council finances.	<p>Review RHLtd to ensure it is regularly monitoring its performance and reporting as required to RBC.</p> <p>Review with RHLtd its financial model to ensure appropriate sensitivity testing of RHLtd’s programme.</p> <p>Ensure that staffing resources supporting RHLtd from the Council are provided and as part of reporting consider whether RHLtd has adequate arrangements in place to deliver its programme.</p>	Housing Company model to be reviewed to provide cashflow forecasting and performance measures for better monitoring	2	3	
RHLtd's extent and pace of	Y	ST	TM		Review RHLtd to ensure it is regularly monitoring	Housing Company model to be reviewed to	3	2	

delivery of development is not in accordance with the Business Plan leading to lower borrowing than expected and income to the Council is reduced.					its performance and reporting as required to RBC. Review with RHLtd its financial model to ensure appropriate sensitivity testing of RHLtd's programme. Ensure that staffing resources supporting RHLtd from the Council are provided and as part of reporting consider whether RHLtd has adequate arrangements in place to deliver its programme.	provide cashflow forecasting and performance measures for better performance monitoring.			
RHLtds operational performance does not meet the Business Plan and it is not able to meet loan and interest repayments	Y	ST	TM		RHLtds operational performance does not meet the Business Plan and it is not able to meet loan and interest repayments	Housing Company model to be reviewed to provide cashflow forecasting and performance measures for better performance monitoring.	2	3	
RHLtd performs badly against its Business Plan and its	Y	ST	TM		Review RHLtd to ensure it is regularly monitoring its performance and reporting as required to	Housing Company model to be reviewed to provide cashflow forecasting and	2	3	

performance and projected repayment of loans means that it can no longer meet the test for being a going concern					<p>RBC. Review with RHLtd its financial model to ensure appropriate sensitivity testing of RHLtd's programme is in place. Ensure that staffing resources supporting RHLtd from the Council are provided and as part of reporting consider whether RHLtd has adequate arrangements in place to deliver its programme. Ensure Exit Plan is up to date and can be implemented if necessary</p>	performance measures for better performance monitoring.			
RBCs ability to borrow from the Public Works Loan Board to finance RHLtd is compromised.	Y	ST	TM		<p>Monitor Government thinking and guidance to ensure any changes that might impact lending to RHLtd are identified as early as possible. Consider if changes are proposed their potential impact on lending to RHLtd in the context of the Council's overall</p>	Housing Company model to be reviewed to provide cashflow forecasting and performance measures for better performance monitoring.	2	3	

					<p>Treasury Management strategy and needs. Review with RHLtd alternative funding approaches and the viability of RHLtd and delivery of its programme with any alternative sources of funding. If a viable way forward is not feasible work with RHLtd on delivery of its exit strategy.</p>				
RHLtd requires additional funding to allow it to complete developments and realise funds to repay existing loans.	Y	ST	TM		<p>Making sure RHLtd is staffing adequately to meet its programme timelines. Making sure RBC has sufficient capacity to deal with RHLtd matters as required. Making sure RHLtd is regularly monitoring its performance and reporting as required to RBC. Consider if sales of existing RHLtd property could meet the funding gap</p>	Housing Company model to be reviewed to provide cashflow forecasting and performance measures for better performance monitoring.	2	3	

					Assess whether additional funding can be repaid by sales of the developments for which funding is being sought.				
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