



## Business Plan Update – 2020-2026

### Introduction

This report provides the key background changes to the original Now Housing Limited business plan of September 2019 for the updated version, attached as an appendix.

The original plan presented for the period 2019-2025 assumed the acquisition and development of 372 homes, rented at Local Housing Allowance (LHA) levels on assured tenancies. Peak borrowing was projected at £77.2million and the potential to repay all loans by year 49 of the plan.

The plan has been updated to reflect the most up to date position in terms of assumptions around the costs and timing of acquisitions and potential developments along with latest operating costs as detailed below. There is marginal growth in the number of units from 372 to 383.

### Acquisition Strategy

The plan has been updated in respect of the following changes from the original 346 acquisition planned to 368.

*Inspira House:* This property is now forecast to be acquired in April 2023 rather than April 2021 with the number of units remaining the same but inflation has been applied to the purchase price to reflect the consequence of the delay.

*Chequersfield:* The acquisition completed in mid-December 2020 from the previously assumed April 2020 date. In addition, the number of units has been reduced to 12 from 20 with a revised acquisition price and specific loan facility arrangement at a rate of 3.25%.

*Open Market Acquisitions:* The number of units and ratios between bed sizes and location projected to be acquired remains the same at 120, albeit delayed by 1 year with the programme commencing April 2021. We have taken this opportunity to reflect the latest market values at today's prices and assumed an inflationary increase of 2% for April 2021. The table below shows the changes to previously modelled prices.

£	Location	April-2019	Inflated	Dec-2020
1 Bed Flat	Hatfield	175,000	178,500	185,000
2 Bed Flat	Hatfield	205,000	209,000	225,000
1 Bed Flat	WGC	190,000	194,000	200,000
2 Bed Flat	WGC	215,000	219,500	230,000

*Section 106 Sites:* Previously 114 properties were modelled to be acquired from sites from units that are classified for market sale. The timetable for acquisitions has been amended to reflect delays in delivery but also changes to potential sites. A net increase of 10 units has been assumed due to the changes in these sites, but also uplifts to assumed acquisition prices of c£15,000 of between 5.5%-6.0%.

*Discounted Market Purchases:* The number of acquisitions, ratios and location projected remains the same at 48, again delayed by 1 year commencing April 2021. The increases to house prices when compared to flats does not seem as high, however, we have applied the following rates as below:

£	Location	April-2019	Inflated	Dec-2020
2 Bed House	Hatfield	280,000	285,500	290,000
3 Bed House	Hatfield	300,000	306,000	310,000
4 Bed House	Hatfield	400,000	408,000	350,000
2 Bed House	WGC	280,000	285,500	300,000
3 Bed House	WGC	330,000	336,500	340,000
4 Bed House	WGC	420,000	428,500	430,000

*Swallowfields:* This is a newly proposed site of 20 flats derived from an office conversion at an estimated value of £3.7million, to be acquired in June 2021.

### Development Strategy

The number of assumed developed properties has reduced from 26 to 16 within this plan.

*Inspira House Void Land:* The development of 4 flats has been delayed commencing until April 2023 to allow for transfer of the land instead of April 2021 and following a review has been revised to 3 flats. Build costs have been amended to reflect inflation.

*Homestead Court:* The assumption is that this will continue to be developed providing 12 units although commencing in April 2022 rather than April 2020. Again, inflationary assumptions have been made for build costs.

*Inspira House (Top-Hatting):* The development of adding an additional floor to this building to provide 10 flats is now not deemed possible due to planning restrictions.

### Rent Levels

As per the previous version of the plan LHA levels have been used as the basis for rent levels whilst the flex product is developed. Due to the pandemic LHA levels were revisited in April this year and detailed in the table below:

£	2019.20 Levels	Inflated	2020.21
Bedsit	155.50	158.61	127.32*
1 Bed	155.50	158.61	172.60
2 Bed	197.81	201.77	212.88
3 Bed	244.31	249.20	276.16
4 Bed	293.79	299.67	322.19

\*The bedsit rate has been revised on the basis of the median point between a 1 Bedroom property and one with shared facilities as categorised with the LHA allowable levels.

It is also assumed that the 2020.21 rates will not have an inflationary increase applied for 2021.22 giving a prudent position pending the outcome of any Government spending reviews.

### Operating Costs

In the main, the assumptions in respect of direct operating costs remain the same as before with a management fee of 4% (net of VAT) charged by the Council's landlord services. Provisions for day to day, cyclical repairs and future improvements remain as before.

The only exception is that where Now Housing retain ownership of a whole block the management fee is inclusive of caretaking and cleaning costs.

In terms of overhead costs a revised schedule of service level agreements has been proposed and modelled, resulting in a reduction of c£21,000 to those originally proposed.

The plan provides for a proportion of charges in 2020.21 of £25,280 for service level agreements and £50,000 of set-up costs. These are yet to be finalised buy the Council's financial service department.

### Financing

The model remains underpinned by a revolver type loan facility which seeks to use surplus to repay debt whilst drawing finance as required. A specific facility has been modelled for the Chequersfield acquisition for £2.437million to match the annual schedule provided for interest and repayments over a 50-year period.

The revolver facility continues to be modelled at a long-term rate of 3.5%.

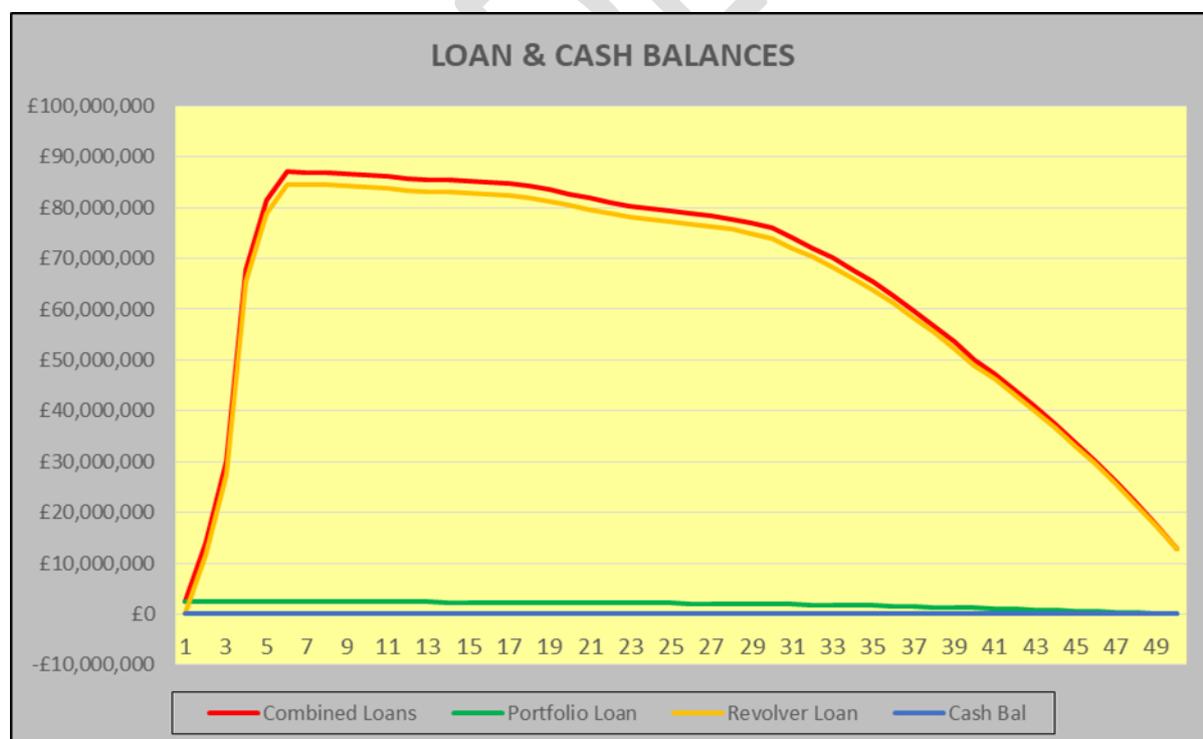
### Inflation Assumptions

Short and Long-term inflation assumptions remain at 2%per annum, with the exception of rent increases (and management fee) for April 2021 where no increase has been applied.

### Corrections to the Model

Following the publication of the model and subsequent checking it was discovered that some of the acquisition expenditure was not being correctly accounted for within the model, therefore understating the borrowing requirement. This has been corrected within the update and audit checks have been made.

### Financial Output



Given the various changes to the model in terms of uplifts to acquisition costs, delays for implementation, correction required to the model these have been offset by higher rent levels and reduced overhead costs. Peak borrowing is now £87.2million.

The duration for potential loan repayment has been extended by c5 years, but remains within 50 years in terms of final projected acquisitions.

Summary

This summarised update provides the Board with the key changes made to the model and attached is an abbreviated plan from that previously presented to the Council.

The acquisition and development of properties will be continually subject to independent appraisal for meeting the required hurdles and the recent reduction in cost of borrowing for the Council will enhance the position in order to achieve finance for acquisitions to progress.

Simon Smith  
December 2020

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