Thameswey Housing Limited
Thameswey Guest Houses Limited

Business Plan 2019

Covering the period 2019-2022

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VAT exempt

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Contents

1. Introduction

2.1 The Business Plan updates the residential activities of the Thameswey Group following the approval of the 2018 Plan by Council in December 2017. This plan covers the residential activities of the group which are split between two legal entities. Thameswey Housing Limited (THL), Thameswey Guest Houses Limited (TGHL).

2.2 The Business Plan comprises of the following format:

- A summary of the purpose of the company/companies;
- Structure and scope of current operations;
- Activity since last Business Plan;
- Proposed medium-long term objectives;
- Financial Performance.

2.3 This is a four year business plan which reflects the long term nature of the housing business.

2.4 The strategic plan ensures that the focus of activity is clearly aligned with those of Thameswey Limited, and ultimately with Woking Borough Council's (WBC) strategic objectives for the Thameswey Group.

2. Purpose of the Companies

2.5 Thameswey Housing Limited (THL) is established to support the WBC Housing and Economic Development Strategies through the provision of additional residential accommodation of all types. It has an objective to provide affordable homes to those who, due to their circumstances, are not able to access open market provision but are also unlikely to be able to access social rented accommodation. While Thameswey Housing's rental structure covers rents from 50% to 100% of the local open market rent, the main target for THL, with the exception of the stock it will hold as part of the Sheerwater Redevelopment project, is the delivery of property for the affordable and intermediate market where rents are in the region of 80% of the local open market rents. In order to provide the subsidy to achieve the intermediate market rent, THL will need to hold approximately two thirds of its property portfolio as open market stock.

2.6 Thameswey Guest Houses Limited provides accommodation on a temporary basis to those who cannot access permanent or temporary accommodation on the open market.

2.7 The key objectives of the current Housing Strategy for WBC are as follows:

- Providing well-designed, quality homes that are affordable and suit people's needs;
- Preventing homelessness and providing help to people in housing need;
- Helping people to achieve independence and choice; and
- Making better use of all existing housing.

2.8 THL was incorporated in 2005 by its ultimate owner Woking Borough Council (WBC). THL is specifically referred to in the WBC Housing Strategy Action Plan to assist WBC in the provision of affordable housing. The housing policy provides opportunities for THL to assist WBC and has been considered in forming the strategic plan for the company and its subsidiary, TGHL.

2.9 THL has a 50% share in Rutland Woking (Residential) Ltd (RWRL), the remaining 50% share is held by Rutland Properties Ltd. There are no projects proposed to be undertaken by RWRL during the business plan period.

2.10 The current directors for the residential companies are set out below:

Terry Price	Independent	(Chairman)
Barry Maunders	Independent	
Peter Bryant	Officer Director	
Cllr David Bittleston	Councillor Director	
Cllr Ayesha Azad	Councillor Director	
Cllr Colin Kemp	Councillor Director	

2.11 The Board composition meets the requirements of the Thameswey Group Protocols. In order to be quorate a board meeting must have at least one independent, one Councillor and one officer Director in attendance.

3. Structure and Scope of Companies

Business Concept - THL

3.1 The acquisition (or development) of property within this Business Plan will be provided at no net cost to the Woking Council Taxpayer. In order to do this the company must charge rent at such a level to support the cost of purchasing and running the properties that it holds. Each property will be purchased or developed at a separate cost and an appropriate rent is set dependent on this cost and the local market. In order to set rents at a sub market rate some properties will need subsidy in order to cover their acquisition or development costs. This subsidy will come in either a grant (such as section 106 payments from the Council) or cross subsidy from other THL property.

3.2 The financial impact of this business model is that for the initial period of property ownership the company will operate negative cashflow on the majority of properties so as to secure rent levels at affordable prices. Each property (in effect each project) is then aggregated into the company's overall financial model to allow cross subsidy where properties are performing better than originally modelled. When modelling, no account is taken of capital appreciation as this is maintained as a safety buffer in case property disposal is required although the capital appreciation is used for accountancy purposes.

3.3 THL was not established to make a return for ultimate shareholder (WBC), its objective is to secure homes and assist the Council in achieving its Housing and Economic Development Policies at no net cost to Council Taxpayers. Accordingly profits generated by THL and any subsidiary companies will be retained in THL and earmarked to support the provision of homes into the future. The

intention is that this is done by providing revenue support to future investments allowing lower rental levels to be achieved.

Business concept - TGHL

3.4 TGHL has been set up to operate the transitional and temporary accommodation operated by the group. The properties are effectively supported or bed and breakfast style accommodation. As such they have VAT chargeable services. Currently the company only operates Maybury Lodge but consideration will be made during this business plan period as to whether additional activities and property are placed in TGHL.

4. Activity Since the last Business Plan

4.0 THL and its subsidiary TGHL have performed well over the last twelve months. TGHL, while having a more challenging year than last, has maintained average occupation of 71% and has supported WBC and neighbouring local authorities in preventing homelessness, to date over 2,700 nights of accomodation have been provided in 2018 (@Nov 18) with over 80% from Woking.

4.1 THL has completed the acquisition of 14 street properties since January 2018 and agreed purchase of a number of others, including Camp Road consisting of 22 units. The company has focussed its street acquisitions on property which can deliver band B and C rental levels. It has also looked to acquire more property in Knaphill and Byfleet where its existing stock is under-represented. THL has also rolled out the Earn Your Deposit Scheme to all its existing qualifying tenants and advertised it extensively to new prospective tenants.

4.2 In addition to street purchases the company has successfully secured a number of development sites to provide larger numbers of properties via TDL, and to benefit from some of the development profit.

4.3 During 2017 a volume discount was paid to WBC from TGHL for £155,000, the dividend was generated by accumulated profits in TGHL. It is proposed an annual volume discount will be issued to WBC from TGHL based upon annually generated profits.

4.4 THL, along with TDL, has been appointed by Woking Borough Council to help deliver the Sheerwater Regeneration scheme. Following a letter of comfort from WBC, THL has started to acquire property within the Sheerwater Regeneration area under the terms set out in the Woking Borough Council Community Charter. Property acquired for this purpose has not always been re-let as if it is located within the earlier proposed redevelopment phases it has been secured as a void. This prevents expenditure to upgrade the property to a lettable standard which would not be able to be recouped in the short life of the property.

4.5 THL has completed, along with input from TSCL, the 'Pirbright project' project which has involved the refurbishment of 50 units in Cowshot and Manor Crescents to significantly enhance their environmental performance and lower running costs to residents. The project included, new roofing with integrated insulation, external wall insulation and solar arrays. A number of properties also benefited from battery storage linked to the arrays.

5. Proposed Medium – Long Term Objectives

Overview 2019 – 2022

5.1 Overall residential property prices have continued to increase although this increase has slowed significantly since the Brexit vote and in some areas have actually reduced. The total number of properties on the market has also reduced, this has meant that on street purchases have been challenging. During this business plan period we expect more property to be available. Land and development sites have not seen the recent slow down and still continue to increase in value and be competitively bid upon.

5.2 The historic local increase in property price, even with the recent reductions, means where THL secures a purchase there is less scope to offer a rental level below market without additional subsidy. This subsidy has taken the form of either section 106 commuted housing payments, cross subsidy from existing THL properties which are making a return above model parameters and profit made on property disposals.

5.3 The other side to the challenge of purchasing due to the increase in property prices has been the increase in the value of THLs current stock. Historically THL stock has been valued at cost in the accounts but in discussion with the Auditors an external valuation of the stock was carried out as of the 31 December 2015 taking into account the current occupancy and condition. This has resulted in a revaluation reserve of £26,924,187. Property prices continue to increase in Woking Borough and an exercise will be carried out annually to assess the increase. If the increase is material, assets will be revalued within the statutory accounts. The basis of the revaluation will be the Office of National statistics RICS data for Woking. A formal third party revaluation is proposed to be completed during 2019, later than originally envisaged due to the accuracy of RICS data updates in the interim.

Priorities 2019 to 2022

5.4 The increase in property prices referred to in the previous section means that it is proposed to focus on development to provide new units as the 'development profit' element can be reduced to minimise the amount of subsidy required to generate an affordable rent or, where an open market rent is proposed, to reduce the overall cost of the unit to create a subsidy to provide affordable rents elsewhere. In addition to the increase in completed property prices the cost of construction has also increased. This means that development appraisals will need to be carefully analysed to ensure that the schemes still provide sufficient head room to provide either a subsidy or an affordable rent.

5.5 THL will continue to purchase on street property where it makes economic sense or fulfils a strategic development opportunity (for example unlocks a wider development) or addresses a specific accommodation need highlighted by the Council. The majority of Band C rental property will be fulfilled by this on-street acquisition.

5.6 The current articles of association of the Company allow investment in property outside of WBC administrative boundaries. The Company has been working around a 30 minute commute to Woking railway station as its main operating area. This plan proposes the continuation of this area as the main focus. Any proposed investment outside this 30 minute commute will be brought back to the Company Board and then to the Executive for specific approval. In order to minimise the risk of over-concentration of the Company open market property holdings in one location and potentially competing against itself THL will look to prioritise open market property in the wider commuter area and affordable within Woking boundaries where there isn't the risk of competition. In line with the Council resolve at the July 2016 approval of the interim THL business plan any property or development purchases outside of Woking Borough Council administrative boundaries will be done in consultation with the Leader of the Council and the Portfolio Holder for Strategic Housing.

5.7 During August 2017, WBC agreed to support THL in purchasing Sheerwater properties within the red line regeneration scheme. THL will continue to purchase properties from Sheerwater residents as the redevelopment progresses. When the Council approves the detailed delivery of the Sheerwater regeneration scheme the newly developed housing will also be held within Thameswey. Although the stock will be held in Thameswey Housing Limited to reflect the Council's desire for a different rental structure the property will be ring fenced in its own financial and accounting model.

5.8 The priority for TGHL will be to continue to provide short term bed and breakfast accommodation. Since opening Maybury lodge fees to councils have not been increased. The intention is to maintain fees for a further year, with a review in 2019. TGHL also provides an annual subsidy to WBC, based on volume of occupation, to support the housing service.

5.9 During this business plan period there will be a greater relationship between Thameswey Developments Limited (TDL) and THL to reflect the increase in housing development sites that will be acquired. While funded through THL the site acquisition and development will be through TDL. This will protect THL from non reclaimable VAT should the developments not progress. Once the development in question is completed it will be transferred into THL as an intra-group transfer. Some of the developments are also likely to be with commercial partners to share the development risk as well as profit reducing the exposure of THL.

5.10 During the business plan period a number of developments will be completed by TDL, and sold to THL. The developments include Camp Road Farnborough, St Dunstan's (which will be named Harrington Place upon completion) and Elizabeth/Cornerstone House.

Minimum EPC Rating and Property Enhancement

5.11 During 2017 THL undertook a review of the EPC ratings across the housing stock, and although the majority of the properties achieve the minimum standard, there are a group of properties where energy improvement investment is required to reach the EPC "E" rating. Over and above this basic legislative requirement the company will aim to improve all the properties (where possible) to a rating of C or above in line with company's environmental credentials and the Council's objectives as set out in the Woking 2050 environmental policy.

5.12 From April 2018 it has been unlawful to let a property with an EPC (Energy Performance Certificate) rating below a prescribed level of EPC 'E', however there are a number of technical loopholes to this standard. For domestic lets there will be a further requirement that, landlords will be prohibited from unreasonably refusing a tenant's request to install energy efficiency measures.

5.13 Irrespective of the legislative requirement or the EPC target THL will look to improve the energy efficiency of the stock it holds to minimise the energy costs to its tenants. This will be delivered through a combination of asset improvement programmes with the support and assistance of sister Thameswey companies, including investigating in solar thermal and PV installations. Properties which are managed by New Vision Homes on behalf of THL, will be reviewed to ensure that any upgrades are compatible and prioritised towards energy efficiency.

Operational Support

5.14 With THL's successful acquisition programme and the activities of TDL, the property portfolio has grown to a level that is supportive of an in-house letting and property management solution. In Quarter 2, 2017 Board members approved a proposal, including investment in software solutions, staff increases, Web exposure and the potential re-structuring impacts on supporting areas of the collective Thameswey companies. During the business plan THL will continue the roll out of this self delivery model during 2018 and 2019.

5.15 THL will still continue to use appropriately qualified commercial advisors as appropriate, particularly in valuation and development appraisals as well as to assist in development. Synergy LLP and Madlins LLP have been appointed to provide Quantity Surveying, Employers Agent and CDMC (health and safety) support to THL and TDL. As the company continues to grow, in house capacity will also be employed to reduce reliance on external advisors. Bed and breakfast and transient accommodation owned by TGHL will also be managed by specialist providers determined on a project by project basis.

5.16 Whilst the corporate legal services for the company are provided by Clyde & Co LLP the day to day contract requirements for acquisitions and developments are undertaken by the Council's legal services team who have developed extensive experience in this regard. Where additional capacity is required framework solicitors are used to provide conveyance support. HR functions for THL, as with the rest of the group, will be supported by the Council.

Property Portfolio

5.17 The companies will continue to aim to provide the following types of accommodation. The proportion of each type will be driven by the rental policy structure outlined in other sections of this business plan. The main split of two thirds open market rent and a third sub market (including a minimum of 24 per annum Band C for the business plan period to 2020) will apply as a total portfolio level as opposed to property type.

Affordable Housing at Intermediate Rent

5.18 THL aims to continue to provide affordable homes at an intermediate tiered rent. The rental level of each property is assessed on a project finance basis with close reference to the current need

and the ability to fund the property. The base rental position will be 80% of the open market rental value as independently valued on acquisition.

5.19 Despite aquiring in cheaper areas the company is aware that the rental market is exceptionally strong and likely to continue within the plan period making intermediate rental levels (80% of market) increasingly challenging for some residents on an affordability aspect. The company will therefore look to generate rental subsidies from open market property to lower the rental levels being charged for those on intermediate rent. The key challenge, and objective, of the company will be to provide a number of units within rental Band C (supported rent) which will address an affordability challenge locally.

5.20 Affordable properties at intermediate rent through THL have been let on a mix of assured short hold (AST) and assured tenancy basis and, compared to WBC housing, THL tenants are not able to exercise a right to buy option. It is intended that going forward the default tenancy position will be AST. Where tenants currently occupying under an assured tenancy move the re-lets will be on AST. Where the company offers an AST, unless there are any issues associated with payment of rent or breach of tenancy conditions, the tenancy is allowed to go periodic after the initial term of 6 months. Looking forward work is going to be done with our remaining managing agents and in house team to consider an initial 3 year period to encourage household stability, encouraging tenants to consider the property as a long term home, while saving the company costs from property turnover.

Shared Ownership

5.21 Traditional shared ownership is no longer a popular or financially viable product due to Government subsidy schemes such as Homebuy providing more attractive options for residents. As such THL does not intend to focus on this form of tenure in this business plan period.

5.22 THL will continue to hold a mortgage protection reserve on the balance sheet of 10% of the value of the sold proportion of the Raynes Close properties. In the event of further shared ownership sales this provision would be reassessed.

Transitional Rented and Temporary Accommodation

5.23 During the period of this business plan THL aims to acquire properties to address the needs of potentially vulnerable people who have an institutional background such as the care system, armed forces or the justice system. This transitional category can also be used to help the Council manage its homelessness and temporary accommodation duties. The aim is to provide homes which are located within close proximity to existing support networks which will allow people to gain life skills in managing their own home. The properties will be selected in consultation with partner agencies who will also confirm the appropriate support networks are in place. There may need to be some element of support and while the default position is that the properties will be managed in the same way as the company's intermediate rent properties there may be projects which will require on site or specialist management.

5.24 Transitional rented properties will either be let on a corporate basis direct to the scheme providers, under a licence to occupy to individuals or in the case of the guest house on a nightly basis to individuals/the Council to allow ease of mobility. Where rents are paid directly, the

individual rental levels will be in line with THL intermediate rents. Where they are direct corporate lets, the rent will be determined in negotiation with the provider.

Investment Rental

5.25 When THL was established, the initial business strategy provided for the company to develop and sell properties on the open market to either cross subsidise future investment in affordable rented accommodation or to help maintain the financial stability of the company. The combination of the prevailing market conditions and the outlook for the housing market over the period of this plan means that this option is a priority in this plan. The company will also look to alternative styles of open market property to ensure that it isn't competing with itself in a geographical area and also to address the wider strategic objective of the group 'to support the local economy'. This may involve co-living developments, micro-living via conversion property and student accommodation.

Capital Funding of THL

5.26 In April 2016 the Executive approved the medium term financial strategy for the Council which proposed changing the scope of the THL loan arrangements. The Council's medium term financial strategy (MTFS) reintroduced the provision of Share Capital at 25% of the investment, total commitment from WBC totalled £200M over a four year period. During 2018 business plan an additional £50M was awarded. Latterly WBC has also proposed further investment during 2021/22 and part of 2022/23 as part of a revised medium term financial strategy. This would provide the company with an additional £130M borrowing approval.

5.27 The effective cost of capital to the company proposed in the MTFS was 1.5% above the Council's certainty rate reflecting the increasingly challenging market conditions the company operates within. The funding is still on a 50 year period with 25 years interest only and 25 years annuity. The initial 25 year period can either be borrowed short term or long term fixed to aid treasury management for the company.

5.28 The table below summarises the funding available to THL. Funding to date totals £630.4M, including £170.4M agreed within the business plans, £125M agreed outside the business plans and £330M agreed as part of WBC Medium Term Financial Strategy. The point at which the previous agreed funding was spent was November 2016, from this point the borrowing margin reduced to 1.5%.

5.29 Funds have been made available to THL, outside the business plan process totalling £125M; the funds include Victoria Square development for affordable houses of £18M, Sheerwater regeneration proposals on behalf of WBC totalling to achieve Gateway 1 of £5M, Sheerwater Leisure centre of £26M, Sheerwater purchase of RedLine Properties of £76M.

THL	Business Plan agreements	Outside Business Plan Cycle	MTFS	TOTAL FUNDING AGREED	Net Loan Drawdown	Balance To Drawdown
Pre 2016	75,400,000	18,000,000	25,000,000	118,400,000	137,858,750	- 19,458,750
2017	5,000,000	81,000,000	50,000,000	136,000,000	42,706,874	93,293,126
2018	5,000,000	26,000,000	50,000,000	81,000,000	59,079,984	21,920,016
2019	-		50,000,000	50,000,000	37,721,075	12,278,925
2020	30,000,000		25,000,000	55,000,000	50,969,151	4,030,849
2021	55,000,000		-	55,000,000	- 14,532,901	69,532,901
TOTAL	**170,400,000**	**125,000,000**	**200,000,000**	**495,400,000**	**313,802,934**	**181,597,066**
Proposed						
2022	5,000,000		130,000,000	135,000,000	35,964,910	99,035,090
TOTAL	**175,400,000**	**125,000,000**	**330,000,000**	**630,400,000**	**349,767,844**	**280,632,156**
2023	TBC				47,619,271	- 47,619,271
2024	TBC				47,619,271	- 47,619,271
2025	TBC				47,619,271	- 47,619,271
TOTAL	**175,400,000**	**125,000,000**	**330,000,000**	**630,400,000**	**492,625,658**	**137,774,342**

5.30 Additional funds are requested for 2022 of £5M. The purpose is to continue to fund housing developments, and to support loan financing.

5.31 For the period 2023 to 2025 an assumed level of project spend has been calculated based on current data, at the point projects become live the phasing of spend will be updated.

5.32 To progress further developments, THL may request additional borrowing during the business plan term if the development meets the strategic long term aims of the business although this is unlikely given the current approved funding levels.

5.33 WBC charges THL a margin on its loan rates which is used for the benefit of the Council. In 2018 the loan will contribute approximately £3,322,514 to WBC in the form of loan margin.

5.34 The timing and order of borrowing will affect the final margins applied to individual loans. It is also acknowledged that these borrowing approvals are indicative as projects will not necessarily follow financial years. Therefore some expenditure may move to later years or come forward within these approved borrowing limits should opportunities for larger projects arise. The movement of borrowing between years will be managed in consultation with the Council's section 151 officer.

5.35 New guidance issued by the government on the set aside for repayment of debt (Minimum Revenue Provision, MRP) applies for the Council from 2018/19. The guidance recommends that share capital should be written off over 20 years, ie at 5% per year. The Council currently makes allowance for repayment at 1% ie over 100 years, reflecting the long term nature of the housing assets the funds are invested in. The change in MRP guidance will make the share capital significantly more expensive for the Council and it is likely that the Council will amend the funding structure. Upon a decision by WBC the funding structure will be amended.

Operational Modelling (Finance) for THL

5.36 Each batch of acquisitions, or in the case of large purchases or developments each individual transaction, is modelled based on the underlying THL financial model of 50 year loans, 25 years interest only and 25 years annuity.

5.37 The financial model is used to forecast both revenue and costs for property purchases. It is used to provide information on the different levels of rent needed to service the debt and is used to assist in setting rent levels. It is updated depending on market and inflation forecasts. The basic or base case model assumes cost inflation will run at 2% per annum. Due to the different acquisition costs for property some will have a revenue contribution above the minimum required to service the cost under the model. This surplus will be used to keep rental levels lower in other properties where there would not be a surplus, in effect pooling the total rent and cost. As referred to earlier in the plan section 106 money, as grant, will become increasingly necessary to support affordable rental levels within the model as property prices, construction costs and market rental levels continue to increase significantly.

5.38 In line with the WBC adopted MTFS, which sets out a facility of up to £50m per annum, THL intends to increase investment significantly over the rest of the business plan period. The company has already started a number of projects and feasibility studies which, although they have a long lead in period, will make a significant step forward in scale of the company. Between these projects THL aims to supply in excess of c.700 properties, subject to planning, over the next four years.

Rental Policy

5.39 Within this plan period THL will continue to operate 5 different types of agreement when letting property to third parties or occupiers:

- Assured Shorthold Tenancy (AST) – this will be the normal position for all new tennancies.
- Commercial Tenancy – this will be used where THL lets a property to a third party to provide specialist accommodation normally in support of its transitional accommodation category.
- Long Lease – this will be used in the case of a shared ownership property.
- License – this will be used if THL is operating transitional accommodation directly or where the property is not fully self contained.
- Assured Tenancy – these are historic tenancies given out by WBHL (now THL) when it first started and will be phased out as tenancies end.

5.40 The rental levels for the commercial tenancy, long lease and licence will all be determined on a case by case basis and will be determined purely by the economic circumstances of the property acquisition.

5.41 Assured tenancies will be phased out but the existing ones will remain at the current rental structure applied on purchase.

5.42 Assured Shorthold Tenancies will be banded according to the subsidy THL is able to use to support the property acquisition and will fall into three bands.

Band A (open market)	96-100% of local open Market Rent
Band B (intermediate rent)	61-95% of local open Market Rent
Band C (supported rent)	50-60% of local open Market Rent

5.43 All of these bands will be assessed every year to ensure they are still appropriate given THL purchases, subsidy rates and the prevailing economic conditions. The local open Market Rent is assessed on individual properties and can therefore vary considerably, however the underlying assumption is an annual rent increase of 5%.

5.44 WBC MTFS included a new objective for THL in that THL should aim to provide at least 24 Band C units per annum. Band C units are aimed to provide properties at the equivalent of the target social rent for households who need direct support as they will not be able to sustain an intermediate rent. The ability to deliver these units will be assessed annually to ensure that the need is still appropriate and they are financially viable. It is likely that tenants in Band C property will also require a greater level of social support and the company will work closely with the Council to ensure stable tenancies.
The table below identifies property that fall within the banding criteria, shared ownership and corporate lets are excluded from the table.

	Properties
Band A	102
Band B (81%-96%)	167
Band B (61% - 81%)	164
Band C	49
	482

5.45 All new tenancies will be subject to a credit reference to ensure that prospective occupiers are able to afford the proposed rent and will be used in conjunction with personal references as appropriate. The credit reference will be relevant to the proposed rent and take into account household income including benefits where relevant. This process wouldn't be appropriate for Licenses due to the short term nature of the arrangement and ease of termination in arrears situations.

5.46 TGHL rental policy will be reviewed as part of the review of operational costs. The rental charges have been tested to reflect the comparative market and with the desire for the company to pay off the debt associated with this property quickly, due to the shortened property life of temporary accommodation and Bed and Breakfast. If costs are reduced the rental levels will be reviewed at the same time. In the interim they will remain at current levels. As part of the TGHL financial return from this rent the company provides a payment back to WBC to support the work it does with Housing Options to prevent homelessness.

6. Financial Performance: Thameswey Housing Limited

Projected Profit & Loss Account

6.1 The Profit and Loss account for the period 2017-2022 is included in Appendix 1.

6.2 Over the business plan period, operating profit will increase from £3.3M in 2017 to projected £8.1M in 2022, this is due to increasing the quantity of properties to rent by over 600 properties to an expected total of 1100 in 2022.

6.3 Rent roll at the end of 2018 is expected to be £5.4M per annum, increasing to £12.7M by 2022. Rental income inflation is budgeted at 3% in line with the financial models.

6.4 The cost base is expected to rise with inflation, assumed at 2% per annum, however a number of costs are driven by the number of properties held, costs such as general maintenance, insurance and agent's fees (where they remain) will therefore increase in line with revenue increases plus inflation.

6.5 In July 2017, the board agreed to THL self delivering housing management, and removing third party agencies. The breakeven point of investment versus savings will be achieved in three years. The transition to self delivery will be in phases, it is expected to embed across the property portfolio by 2021.

6.6 During the business plan period dedicated THL staff will be employed by THL directly, this due to an increasing number of staff required to manage self delivery of the property portfolio. The benefit of this initiative is to reduce intercompany VAT transactions and reduce administration burden.

6.7 Grounds maintenance costs are increasing, due to the increase in block management including waste recycling, concierge and cleaning.This is reflected within the increase in costs expected from 2019 onwards.

6.8 Staffing levels are planned to increase in line with activity as the property portfolio increases and transitions across to self management. Staffing levels in 2018 are equivilant to 5 Full time staff, increasing by 4 over the business plan period.

6.9 Doubtful debts and bad debts are expected to remain at the current levels even though the property portfolio is increasing, due to rigorous internal processes, and the requirement of a deposit for Band A and Band B properties.

6.10 Loan interest will increase significantly compared to prior years due to the heavy capital investment projected during the business plan. Loan interest during the business plan period is expected to exceed £42M.

6.11 An Earn Your Deposit Scheme (EYDS) provision have been built into the business plan reflecting an expected take-up of 9%. The forecast costs increase as additional annual allowances are accrued by tennants. The scheme success will be monitored and provisions altered to reflect expected costs.

6.12 The current business plan does not take into account property revaluation benefits which are expected to be generated by the investments properties, to date THL has benefitted from £26M of revaluation of investment properties.

6.13 The projected balance sheet is included in Appendix 2.

6.14 Fixed Assets increase as properties are completed by TDL and sold to THL, plus the purchase of street properties. Sheerwater properties purchased within the red line regeneration area are held by THL either as assets (if rented), or Stock (if boarded). Furniture and Fixtures and fitting are capitalised and depreciated over 4 years.

6.15 Capitalisation of the self delivery housing system increases as properties are phased into the system and new developments are self managed. Depreciation is over 4 years.

6.16 Stock currently includes land purchased for St Dunstan's, Knaphill Library 2 and Brookwood Lye, as the developments are completed the stock provision transitions into fixed assets.

6.17 Accrued expenses are expected to reduce over the business period due to self delivery of the properties and the removal of quarterly invoices from some current property management companies.

6.18 Long Term loans are forecast to increase from £106M in 2017 to £282M in 2022, an increase of £176M to support the capital investment in properties of £192M.

6.19 Net total assets are forecast to decrease over the business plan period due to the impact of interest costs incurred.

6.20 Share capital is modelled to equate to 25% of long term loans, however WBC has received guidance to write off share capital over 20 years. WBC are reviewing options, once a decision is made the current loan structure may require amendment.

Projected Cash Flow

6.21 The cashflow forecast is included in Appendix 3

6.22 The increase in share capital is based on additional loans drawn from WBC, share capital is expected to increase from £28.7M in 2018 to £65.7M in 2022.

Long Term View

6.23 THL runs as an established business, making long term strategic decisions

6.24 In 2015 the investment properties were revalued to take into account property inflation, it is expected that property prices will increase both in the short term and longer term. Over the last three years since revaluation, property prices in Woking have increased on average by £16K, equating to a 4% increase (according to RICS data as at June 2018). The property portfolio will be formally revalued during 2019.

6.25 THL total investment in 2022 is expected to be £317M, excluding future revaluation. Property investment appraisals are assumed to break even over 25 years, therefore interest funding will be required to support THL in the medium term. Included within the total investment is a revaluation reserve of £26,924,187.

Financial Performance – Thameswey Guest Houses Limited

Projected Profit & Loss Account

6.26 The profit and loss account Is included in Appendix 4

6.27 Nightly accommodation rates are expected to be maintained in 2019.

6.28 The intention is to maintain a third party managing the facility over the business plan period.

6.29 Costs are assumed to increase by 2% per year

6.30 The loan from THL was refinanced in 2017 and amended to an annuity loan; as a result interest costs have reduced.

Projected Balance Sheet

6.31 The projected balance sheet is included in Appendix 5.

Projected Cash Flow

6.32 The cashflow forecast is included in Appendix 6.

Appendix 1: THL - Profit & loss Account

	2017	2018	2019	2020	2021	2022
	Actual	Forecast	Budget	Budget	Budget	Budget
	£	£	£	£	£	£
Turnover						
Rental Income	4,893,698	5,400,815	6,093,258	8,222,676	10,829,638	12,722,602
Feed in Tariff Income	6,709	5,490	5,490	5,490	5,490	5,490
Other Income	4,800	0	0	0	0	0
Sale of Property	384,000		0	0	0	0
Cost of Sales	359,125		0	0	0	0
Profit on Sale of Assets	24,875	2,200	0	0	0	0
	4,930,082	**5,408,505**	**6,098,748**	**8,228,166**	**10,835,128**	**12,728,092**
Cost of Sales						
Ground Rent	80,377	86,444	86,444	86,444	86,444	86,444
Council Tax/Rates	27,004	35,920	48,746	65,781	86,637	101,781
Utilities/Telephones	50,110	46,011	60,933	82,227	108,296	127,226
General Maintenance	818,686	1,040,401	1,087,500	1,380,300	1,722,300	1,888,800
Grounds Maintenance	15,699	11,334	77,001	135,274	139,332	143,512
Total Cost of Sales	991,876	1,220,110	1,360,624	1,750,026	2,143,010	2,347,763
Gross profit/(loss)	**3,938,206**	**4,188,395**	**4,738,125**	**6,478,140**	**8,692,118**	**10,380,329**
GP% of Turnover	85%	77%	78%	79%	80%	82%
Indirect Costs						
Insurance	89,582	90,440	113,000	152,040	197,640	219,840
Housing Management Costs			91,399	246,680	324,889	381,678
Administration Charges	258,656	376,101	456,288	465,414	474,722	484,216
WBC/NVH Mgt Fee	136,378	124,898	83,880	85,558	87,269	89,014
Agents Fees	166,331	188,408	105,000	18,841	18,841	18,841
Prof Fees - Legal	7,181	7,272	50,000	50,000	50,000	50,000
Audit & Tax Advice	12,612	15,000	15,300	15,606	15,918	16,236
Trade Mark Fees	1,200	1,200	1,200	1,200	1,200	1,200
Non Exec Remuneration	6,483	9,000	9,180	9,364	9,551	9,742
Other Expenses	3,490	10,000	10,000	10,000	10,000	10,000
Bank Charges	752	1,200	1,200	1,200	1,200	1,200
Bad Debts	6,346	8,101	9,140	12,334	16,244	19,084
Doubtful Debt Provision	15,567	15,500	18,280	24,668	32,489	38,168
Total Costs	704,578	847,120	963,867	1,092,904	1,239,963	1,339,220
EBITDA	**3,233,628**	**3,341,275**	**3,774,258**	**5,385,236**	**7,452,155**	**9,041,109**
Depreciation	67,928	75,887	232,978	353,978	445,088	509,663
Earn Your Deposit Provision		111,360	222,720	334,080	445,440	556,800
Mortgage Protect Provision	-37,250	0	0	0	0	0
Amortisation	155,631	155,631	155,631	155,631	155,631	155,631
Operating Profit	**3,358,581**	**3,421,019**	**3,474,191**	**4,852,809**	**6,717,258**	**8,130,277**
Dividends Receivable	0	0	0	0	0	0
Bank Interest Income	813	1,000	1,000	1,000	1,000	1,000
Loan Interest Income	122,297	114,701	111,978	109,117	106,112	102,954
Finance Costs	5,765,812	6,232,449	7,171,535	9,251,861	12,219,808	14,252,619
Profit/(Loss) Before Tax	**(2,284,121)**	**(2,695,729)**	**(3,584,366)**	**(4,288,935)**	**(5,395,439)**	**(6,018,388)**
Deferred Taxation	777,744	0	0	0	0	0
Profit/(Loss) After Tax	**(1,506,377)**	**(2,695,729)**	**(3,584,366)**	**(4,288,935)**	**(5,395,439)**	**(6,018,388)**

Appendix 2: THL - Balance Sheet

		2017	2018	2019	2020	2021	2022
		Actual	Forecast	Budget	Budget	Budget	Budget
FIXED ASSETS							
	Property (Cost Price)	125,005,009	143,935,679	159,535,679	238,290,095	283,511,513	317,415,239
	Greenwood House	5,011,919	4,986,531	4,961,144	4,935,756	4,910,369	4,884,981
	Sherwater Properties	2,830,196	11,995,015	16,495,015	16,495,015	16,495,015	16,495,015
	Furniture/Fixtures	205,736	712,127	1,212,096	1,587,072	1,868,304	2,079,228
	Housing System	0	118,234	102,265	91,729	68,797	51,597
		133,052,860	161,747,586	182,306,199	261,399,667	306,853,998	340,926,061
LONG TERM INVESTMENTS							
	Loan to TDL	815,135	815,135	815,135	815,135	815,135	815,135
	Loan to TGH Ltd	1,166,115	1,112,329	1,055,819	996,448	934,072	868,538
	Investment in TGH Ltd	360,464	360,464	360,464	360,464	360,464	360,464
		2,341,714	2,287,928	2,231,418	2,172,047	2,109,671	2,044,137
CURRENT ASSETS							
	Trade Debtors	224,775	203,904	225,034	253,886	342,612	451,235
	Stock	15,821,646	17,166,472	6,191,683	6,191,683	6,191,683	6,191,683
	Accrued Income	215,501	210,591	215,330	223,416	230,119	237,022
	Provision for Doubtful Debts	(39,146)	(10,195)	(11,252)	(12,694)	(17,131)	(22,562)
	Prepayments	16,266	30,000	25,000	32,000	28,000	15,000
	TDL Advances	0	0	0	0	0	0
	BF Service Charges	1,548	774	789	805	821	838
	Bank Account	6,371,085	1,891,950	1,597,810	1,925,962	2,243,935	3,312,852
		22,611,675	19,493,496	8,244,395	8,615,058	9,020,039	10,186,069
CURRENT LIABILITIES							
	Trade Creditors	111,359	116,927	122,773	128,912	135,358	142,125
	Accrued Expenses	779,284	701,356	350,678	357,691	364,845	372,142
	Deferred Income	102,731	107,868	113,261	118,924	124,870	131,114
	Earn Your Deposit Provision	0	111,360	222,720	334,080	445,440	556,800
	Mortgage Protection Fund	83,425	83,425	83,425	83,425	83,425	83,425
	Provision for Deferred Tax	3,819,451	3,819,451	3,819,451	3,819,451	3,819,451	3,819,451
		4,896,250	4,940,386	4,712,308	4,842,483	4,973,389	5,105,057
NET CURRENT ASSETS		**17,715,425**	**14,553,110**	**3,532,087**	**3,772,575**	**4,046,650**	**5,081,012**
LONG TERM LIABILITIES							
	Long Term Loans	106,186,678	130,266,662	141,737,738	208,706,889	249,673,988	282,638,898
	Grants/Contributions	6,542,791	6,387,160	6,231,530	6,075,899	5,920,269	5,764,638
		112,729,469	136,653,823	147,969,268	214,782,789	255,594,257	288,403,536
NET TOTAL ASSETS		**40,380,530**	**41,934,801**	**40,100,435**	**52,561,500**	**57,416,062**	**59,647,674**
CAPITAL & RESERVES							
	Share Capital	24,490,000	28,740,000	30,490,000	47,240,000	57,490,000	65,740,000
	P&L Account Brought fwd	17,396,907	15,890,530	13,194,801	9,610,435	5,321,500	(73,938)
	Profit/(Loss) YTD	(1,506,377)	(2,695,729)	(3,584,366)	(4,288,935)	(5,395,439)	(6,018,388)
		40,380,530	**41,934,801**	**40,100,435**	**52,561,500**	**57,416,062**	**59,647,674**

Appendix 3: THL - Cashflow

	2018	2019	2020	2021	2022
	Forecast	Budget	Budget	Budget	Budget
Operating Activities	£	£	£	£	£
Profit/(Loss) Before Financing	3,421,019	3,474,191	4,852,809	6,717,258	8,130,277
(Increase)/Decrease in Debtors	(1,360,956)	10,954,962	(42,512)	(87,008)	(97,112)
Increase/(Decrease) in Creditors	44,136	(228,078)	130,175	130,906	131,668
Add Back: Depreciation / Less Amortisation	(79,744)	77,347	198,347	289,457	354,032
NET CASH FLOW FROM OPERATING ACTIVITIES	**2,024,455**	**14,278,422**	**5,138,819**	**7,050,612**	**8,518,865**
Investing Activities					
TDL/TGHL Loan Interest	114,701	111,978	109,117	106,112	102,954
(Purchase)/Disposal of fixed assets	(28,770,613)	(20,791,590)	(79,447,446)	(45,899,418)	(34,581,726)
NET CASH FLOW FROM INVESTING ACTIVITES	**(28,655,912)**	**(20,679,612)**	**(79,338,329)**	**(45,793,306)**	**(34,478,772)**
Financing Activities					
Increase in Share Capital	4,250,000	1,750,000	16,750,000	10,250,000	8,250,000
Interest Received	1,000	1,000	1,000	1,000	1,000
Interest Paid	(6,232,449)	(7,171,535)	(9,251,861)	(12,219,808)	(14,252,619)
Loans Received	24,106,995	11,500,000	67,000,000	41,000,000	33,000,000
Repayment of THL principal	(27,011)	(28,925)	(30,849)	(32,901)	(35,090)
Repayment of Loans - TGHL	53,786	56,510	59,371	62,376	65,534
NET CASH FLOW FROM FINANCING ACTIVITES	**22,152,322**	**6,107,050**	**74,527,661**	**39,060,667**	**27,028,825**
NET CASH INFLOW/(OUTFLOW) OF CASH	**(4,479,135)**	**(294,140)**	**328,151**	**317,973**	**1,068,918**
Cash Balance @ Beginning of Period	6,371,085	1,891,950	1,597,810	1,925,962	2,243,935
Cash Balance @ End of Period	1,891,950	1,597,810	1,925,962	2,243,935	3,312,852

Appendix 4: TGHL - Profit & loss

	2017	2018	2019	2020	2021	2022
	Actual	Forecast	Budget	Budget	Budget	Budget
	£	£	£	£	£	£
Rent Income	***382,720***	**350,790**	**406,000**	**410,060**	**414,161**	**418,302**
Cost of Sales						
Management Fee	*104,000*	**99,010**	**102,000**	**102,000**	**102,000**	**102,000**
Gross Profit/(Loss)	**278,720**	**251,780**	**304,000**	**308,060**	**312,161**	**316,302**
GP % of turnover	*72.8%*	*71.8%*	*74.9%*	*75.1%*	*75.4%*	*75.6%*
Indirect Costs						
Administration Charges	40,016	40,000	**40,000**	**40,800**	**41,616**	**42,448**
Business Rates	2,573	2,692	**2,895**	**2,953**	**3,012**	**3,072**
Electricity	3,666	4,559	**4,650**	**4,743**	**4,838**	**4,935**
Gas	3,230	3,252	**3,317**	**3,383**	**3,451**	**3,520**
Water	3,001	1,488	**3,269**	**3,334**	**3,401**	**3,469**
Insurance	3,801	4,213	**4,296**	**4,382**	**4,470**	**4,559**
Premises Maintenance	5,771	3,553	**3,624**	**3,697**	**3,770**	**3,846**
Audit & Tax Advice	2,500	4,011	**4,091**	**4,173**	**4,257**	**4,342**
Trade Mark Fees	1,000	1,000	**1,000**	**1,020**	**1,040**	**1,061**
Non Exec Remuneration	5,403	5,399	**5,404**	**5,512**	**5,622**	**5,735**
Doubtful Debt Provision	80	0	**0**	**0**	**0**	**0**
Other Sundry Expenses	134	147	**147**	**150**	**153**	**156**
Bank Charges	93	93	**93**	**95**	**97**	**99**
Total Costs	71,268	70,407	72,787	74,242	75,727	77,242
EBITDA	**207,452**	**181,373**	**231,213.46**	**233,818**	**236,433**	**239,061**
Depreciation	25,982	24,723	**26,000**	**26,000**	**26,000**	**26,000**
Operating Profit/(loss)	**181,470**	**156,650**	**205,213**	**207,818**	**210,433**	**213,061**
Finance Income	*48*	166	**144**	**144**	**144**	**144**
Finance Costs	*65,238*	56,969	**54,919**	**52,058**	**49,052**	**45,895**
Profit/(Loss) Before Tax	**116,280**	**99,847**	**150,439**	**155,904**	**161,525**	**167,310**
CT Provision	*27,381*	0	**0**	**0**	**0**	**0**
Profit/(Loss) After Tax	**88,899**	**99,847**	**150,439**	**155,904**	**161,525**	**167,310**
Dividends paid	*115,000*	50,000	**100,000**	**106,000**	**112,000**	**112,000**
Retained Profit	**(26,101)**	**49,847**	**50,439**	**49,904**	**49,525**	**55,310**

Appendix 5: TGHL - Balance Sheet

	2017	2018	2019	2020	2021	2022
	Actual	Forecast	Budget	Budget	Budget	Budget
	£	£	£	£	£	£
FIXED ASSETS						
Land & Buildings	1,441,996	1,417,273	1,391,273	1,365,273	1,339,273	1,313,273
Furniture and Fittings	5,547	5,547	5,547	5,547	5,547	5,547
	1,447,543	1,422,820	1,396,820	1,370,820	1,344,820	1,318,820
CURRENT ASSETS						
Trade Debtors	74,716	29,233	33,833	34,172	34,513	34,859
Provision for Doubtful Debts	(5,920)	(5,920)	(5,920)	(5,920)	(5,920)	(5,920)
VAT Refund	0	0	0	0	0	0
Prepayments	2,539	2,500	2,500	2,500	2,500	2,500
Bank Account	343,836	427,240	452,984	469,822	483,276	499,359
	415,171	453,053	483,397	500,574	514,370	530,797
CURRENT LIABILITIES						
Trade Creditors	30,883	14,118	14,566	14,687	14,811	14,937
VAT Liability	10,266	36,275	46,243	46,764	47,287	47,812
Provision For Corpn. Tax	85,285	85,285	85,285	85,285	85,285	85,285
Accrued Expenses	22,145	30,000	30,000	30,000	30,000	30,000
	148,579	165,678	176,093	176,735	177,382	178,034
NET CURRENT ASSETS	**266,592**	**287,375**	**307,304**	**323,838**	**336,987**	**352,764**
LONG TERM LIABILITIES						
Long Term Loans (THL)	1,166,115	1,112,329	1,055,818	996,448	934,072	868,538
	1,166,115	1,112,329	1,055,818	996,448	934,072	868,538
NET TOTAL ASSETS	**548,020**	**597,867**	**648,306**	**698,210**	**747,735**	**803,045**
CAPITAL & RESERVES						
Share Capital	360,000	360,000	360,000	360,000	360,000	360,000
P&L Account B/F	214,121	188,020	237,867	288,306	338,209	387,735
Profit/(Loss) YTD	(26,101)	49,847	50,439	49,904	49,525	55,310
	548,020	**597,867**	**648,306**	**698,210**	**747,735**	**803,045**

Appendix 6: TGHL - Cashflow

	2018	2019	2020	2021	2022
	£		£	£	£
Operating Activities					
Profit/(Loss) Before Financing	156,650	205,213	207,818	210,433	213,061
(Increase)/Decrease in Debtors	45,523	(4,601)	(338)	(342)	(345)
Increase/(Decrease) in Creditors	17,099	10,416	642	647	652
Add Back: Depreciation / Less Amortisation / Provisions	24,723	26,000	26,000	26,000	26,000
NET CASH FLOW FROM OPERATING ACTIVITIES	**243,994**	**237,028**	**234,122**	**236,739**	**239,367**
Investing Activities					
(Purchase)/Disposal of fixed assets	0	0	0	0	0
NET CASH FLOW FROM INVESTING ACTIVITES	**0**	**0**	**0**	**0**	**0**
Financing Activities					
Increase in Share Capital	0	0	0	0	0
Interest Received	166	144	144	144	144
Finance Costs	(56,969)	(54,919)	(52,058)	(49,052)	(45,895)
Dividends Paid	(50,000)	(100,000)	(106,000)	(112,000)	(112,000)
Loans Received	0	0	0	0	0
Repayment of Loans	(53,787)	(56,510)	(59,370)	(62,376)	(65,534)
NET CASH FLOW FROM FINANCING ACTIVITES	**(160,590)**	**(211,284)**	**(217,283)**	**(223,284)**	**(223,284)**
NET CASH INFLOW/(OUTFLOW) OF CASH	**83,404**	**25,744**	**16,838**	**13,454**	**16,083**
Cash Balance @ Beginning of Period	343,836	427,240	452,984	469,822	483,276
Cash Balance @ End of Period	427,240	452,984	469,822	483,276	499,359

End of Business Plan