

North East Wales Homes

Business Plan 2015/20



Working in partnership with Flintshire County Council

North East Wales Homes Business Plan

Company Summary

North East Wales Homes, (NEW Homes) is a Housing company based in Flintshire and owned by Flintshire County Council. NEW Homes will own, lease and manage properties across Flintshire. The aim is to increase the quantity and quality of affordable housing to those in housing need and providing a professional service to landlords as one of the means of supplying additional capacity.

NEW Homes will offer tenants quality affordable homes in the private sector and a sustainable managed tenancy.

NEW Homes will offer a range of services for landlords and the individual package will be dependent on the property and the requirements of the landlord.

Additionally as part of NEW Homes growth strategy the company will be developing and acquiring new homes to let.

Company Ownership

NEW Homes has been set up as a company limited by shares with unlimited powers. The Council is the sole shareholder.

The board is currently made up of 8 directors consisting of 5 councillors, 1 council officer and 3 people who are neither a member (as councillors or co-opted members) nor officers, but who have experience in the housing field. All have equal voting rights.

The board can have up to 9 directors made up of up to 5 councillors, up to 1 council officer and up to 3 other directors who are not councillors or council officers. The board is keen for an appropriate range of skills to be present on the board and in the team of officers which supports the business. As such, it will seek to maintain a balance of skills which meet the range and diversity of the business that is outlined in this business plan.

Our Corporate Objectives

NEW Homes has established the following Corporate Objectives:

- To increase the range of housing options for the “squeezed middle” housing market.
- To provide a competitive offer to landlords to encourage growth of the private rented sector.
- To use the income derived from Company assets and activity to help support the affordable offer to tenants.
- To build an asset base to enable a long term vision of building future affordable homes.
- To stay true to the commitment to increase access to affordable housing.
- To provide a professional service with financial stability for NEW homes.

Growth Strategy

The board of NEW Homes met in January 2015 to develop forward plans for growth of the company. A range of ideas and plans emerged from this session and after further analysis and development work this was developed into NEW Homes' Growth Strategy.

There are three key elements of the Council's proposed Growth Strategy in terms of increasing the number of new, affordable units within NEW Homes housing portfolio. These are as follows:

Strategic Housing And Regeneration Programme (SHARP)

For the period January 2016 – December 2019 it is projected that 300 units will be delivered to NEW Homes through Phase 1 of the SHARP. In respect of funding solutions for affordable homes to rent, the most accessible options are long term leasing, obtained by a Council provision of a repayment guarantee. Repayments would be funded from rental incomes with the Council making up any shortfall. Our cost models make robust allowances to make sure that there is sufficient headroom within the funding model to minimise this potential, therefore providing a high level of assurance that arrangements will be self-financing from rental incomes).

New build units transferred to NEW Homes under Section 106 Planning Agreement

NEW Homes received 15 new build properties in 2014/15 from developers meeting their affordable housing provision obligations through Section 106 Agreements. These units were transferred into the company as unencumbered assets to be let as affordable housing and form a profitable element of the company's stock portfolio. The table below describes the pipeline of future agreed 16 properties.

Location	Developer	Housetype	Original Projected Transfer Date
St Mary's Drive, Northop Hall	Anwyl	2 x 3 Bed Houses	December 2015
St Mary's Drive, Northop Hall	Anwyl	3 x 2 Bed Houses	June 2016
Overleigh Drive, Hawarden	Redrow	2 x 3 Bed Houses	August 2015
Overleigh Drive, Hawarden	Redrow	1 x 3 Bed Houses 1 x 2 Bed House	February 2016
High Street, Saltney	Edwards Homes	4 x 2 Bed Houses	November 2016
Cymau Lane, Abermorddu	Anwyl	3 X 2 Bed Houses	June 2016
Total		16	

Mortgaged Units

NEW Homes will borrow against its assets to secure new affordable housing units. Initial plans included in our financial modelling will see NEW Homes acquire 8 affordable housing units.

In the Medium Term, the company will be offering new build affordable rental products, new build shared equity products for particular new build schemes and first time buyer loans. These will be properties delivered as part of the Councils Affordable Housing requirements. NEW homes also plans to enter into leases to manage new homes developed to meet local need and longer term, to develop new homes itself.

Private Borrowing

We are working to explore the opportunities available for NEW Homes to borrow. This could be from the private market directly, either through borrowing secured against its own housing stock or through unsecured borrowing, with the Council potentially acting as a guarantor. We have commenced research into this prospect and have taken advice from Warrington Borough Council which has been funding housing associations for some time. It is possible that the Council may be able to follow Warrington's example and lend to NEW Homes, at the same time creating a return for the Council and a boost to the local economy whilst also providing NEW Homes with the capacity to grow and meet local need.

It is projected that 8 properties will be realised through private borrowing during 2015/16 and 2016/17.

Current Product Portfolio

NEW Homes currently provides the following products:

New build properties

The Council has a small number of properties that have been 'gifted' as part of S106 obligations. These will be transferred into the company as unencumbered assets to be let as affordable housing and will form the company's initial stock portfolio. The company intends to use these assets as collateral for borrowing to acquire new affordable housing units.

Landlord products

The private rented sector is increasingly becoming the tenure of choice for those unable to access mortgage finance. Research suggests there are a number of investors happy to invest in property, but not keen to take on management responsibilities.

Utilising the experience and expertise of the Council as a trusted provider in this regard, NEW Homes manages and lets property on behalf of a landlord who owns property through a management agreement. The product enables the company to take on all the functions of the landlord in return for a one off £195 sign-up fee and a 10% of rental income monthly management fee which is subject to annual review.

The relative costs of running this service, as compared to the company's other business activities and the level of competition that is being faced have raised questions about continued investment in this service. The company's experience of operating in this area is relatively short however and therefore it has been agreed that further analysis should be undertaken so that an informed decision on the future of this service can be made.

NEW Homes is also offering a **Tenant find Service** which will see New Homes will offer a flat fee of £250 to find a tenant for the landlord and do all relevant checks and completing the sign up process on behalf of the landlord, the landlord will then take responsibility for managing the tenancy. The 2015/16 plan assumes ten customers per year taking up this service.

Over 55's Housing Choice

NEW Homes also offers a unique opportunity for home owners over 55 to lease their properties to the company, who will fully manage the property and guarantee the rental income for a fixed 25% of rental income monthly fee and also access to SARTH, which would not otherwise be available. This is to assist with securing suitable council accommodation. Owners may also access the scheme if they identify suitable alternative accommodation in the private sector.

NEW Homes has developed this particular offer as it recognises the barriers home owners can face accessing suitable council accommodation designated for older people as they are unable to register on the SARTH list, as they own an asset. These properties are available within the Council stock and can provide a home which is easier to manage, can meet mobility issues and can combat social isolation.

NEW Homes recognises the demand in the county for homes for let at affordable rents and will be able to add these properties to the leasing portfolio.

As with the services discussed in the previous section the company will continue to review progress with these services, with a view to determining the extent of future investment in the services.

Marketing Strategy

Once the company is confident it has the right product mix and business operations are working effectively, NEW Homes will launch a marketing campaign via a website, local advertising and social media. Other methods will include:

- Van advertising – Negotiations are in place with the Council to design an advert to be put on some of the Council's van stock.
- Pop ups – New pop up displays to draw business in and place at the planning entrance in County Hall.
- Inside Flintshire magazine – A quote has been obtained for a full page A5 advert for 6 months. The magazine reaches approximately 10,000 people a month in the County.

In addition to these activities, NEW Homes will be working closely with Wates Living Space (who have been awarded the SHARP contract) on marketing initiatives.

Management Arrangements

NEW Homes does not currently directly employ staff to undertake its key business activities, and delivers its services through an agreement with Flintshire County Council or external providers. A new proposed management and staffing structure is projected to be in place by 30th November 2015 which will continue to be provided by Flintshire County Council and recharged to NEW Homes.

- Service Manager - with overall strategic and operational management responsibility will report directly to NEW Homes Board of Directors. The role will involve implementing the agreed Business Plan and developing new business opportunities for NEW Homes.
- Lettings Officer - will provide the customer facing service and will co-ordinate all internal and external affordable housing management activities in line with agreed NEW Homes policies and procedures. These services will be provided for an agreed rate based on staff time.
- Company Secretary - this role is performed by a solicitor from the Council's Legal Team who provides legal advice and support to NEW Homes.
- Administrative Support - this post will provide day to day administrative support to NEW Homes;
- Cyclical and minor repairs - these will be undertaken by the Council's Building Maintenance and Repairs Service for an agreed price under the terms of a Service Level Agreement which is reviewed annually;
- Financial Accounting: The Council's Finance Team will provide these services for an agreed rate based on staff time prior to these services being provided.

Staffing Resources

Based on the units of stock and the work that is envisaged in the Growth Strategy our business plan projections have assumed the following for staffing resources:

NEW HOMES Proposed Staffing Requirements for Budgetary purposes 2015/16				
Lettings Officer	Housing Administration Support	Financial and Performance Lead	Company Secretary and NEW Homes solicitor	Operational Lead
FT – but could costs potentially be shared with Private Rented Team	Shared post with FCC / SHARP Housing Strategy	Shared post with FCC Finance Team – 2 days p.w.	Shared post with FCC Legal Team 2 days per month.	Shared Post with FCC Strategic Housing And Regeneration Programme (SHARP)
50/50% split of employment costs	60/40% split of employment costs	60% FCC / 40% NEW Homes split of employment costs	95% FCC / 5% NEW Homes split of employment costs	80% FCC / 20% NEW Homes split of employment costs

Any other support provided from within the Council will be recharged at an agreed rate based on staff time prior to these services being provided. QS services will be

provided by Flintshire's Design and Consultancy Team on a scheme by scheme basis.

The board is keen for an appropriate range of skills to be present on the board and in the team of officers which supports the business. In securing and maintaining the right balance of skills to meet the range and diversity of the business that is outlined in this business plan the company will utilise skills assessments from time to time.

All of the above proposed charges have all been included in the draft budget.

Financial Plan

The 30 year business plan sets out the financial growth strategy over the coming years. The first five years are based on detailed assumptions and future years are then inflated based on the first 5 years.

Key assumptions

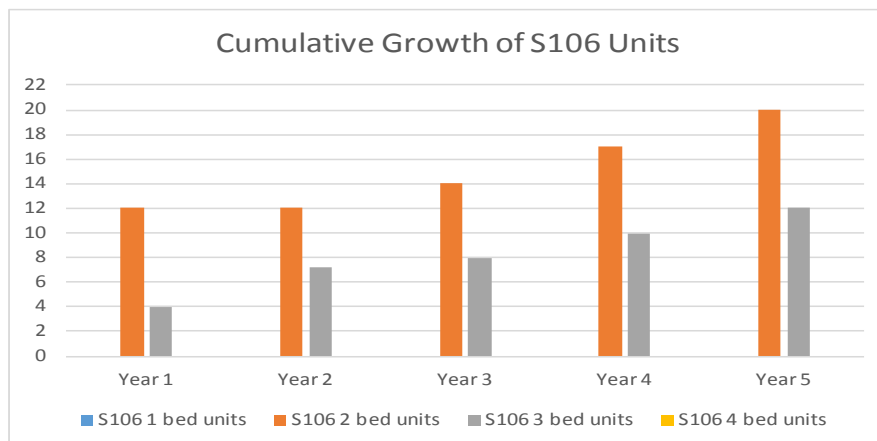
Landlord Products

Rent levels have previously been set at slightly higher than LHA but that will increase for this coming year to 90% of market value. The business plan assumes inflation as CPI @ 2%.

Section 106 Units

Rent levels will be set at 90% of market value for all future S106 properties. Market value will be set by an independent letting agent when property valuations take place.

The growth assumed in the plan is shown below:



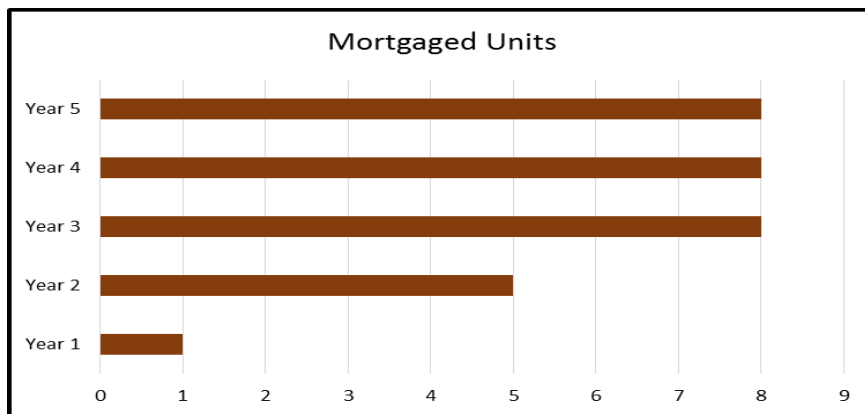
SHARP Units

The Sharp programme anticipates a range of units as shown below from year 2 of the plan. The plan expects 65 units by the end of year 2 rising to 300 units by year 6.



Mortgaged Units

The plan includes the purchase of existing build units as investment properties. These units will be financed via a loan which potentially will be secured against the S106 units. The table below shows that the 30 year plan assumes 1 unit in 2015/16, growing to 8 units in year 3:



Managed Lettings Units

The plan reflects steady growth in the budget and forecasts a further 10 managed lettings by the end of 2015/16, followed by a further 5 in 2016/17. This will take NEW Homes to 25 units year on year in the plan. The plan assumes a range of products for our customers including:-

- Full managed offer
- Tenant Find
- Tenant Find and Rent collection
- Over 55's Housing choice

All of these products are included with in the plan, but these will be reviewed in the early part of 2016, taking full account of actual performance, with a view to assisting the board to make a decision regarding the effectiveness of these services and the future investment in these.

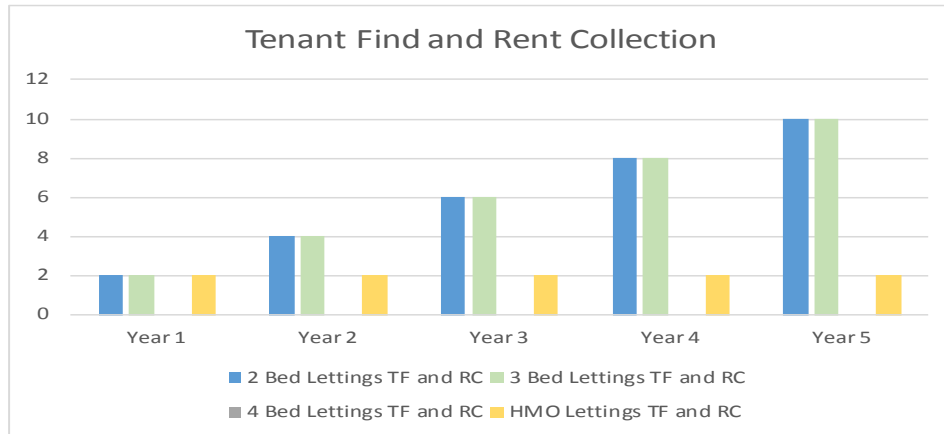
Over 55's Housing Choice

The over 55's housing choice is an offer which is hard to forecast and due to this and the low growth seen in 2014/15 we are not assuming any new units in 2015/16. If a home owner decides to go ahead with the scheme, it is dependent on the availability of Council sheltered property in the area they choose, this is sometimes restricted by availability of stock particularly in high demand areas. Whilst this offer is one which

NEW Homes would like to remain in their portfolio of products it is also one which is likely to have low take-up.

Tenant find Service

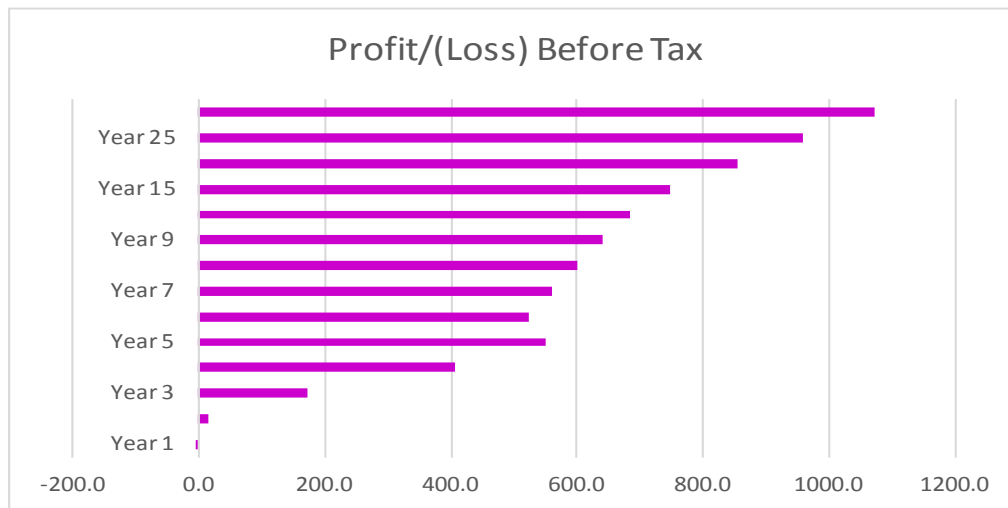
New Homes will offer a flat fee of £250 to find a tenant for the landlord and do all relevant checks. The 2015/16 plan assumes 10 customers per year taking up this service.



30 year financial projections

The 2015/16 budget projects profits from the start of the plan generating healthy profits year on year.

The chart below illustrates the forward projections for surpluses:



Income assumptions

Rental income

Rental income is assumed at 90% of market and inflated for all landlord units at CPI @ 2%.

General income

General income assumptions are as follows:

- Full managed offer is assumed at 10% plus a £195 fee
- Tenant find assumes a £250 flat fee
- Tenant find and rent collection assumed at £250 plus 3%
- Over 55's housing choice assumes a 25% guaranteed rent.

Void rent loss

Void rent loss is assumed as follows:

- 1.5% of rental income for S106 units
- 1.84% of rental income for sharp units

Direct cost Assumptions

Bad Debt Provision

- 1.0% of rental income for S106 units
- 2.0% of rental income for sharp units

Responsive and Void Repairs

- £200 per unit for S106 and mortgaged units
- £250 per unit for SHARP units

Cyclical Repairs

- £200 per unit for S106 and mortgaged units
- £250 per unit for SHARP units

Major Repair Provision

A provision per unit is made for life cycle replacement costs of capital works in our landlord units. These include boiler replacement, kitchen replacement etc. The assumptions are shown below:

Years 1-5

- £350 in all landlord units

Years 6 onwards

- £750 for S106 and mortgaged units
- £980 for SHARP units

Indirect Costs (Overheads)

Indirect costs have been included as follows:

Pay costs

£54.1k pay costs. Staff recharges from Flintshire County Council based on the time and salary scale in the table above.

I.T costs

£2.3k I.T costs for Wifi, support for Landlord Manager and hosting of Sage Financials.

Subscriptions

£1.3k subscription costs. Membership of UKALA costing £650pa and the RLA costing £125pa and housing Cymru costs.

Consultancy

£33.5k - £3.5k general, £5k legal, £25k Design & Consultancy

Legal and year end finance

£2.0k on legal and year end finance costs. Sage Accountants in St Asaph will be completing the year end accounts. An audit on client monies is also a legal requirement.

Bank/Loan charges

£0.5k Bank and loan charges. The free banking agreement ends in May 2015. NEW homes will be transferred on to an e-payments account at a cost £6.50 per month, but daily internet payments and transactions, which are the majority of our transactions, are then free of charge. The FCC loan repayment is £233 per year for a 3 year period at 1.83% interest rate.

Marketing

£2.6k Van advertising costs are estimated at £500 p.m for 3 months which would include adverts on 20% of Flintshires Van stock.

Creation of new pop ups will require further art work and product printing estimated at £600.

Inside Flintshire magazine advert based on a full page A5 advert at a cost of £120 per month for 6 months.

Cash Flow

The loan from Flintshire County Council was paid over to NEW Homes in August 2014 in the amount of £25k. There is an agreement in place to repay this over 3 years at half yearly instalments at an interest rate of 1.83%, which amounts to £801 in total.

Financing Costs

The SHARP units are financed within the plan via a 30 year leaseback arrangement whereas the units convert to us in year 30 for £1. The rate is based on 4.1% over the term increasing by CPI @ 2%.

Mortgage Costs

The mortgage units are proposed to be financed within the plan via a secured or unsecured loan. The rate assumed is based on a purchase price per unit of £125k and a rate of 2% above CPI rising over three years to 4% over CPI. This is based on a 30 year loan.

Depreciation

We are still working through the mechanics of depreciation with our accountants however for the purposes of the plan the following assumptions have been made.

S106 units are investment units and are not depreciated but are revalued every couple of years, any revaluation will be required to be taken to the profit and loss in the year of revaluation.

Leaseback units are depreciated as a 'wasting asset' over thirty years (the life of the lease) and then reintroduced on the balance sheet in year 30 as an asset (as per the S106 units). Revaluation applies.

Mortgage Units are depreciated either over the life of the loan or 50 years. For the purposes of the plan they have been depreciated over 50 years. Revaluation applies.

All capital repairs are taken straight to the profit and loss as revenue.

5yr Balance Sheet

NEW Homes Balance Sheet Forecasts

Balance Sheet Forecast	£'000 Year 1	£'000 Year 2	£'000 Year 3	£'000 Year 4	£'000 Year 5
HOUSING ASSETS					
Housing Properties at cost	250.0	1,000.0	1,000.0	1,000.0	1,000.0
Property Leases	0.0	1,799.8	8,549.0	14,218.3	20,337.5
Social Housing Grants					
Other Capital Grants					
Depreciation Housing Properties cumulative	-5.0	-85.0	-390.0	-789.4	-1,385.3
Net Book Value Of Housing Properties	245.0	2,714.8	9,159.0	14,428.9	19,952.2
Other Fixed Assets Tangible					
Other Fixed Assets Intangible					
Other Fixed Assets Investments					
Homebuy Loan					
Homebuy Grant					
Total Fixed Assets	245.0	2,714.8	9,159.0	14,428.9	19,952.2
Current Assets					
Bank	22.1	116.5	593.2	1,366.4	2,435.1
Bad Debt Write Off	0.0	0.0	0.0	0.0	0.0
Total Current Assets	22.1	116.5	593.2	1,366.4	2,435.1
Current Liabilities					
Corporation Tax	0.0	-2.2	-32.1	-76.8	-103.7
Total Current Liabilities	0.0	-2.2	-32.1	-76.8	-103.7
Net Current Assets Excl Pension	22.1	114.3	561.1	1,289.6	2,331.5
Pension Asset Total					
Net Current Assets Incl Pension					
Total Assets Less Current Liabilities	267.1	2,829.1	9,720.1	15,718.4	22,283.6
DEFERRED LIABILITIES					
Outstanding Loan Balance	-250.0	-1,000.0	-1,000.0	-1,000.0	-1,000.0
Other Long Term Creditors	0.0	-1,799.8	-8,549.0	-14,218.3	-20,337.5
NET ASSETS	17.1	29.3	171.1	500.1	946.1
Share Capital and Reserves					
Retained Surplus	16.6	29.3	171.1	500.1	946.1
Total Reserves	16.6	29.3	171.1	500.1	946.1

5yr P&L

NEW Homes 5 Year Profit and Loss Forecast

All Units	Year 1	Year 2	Year 3	Year 4	Year 5
	£'000	£'000	£'000	£'000	£'000
Income From Lettings					
Rent Receivable	100.2	268.9	774.4	1,207.4	1,707.7
Management fee Income	14.4	19.2	21.5	23.0	24.0
Sign up Income	2.3	1.7	0.3	0.0	0.0
Voids rent loss	1.0	3.7	12.5	20.2	29.1
Net Rental Income	116.0	286.1	783.8	1,210.3	1,702.6
Operating Costs					
Sign up costs	0.2	0.2	0.1	0.1	0.1
Responsive & Void repair costs	3.3	9.7	30.7	48.8	69.3
Cyclical costs	0.8	6.3	26.2	43.6	63.2
General Management Costs	92.2	107.3	117.5	123.6	167.7
Bad Debt Provision	1.0	3.9	13.4	21.8	31.4
Major Repairs costs	0.0	0.0	0.0	11.3	12.6
Depreciation charges	5.0	80.0	305.0	399.5	595.9
Total Operating Costs	102.5	207.3	492.9	648.6	940.2
Lease Interest Payable	0.0	13.8	67.0	95.8	152.8
Mortgage Interest Payable	10.0	50.0	50.0	60.0	60.0
Profit/(Loss) Before Tax	3.4	15.0	173.9	405.8	549.6
Corporation Tax	(0.5)	(2.2)	(32.1)	(76.8)	(103.7)
Profit/(Loss) After Tax	2.9	12.7	141.8	329.0	446.0
Cumulative Retained Surplus	16.6	29.3	171.1	500.1	946.1