

**To:** Housing Group Shareholder Meeting  
**Date:** 20 March 2018  
**Report of:** Housing Group Board of Directors  
**Title of Report:** 2017-18 Business Plan update

<b>Summary and recommendations</b>	
<b>Purpose of report:</b>	To provide a business plan update for the shareholder.
<b>Recommendation(s): That the Housing Group Shareholder resolves to:</b>	
1. <b>Note and agree the revised Business Plan</b>	

<b>Appendices</b>	
Appendix 1	OCHL Summarised Financial Statements

### **Introduction and background**

1. In December 2017 the Shareholder noted progress with Oxford City Housing Limited's (OCHL) Business Plan that had previously been approved in March 2017. This report provides an update of the plan.
2. This report provides an update of the business plan.
3. The main aims of the Company are to increase the supply and range of housing, in particular affordable housing and to provide a financial return to the Council.
4. OCHL remains on track to purchase the new homes at Barton Park with the first handovers scheduled for May 2018.
5. OCHL has reviewed and revised its business plan.

### **Business Plan Refresh**

6. OCHL has carried out a refresh of its Business Plan, 12 months after the original plan was approved by the Shareholder. This updated plan reflects the work that has been carried out on the development programme in the intervening period due to the appointment of professional advisors who have reviewed site capacity and cost assumptions, as well as the addition of the development opportunity at the Lucy Faithfull House site.

**Programme Delivery**

7. Extensive design work has now taken place on most sites, costs have been reviewed and discussions have begun with Planning on the principles of development. This has enabled a more detailed development programme to be assembled which reflects the best estimate of when schemes will actually deliver:

Harts Close	2	February 2019
Warren Crescent	10	January 2020
Cumberlege Close	9	September 2019
Elsfield Hall	29	April 2020
Rose Hill Community Centre	33	June 2019
Rose Hill Advice Centre	20	January 2020
Between Towns Road	46	May 2020
Underhill Circus	41	October 2020
Lucy Faithfull House	53	TBD

8. These numbers reflect the upper limit of each site in terms of development quantum and it is expected that they will reduce as we progress the sites through the Planning system. As these changes are made each appraisal will be updated to ensure the development site still meets the company’s development financial parameters and then the Business Plan will be adjusted accordingly.
9. The company is receiving detailed professional advice on likely build costs for each site and these are being updated as the schemes develop through the Planning system. This remains the single biggest risk of the development programme and will be monitored accordingly.
10. From a stand-alone development appraisal basis the company has continued to use the threshold parameters agreed as part of the original Business Plan, namely;
- A Payback period by year 40, although given potential cross subsidisation in later years this is not too critical;
  - A positive Net Present Value (NPV) i.e. the development adds value to the company;
  - An Internal Rate of Return (IRR) of at least 4.00%.

**Tenure Changes**

11. The design work already undertaken has identified a potential 27 additional homes that could be delivered on these sites, reflected in an increased number of social rented homes instead of more expensive Affordable Rented properties. The addition of Lucy Faithfull house as a development site could yield a further 22 social rented homes as part of this high density city centre scheme, although the development process could be protracted due to the extensive archaeological remains that are

likely to be present. This means that further investigation work post-demolition will be required before a detailed programme can be constructed.

12. The table below sets out how the revised programme compares against that previously reported:

Corporate Objective	Original Development Programme						Revised Development Programme					
	SR	AR	SO	OS	MR	Total	SR	AR	SO	OS	MR	Total
<b>CO1 - Barton Homes</b>												
Phase 1	95	-	-	-	-	95	95	-	-	-	-	95
Phase 2	259	-	-	-	-	259	259	-	-	-	-	259
<b>Sub-total</b>	<b>354</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>354</b>	<b>354</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>354</b>
<b>CO2 - Development Prog.</b>												
Cumberledge	5	6	-	-	-	11	Cumberledge Combined With Elsefield					
Elsefield	7	4	-	6	-	17	14	1	4	19	-	38
Harts Close	-	-	2	-	-	2	-	-	2	-	-	2
Rose Hill	10	5	9	-	-	24	Both Rose Hill Schemes Now Combined					
Rose Hill (SH/AC)	6	12	-	-	-	18	22	-	5	26	-	53
Between Towns Road	16	5	4	15	-	40	18	-	5	23	-	46
Underhill Circus	16	4	-	20	1	41	16	4	-	20	1	41
Warren Crescent	-	10	-	-	-	10	-	10	-	-	-	10
Lucy Faithful House	n/a	n/a	n/a	n/a	-	n/a	22	-	5	26	-	53
<b>Sub-total</b>	<b>60</b>	<b>46</b>	<b>15</b>	<b>41</b>	<b>1</b>	<b>163</b>	<b>92</b>	<b>15</b>	<b>21</b>	<b>114</b>	<b>1</b>	<b>243</b>
<b>CO3 - HRA Acquisitions</b>												
2016/17	5	-	-	-	-	5	5	-	-	-	-	5
2017/18	5	-	-	-	-	5	2	-	-	-	-	2
2018/19	5	-	-	-	-	5	5	-	-	-	-	5
2019/20	5	-	-	-	-	5	5	-	-	-	-	5
2020/21	5	-	-	-	-	5	5	-	-	-	-	5
Remainder (not funded)	175	-	-	-	-	175	175	-	-	-	-	175
<b>Sub-total</b>	<b>200</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>200</b>	<b>197</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>197</b>
<b>TOTAL</b>	<b>614</b>	<b>46</b>	<b>15</b>	<b>41</b>	<b>1</b>	<b>717</b>	<b>643</b>	<b>15</b>	<b>21</b>	<b>114</b>	<b>1</b>	<b>794</b>
<b>TOTAL (%)</b>	<b>85.6%</b>	<b>6.4%</b>	<b>2.1%</b>	<b>5.7%</b>	<b>0.1%</b>	<b>100%</b>	<b>81.0%</b>	<b>1.9%</b>	<b>2.6%</b>	<b>14.4%</b>	<b>0.1%</b>	<b>100%</b>

## Financial Highlights

13. The headline financial outcomes from the BP re-fresh are as follows:

- All schemes development model thresholds are by and large met; there are a handful of schemes that just exceed the 40 year payback threshold but this is not deemed to be significant;
- Over 80% of the projected development dwellings will be at social rents;
- All development model interest rates are based on a weighted average methodology that provides state aid compliance but also includes a 0.5% uplift for potential rate rises to future prevailing PWLB rates;
- Loan covenants and their levels have still to be agreed but they will be sympathetic towards, accommodate and reflect the position of OCHL, namely a highly geared newly incorporated company;
- The peak debt position occurs in 2026/27 at £78.985m.
- Turnover is greatest in 2019/20 at £25.432m;
- Corporation Tax is anticipated to be first paid in 2019/20.
- Capitalised interest to be earned by the Council is estimated at £8.6m.

14. Estimated financial statements over the next MTFP timeframe are appended to the report (Appendix 1) and include:

- Statement of Profit and Loss and other Comprehensive Income  
It can be seen that given the start-up timeline associated with the activities of OCHL, annual profits do not materialise until 2019/20 when the start of open market and shared ownership sales are planned to take place;

- **Statement of Financial Provision**  
An asset base (before re-valuations) of nearly £59m is planned to be achieved by 2021/22, with associated debt at £51m.
- **Statement of Cashflows**  
The company is reliant on new development loans from its main funder, the Council and it is anticipated cash generating activities are positive once development is underway.

15. It should be noted that work is about to start on the development of a dividend policy between companies within the OCHL group and with OCHL and OCC and this will be presented for consideration by the shareholder at an appropriate future point.

### **Housing Growth Deal**

16. The expected Housing Deal for Oxfordshire has the potential to offer significant resources for the housing company subject to its ability to comply with the requirements of the programme. Much of the development programme could be supported to provide affordable housing above the level that can be demonstrably provided through the Planning system. As several of the company sites are marginal, this funding could both improve the level of affordable housing and the viability of the programme. It should be noted that the inclusion of grant subsidy into the BP will be a matter for agreement by the Directors and Shareholder at some future date when more detail about the proposals are known.

### **Potential Future Schemes**

17. The current development programme has been expanded with the inclusion of Lucy Faithfull House but it is critical for the success of the company that a development and acquisition pipeline is established for future years to ensure a steadily increasing stream of new homes is being delivered. At present the focus is on developing Council sites or acquiring s106 properties on schemes that the Council is directly involved in delivering, such as Oxpens and Blackbird Leys. As the company develops and builds its skills and capacity it will become more capable of directly involving itself in market opportunities including the acquisition of development land. Current Council sites that the housing company could either deliver or take the affordable homes from include the affordable housing at East Oxford Community Centre, the vacant Royal British Legion Club at Barton, Blackbird Leys central area regeneration, the Sandy Lane site and a programme of smaller sites on HRA estates.

### **Financial implications**

18. There are no financial implications arising directly from this report.

### **Legal issues**

19. There are no legal issues arising directly from this report.

### **Level of risk**

20. The business plan has been reviewed taking into account known risk factors.

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