

Thameswey Housing Limited Thameswey Guest Houses Limited

Business Plan 2018

Covering the period 2018-2021

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1. Introduction

- 2.1 The Business Plan updates the residential activities of the Thamesway Group following the approval of the 2017 Plan by Council in December 2016. This plan covers the residential activities of the group which are split between two legal entities. Thamesway Housing Limited (THL), Thamesway 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 Thamesway Limited, and ultimately with Woking Borough Council's (WBC) strategic objectives for the Thamesway Group.

2. Purpose of the Companies

- 2.5 Thamesway 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 Thamesway Housing's rental structure covers rents from 50% to 100% of the local open market rent, the main target for THL 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 as open market stock.
- 2.6 Thamesway 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 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 The current directors for the residential companies are set out below:
- | | |
|-----------------------|--------------------------------|
| Terry Price | Independent (Chairman) |
| Barry Maunders | Independent (THL Only) |
| Sue Barham | Officer Director |
| Peter Bryant | Officer Director |
| Cllr David Bittleston | Councillor Director |
| Cllr John Kingsbury | Councillor Director |
| Cllr Colin Kemp | Councillor Director (THL only) |
- 2.10 The Board composition meets the requirements of the Thamesway Group Protocols. In order to be quorate a board meeting must have at least one independent, one Councillor and one officer Director in attendance. As part of the Thamesway Limited request to Council it is proposed that the Council appoint Barry Maunders (as Chair of the Group) and Cllr Colin Kemp (as Housing Portfolio Holder) to TGHL to ensure consistency across the residential boards.

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. 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 is for the initial period of the property ownership the company will operate at a loss on the majority of property 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.
- 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 2018 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 has maintained a high degree of occupation and has supported WBC and neighbouring local authorities in preventing homelessness, this year 132 families have been accommodated throughout the year with 113 from Woking.
- 4.1 THL has acquired 14 street properties since January 2017. The company has focussed its street acquisitions on property which can deliver band B and C rental levels which are set out in paragraph 5.39. It has also looked to acquire more property in Knaphill and Byfleet where its existing stock is under-represented.
- 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 TGHL contract with the Management Company was reviewed and fees assessed. The result was the management fee was reduced to encourage higher occupancy levels. The funding of Maybury Lodge via a loan from THL was restructured to reduce the term of the loan to 15 years. In addition a volume discount structure was adopted.
- 4.4 During 2017 a dividend was paid to WBC from TGHL (via TL) for £155,000, the dividend was generated by accumulated profits in TGHL. It is proposed an annual dividend will be issued to WBC from TGHL based upon annual generated profits.
- 4.5 Since the last business plan period 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.

5. Proposed Medium – Long Term Objectives

Overview 2018 – 2021

- 5.1 Residential property prices have continued to increase although this increase has slowed since the Brexit vote. 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 but that prices will still increase. This has meant that THL have been unable to secure a number of properties on the market as we have been out-bid. Land and development sites have not been as affected by Brexit and still continue to increase in value and be competitively bid upon.

- 5.2 The local increase in property price also 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 giving a company value of just over £111m with a rent roll of over £4.5m per annum. 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 will be completed in December 2018.

Priorities 2018 to 2021

- 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).
- 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 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 Thamesway. However it is expected the housing stock will move from THL to a Sheerwater holding company in 2019, as sufficient levels of stock have been purchased and built. The separate holding company will reflect the different funding arrangements for Sheerwater and the Council's desire for a different rental structure.
- 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 Thamesway 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 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 By April 2018 it will be unlawful to let a property with an EPC (Energy Performance Certificate) rating below a prescribed level (thought likely to be an "E"). 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 Thamesway 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 Thamesway companies. During the business plan THL will implement 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. The company has recently completed a tender exercise for strategic support to assist with development. Synergy has been appointed to provide Quantity Surveying, Employers Agent and CDMC (health and safety) support to THL and TDL. A strategic relationship is also being developed with a planning consultancy given the number of new residential developments that are likely to be developed through 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 acquiring 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. Section 7 of this business plan sets out the

approach to rental levels in more detail. 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 managing agents 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.

Other Forms of Ownership

- 5.23 Due to the company's involvement in developing large scale town centre developments such as St Dunstan's we will consider the possibility of alternative ownership structures such as fractional ownership leaseholds to increase the mix within the development. The intention of this product would be to allow people to 'buy into' the scheme from an investment point of view as small scale landlords but would prevent THL losing overall management control of the development as the investment wouldn't tie specifically to an individual unit. Details of any potential scheme would be brought back to the board for approval prior to implementation.

Transitional Rented and Temporary Accommodation

- 5.24 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.

- 5.25 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

- 5.26 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.

Capital Funding of THL

- 5.27 On the 7 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 25-35% of the investment, which had been suspended since September 2015 and significantly increased the amount of available finance to £50m per annum for a period of four years. 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 £311.9M, including £84.5M agreed within the business plans, £26.5M agreed outside the business plans and £200M agreed as part of WBC Medium Term Financial Strategy. The point at 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 £26.5M; the funds include Victoria Square development for affordable houses £18M, Sheerwater regeneration proposals on behalf of WBC totalling £2.5M and Brookwood Lye affordable homes contribution of £6M.

Year	Business Plan agreements	Outside Business Plan Cycle	MTFS	TOTAL FUNDING AGREED	Borrowing Margin
Pre 2015	64,400,000	2,000,000		66,400,000	Various
2015	5,000,000	8,000,000		13,000,000	2%
2016	6,000,000	8,000,000	25,000,000	39,000,000	2% /1.5%
2017	5,000,000	8,500,000	50,000,000	63,500,000	1.50%
2018	5,000,000	-	50,000,000	55,000,000	1.50%
2019			50,000,000	50,000,000	1.50%
2020 (Jan-Mar)			25,000,000	25,000,000	1.50%
TOTAL	85,400,000	26,500,000	200,000,000	311,900,000	
Proposed					
2020 (Apr- Dec)	5,000,000		25,000,000	30,000,000	1.50%
2021	5,000,000		50,000,000	55,000,000	1.50%
TOTAL	95,400,000	26,500,000	275,000,000	396,900,000	

- 5.30 Additional funds are requested for the period of March 2020 to December 2020 of £30M, and for 2021 funds of £55M. The purpose is to continue to fund housing developments, and to support loan financing.
- 5.31 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.
- 5.32 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.

Operational Modelling (Finance) for THL

- 5.33 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.
- 5.34 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.

5.35 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.500 properties, subject to planning, over the next four years.

Rental Policy

5.36 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 acquisitions.
- 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.

5.37 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.

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

5.39 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

5.40 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%.

5.41 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	93
Band B	297
Band C	44
	434

- 5.42 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.

- 5.43 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. Relating 2016 and prior this payment amounted to £115,000 and is expected to be £45,000 in 2017.

6. Financial Performance: Thamesway Housing Limited

Projected Profit & Loss Account

- 6.1 The Profit and Loss account for the period 2016-2021 is included in Appendix 1.

- 6.2 Over the business plan period, operating profit will increase from £3.2M in 2016 to projected £8.5M in 2021, this is due to increasing the quantity of properties to rent by over 450 properties to an expected total of 920 in 2021.

- 6.3 Rent roll at the end of 2017 is expected to be £4.9M per annum, increasing to £10.9M by 2021. 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 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 2020. Capital expenditure is expected to be £345K which will fall within this business plan period.

- 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 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 equivalent to 9 Full time staff, increasing by 3 in 2019.
- 6.8 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.
- 6.9 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 £35M.
- 6.10 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.

Projected Balance Sheet

- 6.11 The projected balance sheet is included in Appendix 2.
- 6.12 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 for 2017 and 2018, and assumed to be held in a Sheerwater specific entity from 2019 onwards. Furniture and Fixtures and fitting are capitalised and depreciated over 4 years
- 6.13 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.
- 6.14 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.
- 6.15 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.
- 6.16 Long Term loans are forecast to increase from £95.3M in 2016 to £243.6M in 2021, an increase of £148.3M to support the capital investment in properties of £155.8M.
- 6.17 Net total assets are forecast to decrease over the business plan period due to the impact of interest costs incurred.

Projected Cash Flow

- 6.18 The cashflow forecast is included in Appendix 3
- 6.19 The increase in share capital is expected in 2017 relates to previously agreed WBC increases of £6M

Long Term View

- 6.20 THL runs as an established business, making long term strategic decisions
- 6.21 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 two years since revaluation, property prices in Woking have increased on average by £28K, equating to a 7% increase (according to RICS data as at July 2017). The property portfolio will be formally revalued in 2018.
- 6.22 THL total investment in 2021 is expected to be £276.9M, excluding future revaluation. Property investment appraisals are assumed to break even over 25 years, therefore interest funding will required to support THL in the medium term. Included within the total investment is a revaluation reserve of £26,924,187.

Financial Performance – Thamesway Guest Houses Limited

Projected Profit & Loss Account

- 6.24 The profit and loss account is included in Appendix 4
- 6.25 Nightly accommodation rates are expected to be maintained in 2018 with a further review in 2019. The model assumes a modest 1% in 2019, although a benchmarking exercise will be carried out.
- 6.26 The intention is to maintain a third party managing the facility over the business plan period.
- 6.27 Costs are assumed to increase by 2% per year
- 6.28 The loan from THL has been refinanced in 2017 and amended to an annuity loan; as a result interest costs have reduced.

Projected Balance Sheet

6.29 The projected balance sheet is included in Appendix 5.

Projected Cash Flow

6.30 The cashflow forecast is included in Appendix 6.

Appendix 1: THL - Profit & loss Account

	2016	2017	2018	2019	2020	2021
	Actual	Forecast	Budget	Budget	Budget	Budget
	£	£	£	£	£	£
Turnover						
Rental Income	4,129,831	4,848,884	5,337,846	8,676,527	10,548,584	10,890,379
Feed in Tariff Income	4,542	3,715	3,715	3,715	3,715	3,715
Other Income	0	4,800	0	0	0	0
Sale of Property	1,647,750	262,500	0	0	0	0
Cost of Sales	1,505,108	243,750	0	0	0	0
Profit on Sale of Assets	142,642	18,750	0	0	0	0
	4,277,015	4,876,148	5,341,561	8,680,242	10,552,299	10,894,094
Cost of Sales						
Ground Rent	78,226	91,651	91,651	93,484	95,354	97,261
Council Tax/Rates	29,616	30,893	30,893	31,511	32,141	32,784
Utilities/Telephones	15,938	49,684	49,684	50,678	51,691	52,725
General Maintenance	492,827	751,050	675,000	1,046,200	1,077,586	1,109,914
Grounds Maintenance	15,712	12,330	12,330	12,577	12,829	13,085
Total Cost of Sales	632,319	935,609	859,559	1,234,450	1,269,601	1,305,769
Gross profit/(loss)	3,644,696	3,940,539	4,482,003	7,445,792	9,282,698	9,588,325
GP% of Turnover	85%	81%	84%	86%	88%	88%
Indirect Costs						
Insurance	62,606	88,000	92,400	94,248	96,133	98,056
Housing Management Costs	23,263	0	0	321,280	327,706	334,260
Administration Charges	118,023	260,932	377,977	0	0	0
WBC/NVH Mgt Fee	119,137	136,688	139,422	41,826	13,942	14,221
Agents Fees	111,703	150,807	173,480	173,531	0	0
Prof Fees - Legal	837	3,884	3,962	4,041	4,122	4,205
Prof Fees - Consultancy	0	0	0	0	0	0
Prof Fees - Surveying	60,717	0	0	0	0	0
Audit & Tax Advice	9,864	13,212	17,000	18,700	20,570	22,627
Trade Mark Fees	1,200	1,200	1,200	1,200	1,200	1,200
Non Exec Remuneration	6,485	10,443	10,651	10,865	11,082	11,303
Other Expenses	4,624	3,046	3,107	3,169	3,232	3,297
Bank Charges	3,476	1,263	1,288	1,314	1,340	1,367
Bad Debts	14,906	15,000	16,513	17,008	17,518	18,044
Doubtful Debt Provision	-1,421	18,000	18,360	18,911	19,478	20,062
Total Costs	535,422	702,474	855,360	706,093	516,324	528,642
EBITDA	3,109,274	3,238,065	3,626,643	6,739,699	8,766,374	9,059,683
Depreciation	56,646	54,564	89,023	215,023	247,012	271,363
Mortgage Protect Provn.	19,667	(27,375)	0	0	0	0
Amortisation	143,256	149,443	168,004	168,004	296,631	296,631
Operating Profit	3,176,217	3,360,319	3,369,616	6,356,672	8,222,731	8,491,688
Dividends Receivable	345,036	0	0	0	0	0
Bank Interest Income	7,585	244	250	250	250	250
Loan Interest Income	131,516	138,777	114,700	111,977	109,116	106,616
Finance Costs	4,532,002	6,237,954	6,153,295	8,474,817	11,750,506	12,110,506
Profit/(Loss) Before Tax	(871,649)	(2,738,614)	(2,668,730)	(2,005,918)	(3,418,409)	(3,511,952)
Deferred Taxation	-235,000	0	0	0	0	0
Profit/(Loss) After Tax	(636,649)	(2,738,614)	(2,668,730)	(2,005,918)	(3,418,409)	(3,511,952)

Appendix 2: THL - Balance Sheet

	2016	2017	2018	2019	2020	2021
	Actual	Forecast	Budget	Budget	Budget	Budget
FIXED ASSETS						
Property (Cost Price)	115,599,981	124,293,292	141,096,292	254,650,774	254,770,774	254,770,774
Greenwood House	5,037,306	4,999,224	4,973,837	4,948,449	4,923,062	4,897,674
Sherwater Properties		3,076,781	15,383,907	0	0	0
Brookwood Lye				16,262,381	16,262,381	16,262,381
Assets Under Construction	398,221	0	0	0	0	0
Furniture/Fixtures	101,726	216,626	466,470	653,852	794,389	899,792
Housing System	0	37,917	292,074	232,645	189,514	142,135
	121,137,235	132,623,840	162,212,579	276,748,101	276,940,119	276,972,756
LONG TERM INVESTMENTS						
Loan to TDL	815,135	815,135	815,135	815,135	815,135	815,135
Loan to TGH Ltd	1,192,029	1,166,115	1,112,329	1,055,819	996,448	934,072
Investment in TGH Ltd	360,464	360,464	360,464	360,464	360,464	360,464
	2,367,628	2,341,714	2,287,928	2,231,418	2,172,047	2,109,671
CURRENT ASSETS						
Trade Debtors	19,792	46,886	51,361	83,464	101,464	104,751
Other Debtors	345,036	345,036	0	0	0	0
Stock	15,806,346	15,806,346	15,806,346	0	0	0
Accrued Income	897,692	222,410	222,565	361,677	439,679	453,921
Provision for Doubtful Debts	(23,579)	(2,344)	(2,568)	(4,173)	(5,073)	(5,238)
Prepayments	26,726	30,000	25,000	32,000	28,000	15,000
TDL Advances	2,010,808	0	0	0	0	0
BF Service Charges	12,205	6,102	6,224	6,349	6,476	6,605
Bank Account	453,767	7,220,003	9,011,625	2,418,227	7,886,911	8,113,641
	19,548,790	23,674,438	25,120,553	2,897,544	8,457,457	8,688,681
CURRENT LIABILITIES						
Trade Creditors	105,750	136,507	142,560	117,682	86,054	88,107
Other Creditors	3,620	3,620	3,620	3,620	3,620	3,620
Accrued Expenses	855,859	770,273	385,137	392,839	400,696	408,710
Deferred Income	104,992	110,241	0	0	0	0
Mortgage Protection Fund	120,675	93,300	93,300	93,300	93,300	93,300
Provision for Deferred Tax	4,597,195	4,597,195	4,597,195	4,597,195	4,597,195	4,597,195
Short Term Loans						
	5,788,090	5,711,135	5,221,810	5,204,635	5,180,864	5,190,931
NET CURRENT ASSETS	13,760,700	17,963,303	19,898,742	(2,307,092)	3,276,593	3,497,750
LONG TERM LIABILITIES						
Long Term Loans	95,255,234	107,806,586	142,113,711	236,560,812	239,560,812	243,560,812
Grants/Contributions	6,698,421	6,548,978	6,380,974	6,212,970	12,347,712	12,051,080
	101,953,655	114,355,564	148,494,685	242,773,782	251,908,524	255,611,892
NET TOTAL ASSETS	35,311,908	38,573,294	35,904,564	33,898,645	30,480,236	26,968,284
CAPITAL & RESERVES						
Share Capital	17,915,000	23,915,000	23,915,000	23,915,000	23,915,000	23,915,000
P&L Account Brought fwd	18,033,556	17,396,907	14,658,294	11,989,564	9,983,645	6,565,236
Profit/(Loss) YTD	(636,649)	(2,738,614)	(2,668,730)	(2,005,918)	(3,418,409)	(3,511,952)
	35,311,907	38,573,294	35,904,564	33,898,645	30,480,236	26,968,284

Appendix 3: THL - Cashflow

	2016	2017	2018	2019	2020	2021
	Actual	Forecast	Budget	Budget	Budget	Budget
	£	£	£	£	£	£
Operating Activities						
Profit/(Loss) Before Financing	3,222,608	3,360,319	3,369,616	6,356,672	8,222,731	8,491,688
(Increase)/Decrease in Debtors	2,775,692	2,640,588	345,508	15,629,612	(91,230)	(4,493)
Increase/(Decrease) in Creditors	(1,564,682)	(76,955)	(489,325)	(17,175)	(23,771)	10,067
Add Back: Depreciation / Less Amortisation	(56,646)	(122,254)	(78,981)	47,019	79,008	103,359
NET CASH FLOW FROM OPERATING ACTIVITIES	4,376,972	5,801,698	3,146,818	22,016,128	8,186,737	8,600,621
Investing Activities						
Advance re Westminster Court	(250,000)	0	0	0	0	
(Purchase)/Disposal of fixed assets	(32,421,366)	(11,338,922)	(29,482,637)	(114,553,617)	(240,177)	(103,095)
NET CASH FLOW FROM INVESTING ACTIVITIES	(32,671,366)	(11,338,922)	(29,482,637)	(114,553,617)	(240,177)	(103,095)
Financing Activities						
Increase in Share Capital	3,900,000	6,000,000	0	0	0	0
Interest Received	93,652	139,021	114,950	112,227	109,366	106,866
Interest Paid	(3,106,955)	(6,237,954)	(6,153,295)	(8,474,817)	(11,750,506)	(12,110,506)
Grants/Contributions	0	(149,443)	(168,004)	(168,004)	6,134,741	(296,631)
Loans Received	24,475,000	12,551,352	34,307,126	94,447,101	3,000,000	4,000,000
Repayment of THL principal		(25,430)	(27,121)	(28,925)	(30,849)	(32,901)
Repayment of Loans - TGHL		25,914	53,786	56,510	59,371	62,376
NET CASH FLOW FROM FINANCING ACTIVITIES	25,361,697	12,303,459	28,127,441	85,944,092	(2,477,876)	(8,270,796)
NET CASH INFLOW/(OUTFLOW) OF CASH	(2,932,697)	6,766,236	1,791,622	(6,593,397)	5,468,684	226,730
Cash Balance @ Beginning of Period	3,386,464	453,767	7,220,003	9,011,625	2,418,227	7,886,911
Cash Balance @ End of Period	453,767	7,220,003	9,011,625	2,418,227	7,886,911	8,113,641

Appendix 4: TGHL - Profit & loss

	2016	2017	2018	2019	2020	2021
	Actual £	Forecast £	Budget £	Budget £	Budget £	Budget £
Rent Income	405,880	404,000	406,000	410,060	414,161	418,302
Cost of Sales						
Management Fee	107,000	108,040	108,040	108,040	108,040	108,040
Gross Profit/(Loss)	298,880	295,960	297,960	302,020	306,121	310,262
GP % of turnover	73.6%	73.6%	73.6%	73.6%	73.6%	73.6%
Indirect Costs						
Administration Charges	31,843	40,016	40,000	40,800	41,616	42,448
Business Rates	(31,441)	2,612	2,678	2,732	2,786	2,842
Electricity	4,285	3,173	4,000	4,080	4,162	4,245
Gas	4,213	5,794	4,000	4,080	4,162	4,245
Water	1,651	1,315	1,296	1,322	1,348	1,375
Insurance	2,313	3,080	3,800	3,876	3,954	4,033
Premises Maintenance	2,222	2,686	2,800	2,856	2,913	2,971
Audit & Tax Advice	6,000	3,815	5,500	5,610	5,722	5,837
Trade Mark Fees	1,000	1,010	1,000	1,020	1,040	1,061
Non Exec Remuneration	5,404	5,459	5,404	5,512	5,622	5,735
Doubtful Debt Provision	0	0	0	0	0	0
Other Sundry Expenses	158	147	144	147	150	153
Bank Charges	64	63	60	61	62	64
Total Costs	27,713	69,169	70,682	72,096	73,538	75,008
EBITDA	271,167	226,791	227,278	229,924	232,583	235,254
Depreciation	25,913	24,491	26,000	26,000	26,000	26,000
Operating Profit/(loss)	245,254	202,300	201,278	203,924	206,583	209,254
Finance Income	271	83	24	24	24	24
Finance Costs	74,456	65,562	57,642	54,919	52,058	49,052
Profit/(Loss) Before Tax	171,069	136,822	143,660	149,030	154,549	160,226
CT Provision	39,396	0	0	0	0	0
Profit/(Loss) After Tax	131,673	136,822	143,660	149,030	154,549	160,226
Dividends paid	0	155,000	95,000	100,000	106,000	112,000
Retained Profit	131,673	(18,178)	48,660	49,030	48,549	48,226

Appendix 5: TGHL - Balance Sheet

	2016	2017	2018	2019	2020	2021
	Actual	Forecast	Budget	Budget	Budget	Budget
	£	£	£	£	£	£
FIXED ASSETS						
Land & Buildings	1,459,908	1,435,417	1,409,417	1,383,417	1,357,417	1,331,417
Furniture and Fittings	13,617	13,617	13,617	13,617	13,617	13,617
	1,473,525	1,449,035	1,423,035	1,397,035	1,371,035	1,345,035
CURRENT ASSETS						
Trade Debtors	87,244	33,667	33,833	34,172	34,513	34,859
Provision for Doubtful Debts	(5,840)	(5,840)	(5,840)	(5,840)	(5,840)	(5,840)
VAT Refund	0	0	0	0	0	0
Prepayments	2,273	2,500	2,500	2,500	2,500	2,500
Bank Account	347,675	390,726	411,656	430,485	445,974	458,135
	431,352	421,053	442,150	461,317	477,147	489,653
CURRENT LIABILITIES						
Trade Creditors	36,628	14,767	14,894	15,011	15,131	15,254
VAT Liability	15,542	45,358	45,456	45,985	46,517	47,051
Provision For Corpn. Tax	57,904	57,904	57,904	57,904	57,904	57,904
Accrued Expenses	28,654	30,000	30,000	30,000	30,000	30,000
	138,727	148,029	148,253	148,900	149,552	150,208
NET CURRENT ASSETS	292,625	273,024	293,897	312,417	327,596	339,445
LONG TERM LIABILITIES						
Long Term Loans (THL)	1,192,029	1,166,115	1,112,329	1,055,819	996,448	934,072
	1,192,029	1,166,115	1,112,329	1,055,819	996,448	934,072
NET TOTAL ASSETS	574,121	555,943	604,603	653,633	702,182	750,407
CAPITAL & RESERVES						
Share Capital	360,000	360,000	360,000	360,000	360,000	360,000
P&L Account B/F	82,448	214,121	195,943	244,603	293,633	342,182
Profit/(Loss) YTD	131,673	(18,178)	48,660	49,030	48,549	48,226
	574,121	555,943	604,603	653,633	702,182	750,407

Appendix 6: TGHL - Cashflow

	2017	2018	2019	2020	2021
	£	£		£	£
Operating Activities					
Profit/(Loss) Before Financing	202,300	201,278	203,924	206,583	209,254
(Increase)/Decrease in Debtors	53,351	(167)	(338)	(342)	(345)
Increase/(Decrease) in Creditors	9,302	224	647	652	657
Add Back: Depreciation / Less Amortisation / Provisions	24,491	26,000	26,000	26,000	26,000
NET CASH FLOW FROM OPERATING ACTIVITIES	289,444	227,335	230,233	232,893	235,566
Investing Activities					
(Purchase)/Disposal of fixed assets	0	0	0	0	0
NET CASH FLOW FROM INVESTING ACTIVITIES	0	0	0	0	0
Financing Activities					
Increase in Share Capital	0	0	0	0	0
Interest Received	83	24	24	24	24
Finance Costs	(65,562)	(57,642)	(54,919)	(52,058)	(49,052)
Dividends Paid	(155,000)	(95,000)	(100,000)	(106,000)	(112,000)
Loans Received	0	0	0	0	0
Repayment of Loans	(25,914)	(53,787)	(56,510)	(59,371)	(62,376)
NET CASH FLOW FROM FINANCING ACTIVITIES	(246,392)	(206,404)	(211,404)	(217,404)	(223,404)
NET CASH INFLOW/(OUTFLOW) OF CASH	43,052	20,930	18,829	15,489	12,161
Cash Balance @ Beginning of Period	347,675	390,726	411,656	430,485	445,974
Cash Balance @ End of Period	390,726	411,656	430,485	445,974	458,135

End of Business Plan