# North East Wales Homes

Business Plan 2016/21



Working in partnership with Flintshire County Council

#### **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 County Councillors, 1 Council Officer and 2 Independent Members with equal voting rights. NEW Homes can also appointment a third independent Member at the discretion of the Board.

The Board is working towards developing an appropriate range of skills and experience to maintain a balance of skills which will support the delivery of key strategic and operational objectives outlined in this business plan. 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 for all Board Directors.

## **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 approved it's Business Plan and Growth Strategy in May 2015. 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).

The first proposed scheme will be at The Walks, Flint which will see the provision of 60 new affordable houses and apartments. Detailed proposals will be presented to Board in March 2016 to approve the scheme.

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

NEW Homes received 6 new build properties in 2015/16 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. A further 10 are projected to be transferred during 2016/17. The table below shows the properties received to date and projected dates of future pipeline properties.

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

#### Private Borrowing

NEW Homes is exploring 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. This includes developing proposals to purchase Section 106 properties where there is a proven demand.

Advice has been taken 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 2016/17.

#### **Current Product Portfolio**

NEW Homes currently provides the following products:

#### Newbuild properties

Up to 31<sup>st</sup> March 2016 NEW Homes had 21 of properties that had been secured as part of Section 106 planning obligations. These were transferred into the company as unencumbered assets and let as affordable housing units. The company is currently exploring option to borrow against these assets 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.

Up to 31<sup>st</sup> March 2016 NEW Homes had 34 properties within this product portfolio.

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 based on robust financial management costs.

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 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.

Up to 31<sup>st</sup> March 2016 there was one property within this product 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

A key area for NEW Homes to develop during 2016/17 will be a Marketing Strategy which raises both the profile and potential customer awareness of the company. This will be partly undertaken as part of the SHARP marketing strategy, where NEW Homes will be working closely with Wates Living Space (who have been awarded the SHARP contract) on marketing initiatives. Emphasis will be placed upon promoting NEW Homes specifically

The new marketing strategy will be supported by the development of a Communications Plan which will map out key opportunities on a local, regional and national level. Key developments will include:

- Use of "show homes" on The Walks, Flint for potential customers to view;
- Re-launch of NEW Homes website which is more interactive and advertises the properties and products the company provides;
- Maintain and strengthen presence on social media, including Twitter and Facebook
- Attendance at local and national events to draw new business.

## Management Arrangements

The ambitious and exciting plans for the future growth of NEW Homes has necessitated the need to review its existing and future staffing structure in order to ensure the company has the resources at its disposal to continue providing a high quality, modern and responsive service to our customers. The need for dedicated NEW Homes staff is now required to continue the excellent progress the company has made since it was established on the 1<sup>st</sup> April 2014 in a sustainable and considered manner. The proposed structure is shown in Appendix 1.

- Service Manager Housing Programmes 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.
- Private Sector Housing Manager will oversee the delivery of day-to-day delivery
  of customer facing services and co-ordinate all internal and external affordable
  housing management activities in line with agreed NEW Homes policies and
  procedures.
- NEW Homes Lettings Officer (3 days per week) will provide a housing management service for all customers accessing NEW Homes. This will include property viewings, allocations, repairs, rent management and liaison with existing and potential landlords.
- NEW Homes Co-ordinator (2 days per week) this post will provide day to day administrative support to NEW Homes.

In total, 2.04 FTE's are proposed for the NEW Homes structure. The total Cost will be circa £80,349K (subject to job evaluation). The Council cost element of the Service Manager Housing Programmes and Private Sector Manager posts are excluded from these costs as they are funded directly by the Council.

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

## Additional Services

In addition to these posts, NEW Homes will continue to purchase legal, financial and repairs services from the Council at an agreed rate based on value for money and staff time prior to these services being provided. This will also include technical services provided by the Council's Design and Consultancy team including QS, design and project management to support the delivery of new properties delivered to NEW Homes through the SHARP. These costs will be capitalised and included within new scheme development costs wherever possible.

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 unit's 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.

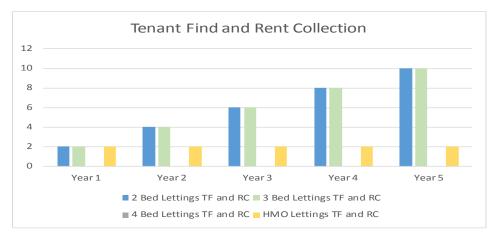
## **Tenant find Service**

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.

## Tenant find and rent collection service

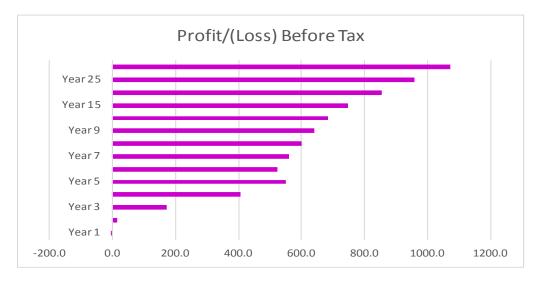
This service includes a flat fee of £250 as above and also a 3% rent collection charge per month which includes collecting rent and deposits on behalf of the landlord and chasing non-payment.

The plan anticipates growth to 21 units by year 5. These products should enable the managed lettings offer to become more self-sustainable as they are low cost to administer.



## 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.

## Voids 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 or 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					
	£'000	£'000	£'000	£'000	£'000
Balance Sheet Forecast	Year 1	Year 2	Year 3	Year 4	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	5.0	05.0	200.0	700.4	4 205 2
Depreciation Housing Properties cumulative Net Book Value Of Housing Properties	-5.0 <b>245.0</b>	-85.0 <b>2,714.8</b>	-390.0 <b>9,159.0</b>	-789.4 <b>14,428.9</b>	-1,385.3 <b>19,952.2</b>
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