



## Indicative Business Plan – 2020-2026

### 1. Introduction

The Board last approved the updated business plan in December 2020 for the acquisition and development of 383 units over the period of 2020 to 2026.

As part of the council's budgeting requirements and the need to identify future spending and subsequent borrowing requirements, and to assist Now Housing with its long-term planning, an interim review of the Business Plan has been carried out in October 2021. This indicative Business Plan will assist the council in identifying the borrowing requirements over the next 5 years.

Rather than produce the full annual business plan document earlier than the usual schedule we have produced an indicative cashflow, with the rationale that sits behind, that will be developed over the coming months. It is anticipated that this will be usual practice from hereafter.

This provides the opportunity to update the plan with the latest assumptions, details of support charges and how Now Housing plan to deliver the 418 properties that now form this latest indicative plan.

### 2. Acquisition Strategy

The December 2020 plan consisted of the forecast acquisition of the following areas to deliver and own 368 properties.

#### December 2020 Acquisition Programme

Route	No. Of Properties	Period
Chequersfield	12	2020/21
Swallowfields	20	2021/22
Inspira House	54	2023/24
Acquisitions from New Developments	114	3 Years
Open Market Acquisitions	120	5 Years
Discounted Market Acquisition	48	5 Years
<b>Total</b>	<b>368</b>	

The plan has been updated in respect of the following changes from the original 368 acquisitions planned to the 416 now proposed.

**Chequersfield:** The acquisition completed in mid-December 2020 for the 12 units which are fully let and operational. This development was funded with a specific loan facility arrangement at a rate of 3.25%, with a prescriptive repayment schedule.

**Inspira House:** This block is now forecast to be acquired from the council in March 2025 rather than April 2023 due to delays with the council's temporary accommodation strategy, which will eventually free up Inspira House for sale to the company. The number of units remaining the same.



**Swallowfields:** This was a newly proposed site of 20 flats derived from an office conversion originally anticipated to be delivered in June 2021. For this update we have excluded this acquisition for this indicative plan for a number of factors and given that the development is not complete at the time of writing. There may be the opportunity for its inclusion at a later date or used as a substitution, dependent upon its viability.

**Open Market Acquisitions:** The December 2020 plan relied substantially upon the acquisition of 120 properties from the open market across the Borough, predominately 1 and 2 bedroom properties. Given the opportunities that are currently available within the Borough to acquire new properties, particularly within their own blocks for ease of management, officers are proposing to focus on the acquisition of new properties direct from developers. Further details are provided for in the New Developments section below.

**New Developments (Section 106 Sites):**

The December 2020 plan provided for the acquisition of 114 units over six developments within the Borough based on assumed discount from open market values. This was based on an initial trawl of sites that were in development at the time of writing with no contact being made with the developers.

This updated indicative plan assumes the acquisition of 310 properties, consisting of eight studio flats, 126 x 1 bed flats, and 126 x 2 bed flats over four sites. These are all in current development with the intention to acquire whole blocks where possible. The council's development team are in early stages of negotiation to acquire these properties at discount to open market values whilst making provision for costs to cover Stamp Duty Land Tax, Valuations, Employers Agent, Legal work, Contingencies and Fees.

Payments are based on the Golden Brick approach and a spread of monthly payments to arrive at the cashflows, rather than a one-off acquisition transaction and in totality commence November 2021 and complete in October 2023, although each scheme is modelled individually.

**Discounted Market Purchases:** The number of acquisitions, ratios and location projected has been reduced to 40, with 2 bed properties making way for the deduction. An allowance has been made for house price inflation of the assumption that acquisitions will commence in 2022/23 at a rate of 8 per year.

In summary the indicative plan for acquisitions is as follows:

August 2021 Indicative Acquisition Programme

Route	No. Of Properties	Period
Chequersfield (Completed)	12	2020/21
Inspira House	54	2024/25
Acquisitions from New Developments	310	2 Years
Discounted Market Acquisition	40	5 Years
<b>Total</b>	<b>416</b>	



### **3. Development Strategy**

The number of assumed developed properties has reduced from 16 to 12 within this plan.

**Inspira House Void Land:** The development of 3 flats has been delayed from April 2023 until April 2025 to allow for transfer of the land. Following a review the number of flats has been reduced to 2 flats. Build costs have been amended to reflect inflation.

**Other Opportunities:** The assumption is that the potential to deliver 12 flats on Housing Revenue Account (HRA) land has been deferred to assess if the HRA should develop this as part of its new build strategy.

### **4. Rent Levels**

As per the December 2020 version of the plan Local Housing Allowance (LHA) levels have been used as the basis for rent levels whilst the flex product is developed. LHA levels remain as before in the table below:

£	2021/22
Studio	127.32*
1 Bed	172.60
2 Bed	212.88
3 Bed	276.16
4 Bed	322.19

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

It is also assumed that the 2021/22 rates will not have an inflationary increase applied for 2022/23 giving a prudent position pending the outcome of any Government spending reviews.

### **5. 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 and other communal charges.

In terms of overhead costs, a revised schedule of service level agreements has been proposed and modelled, resulting in a post 2021/22 annual charge of £30,240.

Other provisions have been made for:

- Bank Charges
- Printing & Stationary
- Insurance (Board & Property)
- Valuations



- External Audit
- Internal Audit
- Additional Legal Advice
- Council Tax on void properties (in addition to void allowance)
- Allowance for Miscellaneous costs

Finally, the plan includes the recharges for the set-up costs within its first year.

#### **6. Corporation Tax**

The previous plan was on the basis of corporation tax remaining at 19% for the duration of the plan, with the original intention for it to be reduced to 17%. However, due to the pandemic the core rate for corporation tax will remain at 19% for profits less than £50,000 and a rate of 25% applied for profits over £250,000 with a sliding scale. This indicative plan now provides for this increase in corporation tax.

#### **7. 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 blended long-term rate of 3.25%.

Future versions of the plan will allow for independent interest rates for each acquisition whilst being able to test the plans ability to repay debt.

#### **8. Inflation Assumptions**

Short and Long-term inflation assumptions remain at 2%per annum, with the exception of rent increases (and management fee) for April 2022 where no increase has been applied.

#### **9. Projected 5-Year Capital Expenditure & Loan Financing**

Financial Year	2020/22	2022/23	2023/24	2024/25	2025/26	2026/27
New Developments	26,027,857	43,876,058	9,791,564	-	-	-
Discounted Acquisitions	-	2,213,757	2,241,490	2,286,320		2,430,151
Chequersfield	2,452,351	-	-	-	-	-
Inspira House Development	-	-	-	8,770,000		
	-	-	-	-	370,192	-
<b>Total Acquisitions</b>	<b>28,480,208</b>	<b>46,089,815</b>	<b>12,033,054</b>	<b>11,056,320</b>	<b>2,752,693</b>	<b>2,430,151</b>
<b>Cumulative Total</b>	<b>28,480,208</b>	<b>74,570,024</b>	<b>86,603,078</b>	<b>97,659,397</b>	<b>100,412,090</b>	<b>102,842,241</b>

<b>Financed By:</b>						
Chequersfield Loan	2,431,000	2,425,000	2,419,000	2,413,000	2,407,000	2,400,980



savills

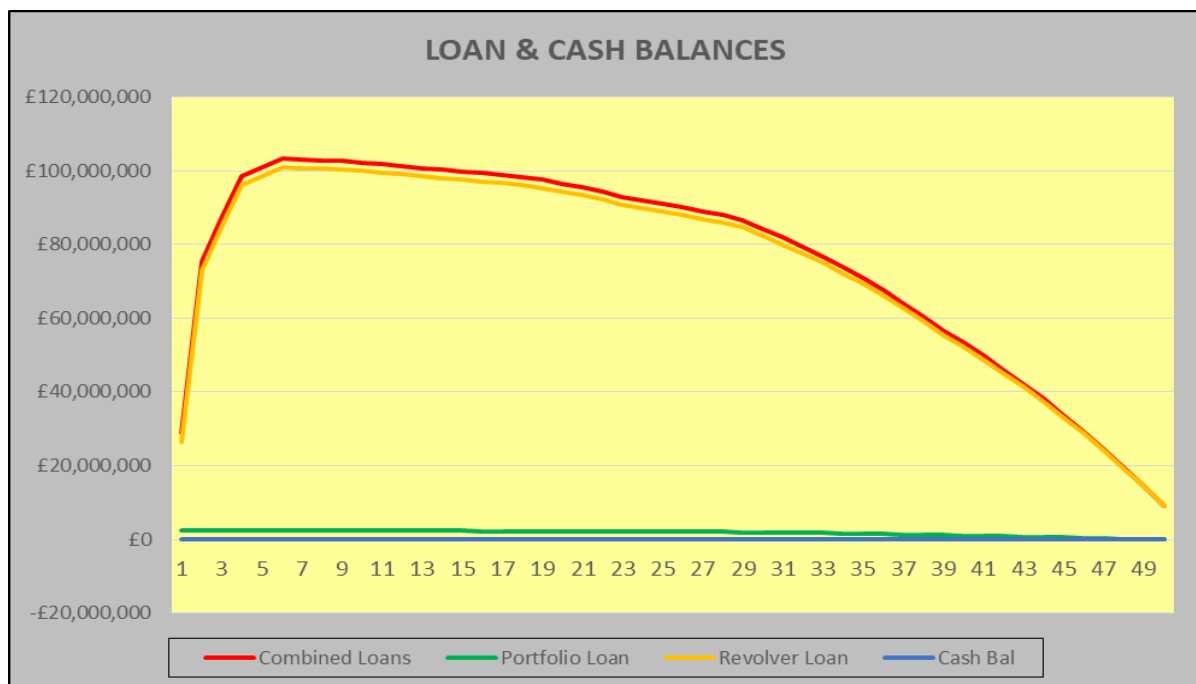
Revolver Loan	26,319,641	73,112,234	85,209,631	95,984,182	98,527,514	100,823,285
Revolver Loan Increase	26,319,641	46,792,593	12,097,397	10,774,551	2,543,332	2,295,771

The Chequersfield loan balances demonstrate the annual repayment that is scheduled to be made.

The revolver loan facility is effectively a mixture of the acquisition finance required, but also an element of working capital to cover the interest on the golden brick payments prior to rents commencing. Also, in the latter years the need for borrowing is reduced for acquisitions based on utilising available surpluses that would otherwise be used for debt repayment.

A full loan schedule would be worked through and incorporated into each revisit of the business plan.

#### 10. Projected 50-Year Loan & Cash Balances Forecast



Year 1 of the plan represents the first financial year of the plan for the extended period of December 2020 to March 2022.

Peak debt is forecast at £103.224million by the end of financial year 2026/27 and then gradually reduces on account of net surpluses being utilised for debt repayment after corporation tax.

The duration for potential loan repayment remains within a 52-year period, although balances are forecast at £8.946million at the conclusion of year 50 of the plan.



## 11. Summary

This summarised update provides the key changes made to the model and the proposed approach to acquisition from developers rather than from the open market.

The key financial benefits of doing so will be:

- New properties with guarantee period
- Energy efficient properties
- Acquisitions in blocks rather than individual sites which brings benefits in term of management

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.

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August 2021