WOKINGHAM HOUSING LIMITED

BUSINESS PLAN 2015

1. CHAIRMAN'S FORWARD

1.1. Wokingham Housing Limited (WHL) and its subsidiary Loddon Homes Limited, has made major strides forward over the past year, both in practical and policy terms. There have been substantial changes in personnel, headed by the retirement of Robin Fielder and the filling of his post by Bill Flood. We owe a major debt of gratitude to Robin for his fortitude, tact and diplomacy. Without his understanding of this complex housing development world the company would not have achieved so much.

1.2. This business plan is the Board's interpretation of the future for WHL and its subsidiaries. What is proposed is seen as both prudent and opportunistic by the company and is encouraging for the future. Starting with Loddon Homes, the application for Registered Provider status has been submitted. This is a complex matter and the application for a "For-profit" social housing company, owned by a Council, is a first for the Homes and Communities Agency (HCA). First responses are encouraging, but the new regulatory requirements provides a higher test for new organisations to meet, not helped by the new housing policy context of reduced affordable housing rents and the new Housing and Planning Bill.

1.3. The primary function of the companies is to make full use of the available commuted sums from developers, as well as investment opportunities from Wokingham Borough Council (WBC). The Board of WHL sees the company as having the dominant development role, not just in affordable and social housing, but in investment opportunities of all types, on behalf of the Council. In due course commercial schemes will be considered, as will co-operative ventures with other organisations.

1.4. Loddon Homes has started the separation process from WHL, to comply with the registration requirements of the HCA. The Board is headed by Gary Cowan, and there are three "independent" board members appointed including an experienced WBC tenant. Loddon Homes is seen as the management company of first choice, with WHL taking the development role as schemes are moved forward. The difference between company roles is clarified in the business plan, but is also subject to change as the rules and regulations change. Having the ability to consider all the options in a fast changing world, particularly in property development, is seen a one of the most important advantages WHL can have. This plan sets our parameters both for the comfort of our shareholder, as well as leaving the door open to explore those opportunities that will become available as the year progresses.

David Chopping (Wokingham Housing Limited Chairman)	Gary Cowan (Loddon Homes Limited Chairman)

2. EXECUTIVE SUMMARY

2.1. This document sets out Wokingham Housing Limited's (WHL) Business Plan for the immediately foreseeable future, with an emphasis on the next five years. It provides the companies vision and broad strategic objectives, as well as the financial forecasts that sit behind the Business Plan.

2.2. Broadly the Business Plan sets out:

- The context and background to WHL and its subsidiary Loddon Homes Limited;
- The progress WHL has made in building organisational capacity and delivering early schemes;
- The plan for pipeline schemes and scaling of the companies;
- The consolidated profit and loss financial projections for WHL and Loddon Homes for the next five years based on future development activity;
- The capital development programme; and
- Longer term objectives of WHL's growth strategy.

2.3. The Business Plan demonstrates that through its current pipeline programme, WHL will become profitable by year three (2017/18) and generate profits of £210k, building to £360k per annum thereafter.

2.4. The plan also shows that continued development at realistic levels based on modest activity levels, generates growing profits of just under £0.5m by the end of year five, investing around £47m over the five year period and then an estimated £7.6m per annum thereafter. This business plan is approved on the basis of looking to achieve development at this level going forward.

2.5. As part of the business planning exercise, a more ambition level of development has been modelled. This demonstrates that as much as £0.9m profit could be generated by the end of year five, but would require nearly twice as much capital investment of around £15.5m per annum. The major factors would be both funding and developable land for WHL to be able to achieve a more ambitious development programme. What the Business Plan really shows is the ability to be able to easily flex the plan to deliver a larger programme of homes should circumstances require it, and that this would generate increasing profits.

2.6. Key to the business plan is certainty of funding from the Council through Commuted Sums provided from developer's contributions to fund an affordable housing programme that is developed by WHL and then purchased and owned by Loddon Homes.

3. BACKGROUND

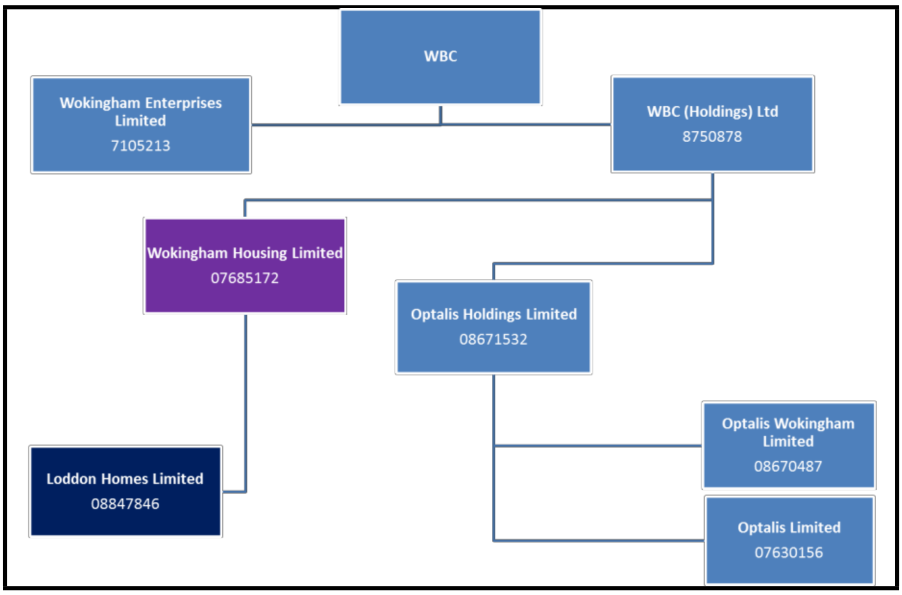
3.1. Wokingham Borough Council (WBC) undertook an extensive analysis of the policy, legal and financial implications of establishing a local housing company. The research done informed the decision of the Executive to establish WHL in May 2011. WBC also identified £1.9m of WBC resources to invest in WHL via share capital to fund its initial developments.

3.2. Since 2011, in developing the Council's approach to using limited companies to deliver some products and services, the Council decided to set up Loddon Homes Limited (LHL) incorporated on 16th January 2014 with later an agreement for it to become a registered affordable housing provider. Initially WHL was set up to provide social and affordable housing for WBC using developer contributions provided in lieu of developers building affordable housing on their developments. Subsequently, WHL transferred some of its original responsibilities to LHL who now provide the Council with homes for those in housing need, that it has legal duties to support, and people on the Council's housing register.

3.3. WHL has applied for LHL to be registered with the Homes and Communities Agency (HCA) as a For-Profit Registered Provider (FPRP) to enable it to access additional potential grant funding to support its development programme to provide affordable housing.

4. COMPANY STRUCTURE

4.1. WHL is a wholly-owned subsidiary of Wokingham Borough Council (Holdings) Limited (Holdco). WHL and LHL sit within a wider Group of companies the Council owns to deliver products and services in a commercial way, while maintaining high standards of integrity and social purpose. WHL is effectively the Council's housing development company. LHL is a subsidiary of WHL and is a housing management company. The table below sets out the Council's Group of companies and where WHL and LHL fit within the Council Group of Companies.



4.2. The establishment of a trading subsidiary in 2014 in the form of Loddon Homes was designed to allow WHL to respond to market opportunities and, if required, facilitate the 'ring-fencing' and protection of affordable housing assets developed by the Council from any commercial risk. By using Loddon Homes as a regulated body of the Homes and Communities Agency (HCA) to develop affordable housing, the Council is creating a strict separation of public and private investment and supported a robust risk management approach.

4.3. The WHL business model is based on a small team and, as far as possible, utilises WBCs resources through an umbrella Service Level Agreement (SLA) to facilitate those services not directly supported by WHL and LHL.

4.4. Both WHL and LHL will be contracting out, primarily with WBC, services that are required to support day to day elements of their businesses. For WHL these will be support services such as legal, human resources and strategic assets. Other specialist services like Architects, Employers Agents and Clerk of Works will be from external providers. For LHL services will be to develop new homes (primarily through WHL) and the management and maintenance of the affordable housing taken in to its ownership. Using WBC is expected to provide significant economies of scale to WHL as it builds up its business and LHL as it builds up a stock of affordable homes, while also allowing WBC to gain savings from outsourcing its own departmental cost base.

5. VISION, OBJECTIVES AND CULTURE[1]

VISION	• The absolute requirement to build a commercially sustainable business which by March 2018, will offer its shareholder a worthwhile financial return on funds invested as assets mature • WHL, as a Council owned private housing company, will be at the leading edge of Council Housing Companies with a sustainable business model • WHL will make a positive contribution to the policy and commercial objectives of WBC - it will produce an on-going annual profit for Wokingham Borough Council by March 2018 to be able to invest in housing or other council services • Through its provision of specialist affordable housing, WHL will show a saving in the cost of such provision to Council departments • It will be known for developing quality homes and services which meet the needs of its customers • WHL will establish a reputation that stands for quality, commerciality, integrity and good value for money, which opens door for it to grow its business • In its chosen markets, WHL will be viewed as a partner of choice by stakeholders and partners

[1]These relates just to WHL. Loddon Homes' Vision, Mission, Goals, Targets, Values And Behaviours are contained within its Strategic Plan 2015

MISSION	• WHLs primary business is as a housing development company that provides services to build property for LHL, Tenant Services or other partners who contract with it • To provide a range of high quality affordable and market housing for the people of Wokingham Borough and beyond; • To provide or procure quality landlord services to the tenants and residents of any rented housing; • To carry out any other activities specifically or generally designed to promote the economic, environmental or social well-being of Wokingham Borough; • To complement other trading services and council operations (including Optalis and Tenant Services) • As a housing developer, WHL will build property for sale and property to privately rent to provide a return on investment for the Council • WHL will manage assets in such a way as to maximise values and provide saleable assets for the Council to realise if required
GOALS	• Secure Commuted Sums funding from WBC for joint use by WHL and LHL, over and above the initial £34.5m commitment to over £100m, with a view to building the companies affordable housing asset base - to enable WHL and LHL to borrow against their asset base to fund additional affordable housing developments and create an income stream to provide either additional affordable homes or a return to the Council • Profit making – providing an income for re-investment in housing or a dividend to Holdco • For WHL to be a core part of the Council's approach to delivering housing products and services and part of the Council's 'business as usual' arrangements • Delivering an affordable housing programme for WHL and LHL, enabling them to build up their asset base to self-fund future affordable housing development for Wokingham Borough residents • An owner and manager of a portfolio of around 100 Private Rented Sector (PRS) properties on a strong 'ethical' basis • A WHL staff-team and Board that meets the evolving needs of the business

TARGETS	• Deliver the initial 130+ homes for LHL by end of 2017
	• After year three - develop an ongoing pipeline of future affordable and market homes of between 75-100 homes per annum, investing in the region of £10-13m per annum
	• To secure investment funding of £20m for the development of:
	    o homes both for outright sale and shared ownership which provide a developers margin of between 10-20%; and
	    o homes to rent privately, providing both an asset worth more than the Total Scheme Costs and an on-going yield on investment of between 7-8%
	• Provide Holdco with an annual profit of between £600 to 750k by year 7
	• Repay initial working capital loans and interest between years 5-6

VALUES AND BEHAVIOURS	• WHL is an organisation people want to do business with, whether directly or through one of its subsidiaries • The staff and Board of WHL adopt a "can do" approach whilst analysing risks

	and declining bad business • WHL takes calculated risks consistent with the Company's values to achieve goals • WHL customers - be they commissioners, partners, tenants or purchasers - are treated with the utmost respect and integrity and provided with ethical, high quality services and products • WHL is trusted by WBC, stakeholders and partners and is offered significant opportunities of partnership working and investment • WHL is an intelligent organisation - mistakes are acknowledged and learnt from and good work recognised • WHL looks to the future and is able to see links and opportunities that achieve the Company's and/or Council's objectives • WHL will adopt innovative solutions to maximise opportunities for the Company • High performance standards are expected and the staff-team are given the resources and training to achieve WHLs goals and targets in delivering the Company's objectives • WHL champions Holdco and the Councils objectives, putting the company and shareholder's needs first and upholding goals and decisions, even when it is difficult to do so • WHL will work cross-functionally with WBC departments, and develop long-term partnerships, to enable the Company to meet its goals • WHL will support others to work together to develop solutions to Council wide problems and issues

6. WHL'S ENVIRONMENT AND MARKET OUTLOOK

6.1. Housing is a key factor in stimulating the national economy. Our region has seen steady increases in values and Wokingham has promoted a significant volume of new house building in its Strategic Development Locations (SDLs). Housing costs in Wokingham are amongst the highest outside central London.

6.2. New housing starts are now increasing in the improved economic market, putting pressure on getting the best value for money on tender returns. This was seen in the tendering of the Fosters Extra Care project through the HCAs contractors framework, where too few bidders has led to WHL tendering through the Official Journal European Union (OJEU). As the housing market has improved building material prices have started to increase and a shortage of skilled labour and site managers is a feature of the market we are operating in. Therefore, as before, care is still needed in selecting firms to do business with.

6.3. To support our careful selection of partners and manage risks, WHL has developed an Employers Agent Framework of initially five firms to tender the management of WHLs projects and is in the process of setting up a Developers Framework for contractors, through which to tender our smaller sites. On larger sites we will continue to tender these on an OJEU basis.

6.4. Savills produce regular outlooks of the UK housing market – their July and September 2015 outlooks noted:

6.4.1. “Despite a continued benign interest rate environment, transactions in the mainstream market appear to have plateaued at around 1.2m per annum. With the mortgage regulations restricting the amount of debt prospective buyers are able to obtain and restricting their ability to trade up the market, this is still well short of pre-crunch norms.

6.4.2. Though mortgage availability has a less significant direct impact in the prime markets, it will impact on some buyers in their 30s and 40s. While restricting the amount they can borrow, this may act as a catalyst for them to move into the commuter zone as they look to stretch their debt and equity further in less expensive markets.”

6.5. Savills outlook on the demand for land notes:

6.5.1. “Development land values across the UK on average have increased more strongly in Q2 compared to the first quarter of the year. UK urban land values increased… with annual growth at 10.7%... UK greenfield land values… annual growth to 4.0%.”

6.5.2. “In the South East, the highest value development land market outside London, the continued demand for development land has resulted in above average increases in both greenfield and urban development land values in the region (2.6% and 3.3% respectively for Q2 2015).”

6.5.3. “Our survey of Savills agents shows that positive sentiment has returned to the development land market in the last quarter, linked to the continuation and strengthening of pro-housebuilding policies (by Government) that have followed the election result… Despite improvement in sentiment, pressures on profit margins, labour and build costs have dampened (some of the) development land price growth.”

6.5.4. “We expect demand for development land to be maintained as housebuilders continue at their current rate of building or expand their output. This is likely to push up development land prices where demand is highest and there is restricted supply of new sites such as parts of the South East.”

6.6. Savills research, ‘Residential Property Focus – Issue 3 2015 - Five year forecasts - what is next for UK house prices and transactions?’, the research adds to Savills previous work and shows that:

6.6.1. Although house price inflation has slowed with the introduction of Mortgage Market Review (MMR) – see table 1 below - the forecasts are that housing prices in the South East will outstrip the national average of 17%, and even London, over the next five years at just under 22% (see table 2).

Table 1 – Savills' 3 month cycle house price movements – Sept 2005 – Sept 2015

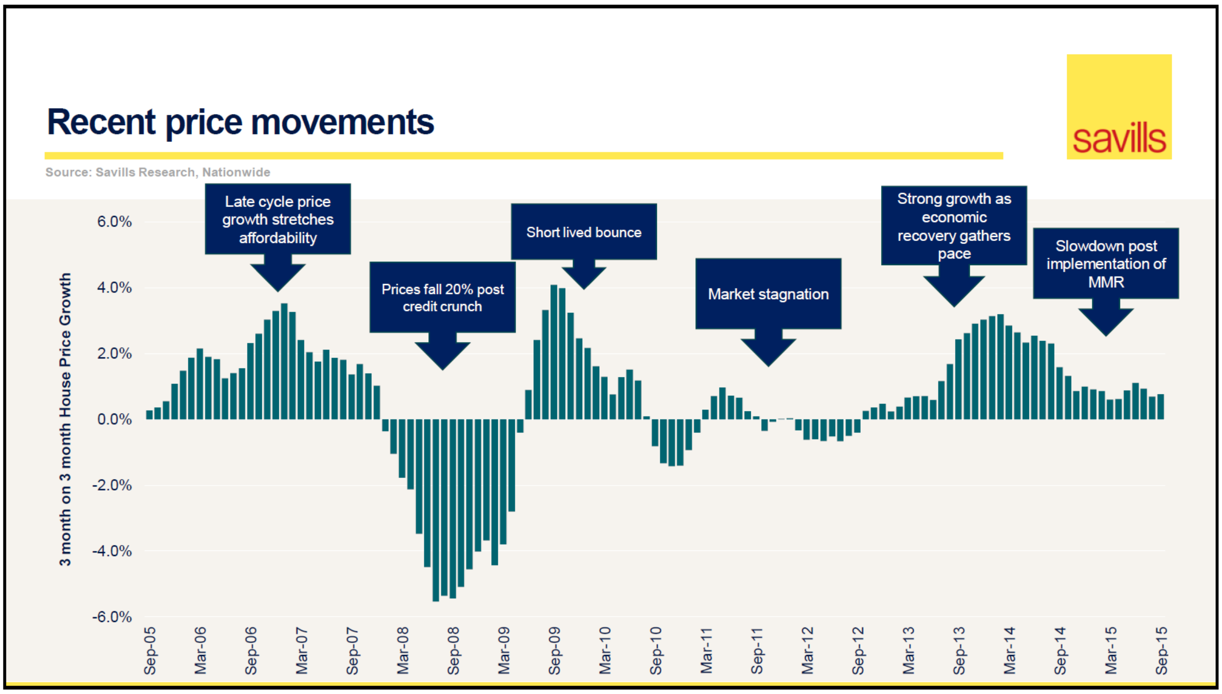
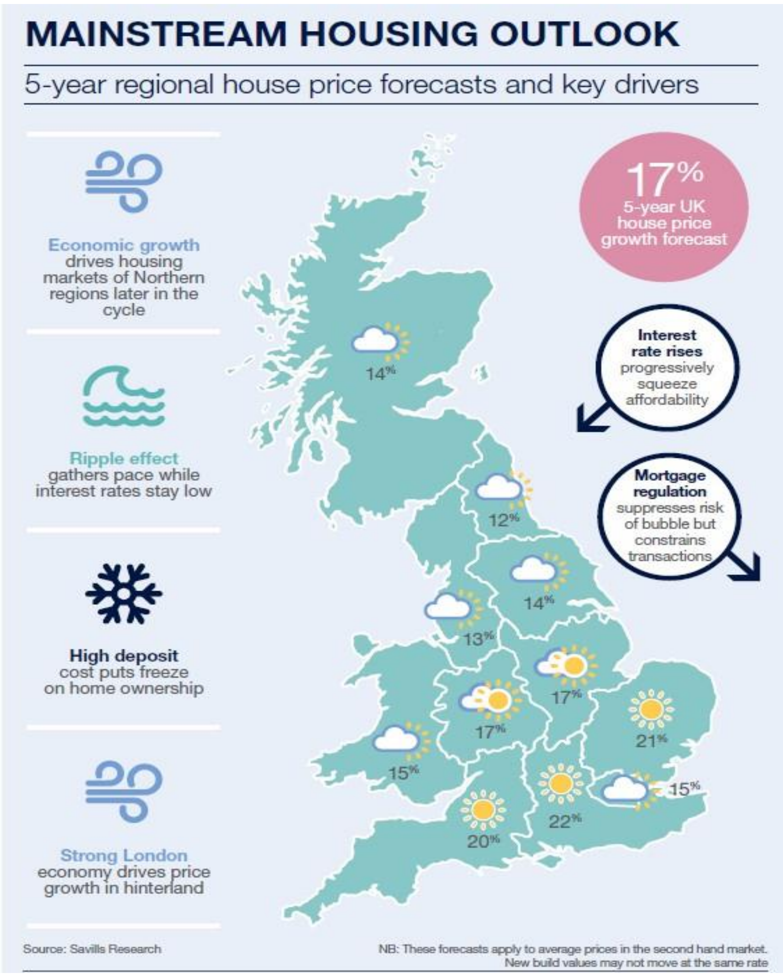


Table 2 – Savills' House Price Forecast and key drivers to 2020



6.7. Also in Savills 'Residential Property Focus', they forecast for private rents that the traditional rental demographic will continue to grow (see table 3 below). Savills comment:

6.7.1. "Rental affordability is already very stretched for many households and so the prospects for rental growth are largely limited to underlying wage growth.

6.7.2. The traditional rental demographic of sharers and young professionals looks set to continue growing as the cost of buying limits the number able to make the move into homeownership. These groups are likely to benefit most from the forecast wage recovery and this will drive the majority of rental growth in coming years.

6.7.3. However, in some high demand/ low supply rental markets, we may see more people living in larger household groups and this could contribute to higher rental growth, albeit for properties that have the flexibility to allow for this."

Table 3 - Mainstream rental growth forecasts

	2016	2017	2018	2019	2020	5 years
UK	3.0%	3.0%	3.0%	3.0%	3.5%	16.5%

6.8. In Robert Grundy's (Savills) November 2015 Spending Review Briefing, he comments:

6.8.1. "The chancellor plans to spend £7 billion building 400,000 affordable homes – mainly for home ownership – by 2020 and housing associations must step up to the plate and help deliver this target. There is plenty of incentive to do so. Analysis by the Office of Budget Responsibility (OBR) suggests housing associations should expect to receive around 90% of the available funding for shared ownership. In total, the OBR expects housing associations in England will receive around £1.7 billion a year in capital grants from the government by 2020/21 - £1.5 billion of which will be for shared ownership.

6.8.2. The impact of the Government's plan for 200,000 starter homes by 2020 is less clear and will depend on the interpretation of new planning regulations by local authorities. However, the emphasis on homeownership products should assist the viability of schemes as such products generally have a higher value than affordable rented units. On the other hand homes for sale have a slower absorption rate than rental products.

6.8.3. The focus on homeownership will not help the poorest households who will rely on a dwindling pool of social rented housing that will further be depleted by the extended right to buy – despite its introduction being slowed.

6.8.4. Social landlords have been handed the opportunity to show they matter to a government determined to build more homes available to buy. Housing associations should not let this chance slip.”

6.9. As a result of the market outlook in the last 6 months and the Governments major policy announcements in housing, WHL’s acquisition of development sites will have to be more aggressively, but also carefully, pursued than they have to date. WHL will also have to take full advantage of the opportunities that are presented in the new Housing and Planning Bill and Government funding to support home ownership, while also supporting LHL to provide truly affordable social housing using Commuted Sums.

7. DEVELOPMENT STRATEGY

7.1. Social and Affordable Housing

7.1.1. As a small local housing developer, WHLs primary business is helping deliver the Council’s affordable housing programme, primarily on council-owned sites via Loddon Homes through the expenditure of Commuted Sums on qualifying schemes. WHL also provides viability and appraisal advice on schemes that the Council commissions.

7.1.2. WHL will look at and ensure the business case, including any subsidy to provide sub-market affordable rented housing, is understood and fully taken account of in the Council’s commissioning decisions. WHL will advise on where predicted valuations of completed schemes are likely to be less than the cost of construction. This will ensure that approval to proceed is given on the basis that there is an over-riding strategic benefit that outweighs the immediate commercial considerations. In effect WHL will advise where apparent losses in the cost in the provision of affordable housing are more than outweighed by social need and cost savings in services no longer needed to be provided by departments of WBC.

7.2. Shared Ownership

7.2.1. As can be seen in the housing market outlook above, the basis for WHL supporting LHL to deliver a programme of shared ownership homes has now strengthened. The high housing costs of owner occupation in Wokingham Borough means that for economically active people with limited means, shared ownership may be an attractive route into owner occupation. In the current market it provides LHL with an attractive early capital injection in first tranche sales, immediately giving it a return to reinvest in more affordable housing, while also providing a rental income on the unsold equity.

7.2.2. This provides an upside to the Business Plan which has factored in no shared ownership development in the first five years. When taking into account House Price

Inflation (HPI) and combined rental and future staircasing2 income, shared ownership can provide WHL and/ or LHL with a useful long term income stream and asset base, with which to support future business.

7.3. Private sales

7.3.1. For WHL, the current state of the housing market makes some limited private sale opportunities attractive options over the next few years to help cross subsidise affordable housing or other council services. The niche area will be small sites that are not of interest to bigger developers and house-builders, although there will be competition from smaller developers, so careful appraisal and risk assessment of private opportunities will be critical. A WHL developer margin can deliver strong returns on investment and, in the first instance, should be sought on some of the Council's general needs land assets, as an alternative to just private land sale. We propose private sales projects are developed through WHL as the For-Profit Registered Provider status of LHL limits such activity to 5 per cent of commercial activity.

7.4. Private Rented Sector (PRS)

7.4.1. High house-prices locally provide WHL with opportunities around building up a portfolio of Private Rented Sector (PRS) stock. The flexible nature of PRS for economically active people, who previously may have been able to become owner occupiers, is a significant attraction. While the Governments emphasis on shared ownership may help some of those renting to buy, the evidence is that the PRS sector will continue to be an important part of the UK housing market.

7.4.2. The benefits of WHL building up a portfolio of PRS stock are:

- Developing an asset base for the Council which is worth more than the cost of building the properties and able to take advantage of HPI in to the long term;
- Providing a regular income stream to WHL which produces a gross yield of between 7-8% on investment;
- Providing the Council with realisable assets should capital expenditure be needed for another housing project or to support a Council service;
- Giving tenants a trusted private landlord in the form of WHL who is wholly-owned by the Council and therefore has high standards of integrity in managing and maintaining tenants homes – effectively an 'ethical PRS' provider; and
- Market rental rates are not restricted by the rules governing rental levels for affordable housing.

[2] Staircasing is the term used to describe the process by which shared owners buy additional portions of their home until they have purchase 100%.

8. WHL's CURRENT PROGRESS

8.1. The Company has achieved a number of key milestones to date. These include:

8.1.1. WHL's delivered the Hillside Park scheme of nine new one bed apartments with a carers apartment for people with learning disabilities and two bungalows for elderly people, including winning grant funding from the Homes and Communities Agency (HCA) of £350k with WBC for Hillside Park;

8.1.2. The leasing and management of an existing development at Beverley House, Vauxhall Drive for residents with severe learning disabilities;

8.1.3. Achieved a successful planning application for Phoenix Avenue (formally Eustace Crescent) and tendered and successfully awarded the contract to Hill Partnership to develop 68 houses and apartments for completion by March 2017;

8.1.4. Achieved a successful planning application for Fosters Extra Care scheme and are tendering the contract to develop the 34 apartment scheme on the site of the former care home, due for completion by July 2017 and, in partnership with WBC, winning grant funding from the HCA of £1.452m for the Fosters Extra Care project;

8.1.5. Achieved successful planning applications on several small sites in council-ownership to deliver affordable and intermediate housing for local people;

8.1.6. Identifying a development pipe-line of 131 homes – of which 114 now have planning permission to develop affordable and intermediate housing;

8.1.7. The setting up and delivery of an Employers Agents Framework to support the delivery of new build housing developments and tendering of a Developers Framework to deliver the pipeline of WHL smaller sites;

8.1.8. The submission in early September 2015 of the Loddon Homes application for registration as a For-Profit Registered Provider to the HCA with 25 associated appendices (34 documents in total). These included the 5 year and 30 year financial business plan, Intra-Group Agreement, Board and Committee Terms of Reference, Facilities Agreement, Risk Register, Articles of Association and Service Level Agreements.

8.1.9. The recruitment of a new Managing Director and the building up of a small permanent staff team (five staff) to deliver WHLs business plan;

8.1.10. Further developing the relationship and trust of WBC through the Holding Company, with new agreements in place including the Group Operating Protocol (GOP), Intra-Group Agreement (IGA) and Facilities Agreement, as well as regular reporting to Holdco;

8.1.11. Strengthening the Boards of WHL and Loddon Homes with new members on both Boards, following a Board skills audit undertaken as part of the Loddon Homes registration work;

8.1.12. Strengthening the WHL and LHL Board house-keeping arrangements including adoptions of policies to govern the companies, including Whistleblowing, Anti-Bribery, Expenses and Gifts and Hospitality; and

8.1.13. Strengthening the relationship with other Council services and companies such as Tenant Services, Strategic Housing, Planning, Strategic Assets and Optalis to better co-ordinate and support the goals of WHL and the Council.

9. RESOURCING

9.1. Background

9.1.1. The Council has since 2011 funded WHL with £1.9m of share capital. This has been used to finance the construction of Hillside Park, which now sits within Loddon Homes after transfer from WHL in April 2014. Further working capital funding for WHL and capital expenditure funding has subsequently been received to progress WHLs affordable housing schemes (primarily the capital planning costs at Phoenix Avenue and Fosters). This amounts to around £613k as at March 2015. Through its housing development activities WHL expects to be profitable by year 3 of its business plan (2017-18) and to then be able to start to pay back with interest an estimated total of £1.5m of start-up, working capital, costs. The payback period will depend on a number of factors, but is likely to be 3-4 years, with the return on investment being capital plus targeted 5.5% plus base rate interest costs.

9.2. Future funding

9.2.1. The funding of WHL and LHL has now been clarified within the Facilities Agreement and in effect confirms that for the initial LHL development programme, commuted sums providing £18.6m will be provided to deliver the two main schemes of 101 homes once they are commissioned for the occupancy of tenants. The Council's Executive agreed in January 2014 a further sum of £18m (now £15.9m as £2.1m has been included in the £18.6m initial facility) for future Housing Company developments – a total potential investment in WHL and LHL of £34.5m. The £15.9m has to be signed off by the Executive following a recommendation from Holdco, should Holdco accept the business case of WHL on various projects it wants to develop for LHL. This therefore provides WHL with the ability to fund the additional 30 homes in the development pipeline for LHL and some additional unidentified developments added to the programme.

9.3. Commercial model between WHL and LHL

9.3.1. The commercial arrangements between WHL and LHL with regard to property development has been defined such that both WHL and LHL can identify new opportunities individually or together, agree preliminary design specifications, planning and costing which will in turn indicate a transfer price for sale by WHL to LHL. Once approved WHL will contract to construct this scheme for LHL within agreed time scales (having previously liaised with the Council as commissioners regarding tenure type and rent levels).

9.3.2. The transfer price will vary according to the scheme being developed, but typically will span a % on cost uplift of 5% - 10% for schemes of over 20 units and 10% - 15% for all other smaller developments. Developments could also be undertaken on a cost-plus basis on approved schemes. This income should cover WHL's costs in supporting development plus a nominal profit element, assuming WHL are successful in controlling costs to achieve the original budget.

9.3.3. The establishment of a transfer price is not only necessary to demonstrate 'arm's length transactions', but also to control the cost to LHL where a social valuation is to be applied which is ideally greater than or equal to the transfer price agreed. A transfer price that is less than the assessed social valuation is deemed an exceptional situation and will need to be ratified by Commissioners, WHL and LHLs Boards and Holdco, as a strategically important exception to the normal business model.

9.4. Commuted sums and Loddon Homes

9.4.1. The use of commuted sum to fund Loddon Homes is important in two ways. Firstly, the legal advice the Council received around its powers to use commuted sums to fund the building of affordable housing by its own housing company, was most safely achieved through a housing association registered with the HCA.

9.4.2. Secondly, commuted sums being given to Loddon Homes to fully fund affordable development, is critical to Loddon Homes being viable in its early years. The strategy is to initially fund LHL through the use of commuted sums provided from developers' contributions for the provision of affordable housing. In total the Council is expecting £40.5m in commuted sums up until March 2020 and at present around a further £50m from 2020 onwards. As LHL builds up an asset base of affordable housing it will generate the capacity to borrow against the value of its stock and generate profits to plough back in to the provision of affordable housing for local people. LHL has been set up to provide future borrowing potential and an income stream in the future, which can be used to develop further affordable housing and an income stream for the Council.

9.4.3. In broad terms the use of commuted sums to fund LHL is similar to early 19th century housing philanthropists or 100% grant provision programmes by the Housing

Corporation in the 1980s. By building up a successful affordable housing business by pump priming the initial investments, LHL will provide the Council with a self-financing business that can continue to deliver affordable housing and services into the long term without grant. LHL business model is to act highly commercially in managing and running its affordable housing business to maximise profit and to re-invest in affordable housing over the long term, while providing a return to the Council.

9.4.4. However, to support the approach in using commuted sums, the capital funding mechanism of WHL and LHL needs further refinement by the Council. Table 4 shows the current estimates for commuted sums. At the end of 2016/17 the Council expects around £13.3m in commuted sums to have been paid from developers. Presently the Council has approved a total of £7.7m in commuted sums (to support Phoenix and Fosters projects) to WHL (Loddon Homes). Just over £1m is still to be allocated in 2015/16, but could be allocated to one of the small schemes that has received planning consent.

Table 4: Affordable Housing Commuted Sums[3] – Predicted Income by Year

Affordable Housing Commuted Sums (off-site) **Sep 2015**

	Estimated Year of Income						
	2015/16	2016/17	2017/18	2018/19	2019/20	2020 Onwards	Total
Signed S106, Not Received	£3,665,167	£8,487,822	£7,338,819	£8,980,166	£10,823,373	£45,486,582	£84,781,928
S106 Not Signed, Under Negotiation	£0	£0	£0	£0	£0	£5,341,140	£5,341,140
S106 Received	£1,155,182	£0	£0	£0	£0	£0	£1,155,182
Totals	**£4,820,349**	**£8,487,822**	**£7,338,819**	**£8,980,166**	**£10,823,373**	**£50,827,722**	**£91,278,250**
Cumulative	*£4,820,349*	*£13,308,170*	*£20,646,989*	*£29,627,155*	*£40,450,528*	*£91,278,250*	

Notes
- Any agreements not signed by 6th April will fall under CIL. Affordable Housing will still be collected via S106 from 6th April however as CIL is mandatory, high risk Affordable Housing is where the viability will be negotiated.
- High risk timing of payments will change depending on Housing Market fluctuations over the years.

9.4.5. Hillside Park was funded by share capital, and in the previous business plan it was suggested that future WBC funding for development would continue to be by way of issued share capital rather than debt finance. However, Loddon Homes presently has just a single £1 shared invested in it by WHL, and as set out above the use of commuted sums makes the most sense in funding LHL. The need to formally agree sufficient commuted sums to deliver Phoenix and Fosters is now required to clarify the funding mechanism for growing LHL, which WHL is reliant on, in the early years of its own business.

9.4.6. The basis on which the Council has proposed funding of £15.9m to its Housing Companies, also needs to be clarified. If this money is to be for social housing projects in Loddon Homes, then this will need to be commuted sums (or another mechanism) where Loddon Homes can grow without the initial burden of debt finance with interest

[3] Note - timing of payments are based on prudent estimates and may change depending on housing market fluctuations over the years

charges. Sufficient working capital must also be made available to the Board of WHL to guarantee adequate cash flow.

9.4.7. In a similar vein, a further complication, is that within the capital programme there are a number of proposed small WHL sites due to be developed on council owned land as affordable housing within Loddon Homes. Table 5 needs to be updated with the latest build cost estimates, but shows the current position of WHL schemes within the capital programme - £1.85m in total; which again it is argued needs to be supported from commuted sums for the reasons set out above.

Table 5 - Allocated funding from Capital Programme for WHL Projects

Development	Number of Units	Projected Cost	Allocated funding from Capital Programme
Phoenix Avenue	68	£12,093,000	
Fosters	34	£6,470,000	
Barrett Crescent	2 x 2 bed flats	£445,000	
Grovelands	6 x 2 bed flats	£1,200,000	£293,000
Norton Road	3 x 2 bed houses, 6 x 2 bed flats	£570,000	£328,000
Elizabeth Road	3 x 2 bed terrace		£389,000
Middlefields	2 x 2 bed houses		£264,000
Emmbrook	4 x 2 bed flats		£367,000
Orchard Estate	2 x 4 bed houses		£211,000
TOTAL	**130**	**£20,778,000**	**£1,852,000**

9.4.8. Based on the current funding commitments to WHL/ LHL, and potential future commitments supported by the Executive approved £15.9m of Housing Company funding, there must be clarity about future funding. Commuted sums (or other funds) need to be provided to Loddon Homes to be able to grow without the initial burden of interest bearing debt finance, to at least the value of £18.6m and arguably £34.5m to Loddon Homes to develop affordable housing.

10. WHL FINANCIAL FORECASTS

10.1. Base case position - current pipeline programme only

10.1.1. Table 6 below shows the financial forecast for the Wokingham Housing Group – the consolidated position of WHL and LHL – as a base case for WHLs Business Plan going forward. It shows that the Group will be profitable from year 3 onwards (2017/18), generating around £210k. This forecast is based only on the current proposed pipeline of 130 homes plus the existing schemes at Hillside and Vauxhall Drive. It shows that if the Wokingham Housing Group decided to develop no further stock beyond the current pipeline, with operational expenditure reductions, the ongoing profit would be in the region of £360-370k per annum.

Table 6 – Wokingham Housing Group Profit and Loss summary – current pipeline only

WOKINGHAM HOUSING GROUP	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Units	16	109	154	154	154
INCOME					
TOTAL INCOME	138,724.03	293,497.78	1,481,912.51	1,388,794.33	1,416,318.22
DIRECT PROPERTY COSTS					
Rent and Rates	25,478.00	33,003.56	72,317.68	77,008.96	79,591.00
Heat, Light & Power	16,800.00	17,840.00	29,152.00	32,709.60	34,345.08
Maintenance	16,800.00	22,910.00	48,760.00	54,180.00	56,889.00
Tenant Services	5,760.00	14,364.00	58,079.70	62,511.75	65,637.34
Property Sale	39,000.00	12,000.00	12,000.00	12,000.00	12,000.00
TOTAL DIRECT COSTS	103,838.00	100,117.56	220,309.38	238,410.31	248,462.42
GROSS PROFIT	34,886.03	193,380.22	1,261,603.13	1,150,384.03	1,167,855.81
	25.15%	65.89%	85.13%	82.83%	82.46%
OVERHEADS EXPENDITURE					
Marketing Expenses	21,200.00	11,200.00	11,200.00	2,600.00	2,600.00
Gross Wages	307,125.10	308,899.88	321,497.87	134,430.90	139,860.28
Rent and Rates	9,600.00	10,080.00	10,584.00	-	-
Travelling and Entertainment	9,000.00	10,500.00	12,000.00	3,000.00	3,000.00
Printing and Stationery	600.00	1,200.00	1,200.00	600.00	600.00
Telephone and Computer Charges	6,300.00	5,320.00	5,320.00	1,330.00	1,330.00
Professional Fees	184,760.00	156,602.00	156,272.10	80,531.96	81,408.55
Bank Charges and Interest	36,588.95	61,294.41	57,414.38	73,481.66	90,631.49
Depreciation	25,540.39	92,960.69	426,742.30	445,177.23	445,177.23
General Expenses	23,680.00	26,260.00	26,659.92	16,459.92	16,459.92
Management Recharge	15,900.26	15,956.49	23,253.95	24,141.72	25,048.61
TOTAL EXPENDITURE	640,294.70	700,273.47	1,052,144.52	781,753.38	806,116.08
NET PROFIT / (LOSS)	(605,408.67)	(506,893.25)	209,458.61	368,630.65	361,739.73

10.1.2. Note that within the profit and loss summaries, a significant amount for **depreciation** is included. This is because although from a financial reporting standpoint rental property is generally viewed as *Investment Property* based on being leased at market rates; under affordable social housing rental agreements, the treatment is different. Within affordable social housing the return offered is not deemed at a level that offers enough reward to constitute *investment income* and is therefore ranked as *housing stock* rather than *investment property*. The Housing Association sector regards the carrying value of such properties as intrinsically linked to the affordable rental level applicable, thereby further determining that such housing stock is *property, plant and equipment* rather than investment properties for accounting treatment purposes. Therefore the accounting treatment requires that items of property, plant and equipment are *depreciated over the useful life of that asset,* hence why Loddon Homes has to carry property assets on this basis. This is supported by the Housing SORP 2014: Statement of Recommended Practice for social housing providers[4].

[4] The Housing SORP 2014 is issued by the National Housing Federation. The provisions of SORP are applicable for accounting periods commencing on or after 1 January 2015. The 'Accounting Direction for private registered providers of social housing from April 2015', from the HCA includes reference to the SORP as part of the expectations around the preparation and presentation of Private Registered Provider's accounts.

10.2. Future Development Plan Forecasts - *Level one aspiration programme*

10.2.1. Beyond year three, WHL has looked at the likely shape of its future development programme. Taking the base case as our starting point, we are forecasting that WHL's likely returns based on a conservative level of development activity, similar to the current pipeline, would generate increasing profitability as rental incomes increase, but all other company running costs rise by inflationary factors only.

10.2.2. Table 7 below shows the forecasted returns for a conservative programme based on:

- No large sites (forecast based on current activity and pipeline of just small site (7 units) and projects);
- Average capital expenditure of around £1m per project;
- 3 small projects launched every 6 months in years three and four; and
- By year five, 3 small projects being launched every 4 months.

10.2.3. On this basis WHLs would generate nearly £500k of profit by the end of year five for the development of a programme of an additional 126 units.

Table 7 – Wokingham Housing Group Profit and Loss summary – level one aspiration

WOKINGHAM HOUSING GROUP						
		2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
	Units	16	109	196	238	280
INCOME						
TOTAL INCOME		138,724.03	293,497.78	1,648,390.01	1,949,657.40	2,364,378.09
DIRECT PROPERTY COSTS						
Rent and Rates		25,478.00	33,003.56	82,467.68	111,923.56	139,849.82
Heat, Light & Power		16,800.00	17,840.00	34,489.50	51,129.31	66,238.27
Maintenance		16,800.00	22,910.00	61,010.00	96,514.25	129,520.37
Tenant Services		5,760.00	14,364.00	64,379.70	86,073.75	105,831.34
Property Sale		39,000.00	12,000.00	12,000.00	12,000.00	12,000.00
TOTAL DIRECT COSTS		103,838.00	100,117.56	254,346.88	357,640.87	453,439.80
GROSS PROFIT		34,886.03	193,380.22	1,394,043.13	1,592,016.53	1,910,938.29
		25.15%	65.89%	84.57%	81.66%	80.82%
OVERHEADS EXPENDITURE						
Marketing Expenses		21,200.00	11,200.00	11,200.00	11,200.00	11,200.00
Gross Wages		307,125.10	308,899.88	321,497.87	335,470.19	349,780.19
Rent and Rates		9,600.00	10,080.00	10,584.00	11,113.20	11,668.86
Travelling and Entertainment		9,000.00	10,500.00	12,000.00	12,000.00	12,000.00
Printing and Stationery		600.00	1,200.00	1,200.00	1,200.00	1,200.00
Telephone and Computer Charges		6,300.00	5,320.00	5,320.00	5,320.00	5,320.00
Professional Fees		184,760.00	156,602.00	156,272.10	159,075.71	162,019.49
Bank Charges and Interest		36,588.95	61,294.41	57,414.38	73,481.66	90,631.49
Depreciation		25,540.39	92,960.69	474,658.96	608,093.89	723,093.89
General Expenses		23,680.00	26,260.00	26,659.92	26,659.92	26,659.92
Management Recharge		15,900.26	15,956.49	23,253.95	24,141.72	25,048.61
TOTAL EXPENDITURE		640,294.70	700,273.47	1,100,061.19	1,267,756.28	1,418,622.45
NET PROFIT / (LOSS)		(605,408.67)	(506,893.25)	293,981.94	324,260.25	492,315.83

10.2.4. The modelling of level one aspirational development shows the BP improves returns from a static circa £360k per annum position to a growing £492k position –an increase of nearly 27%.

10.2.5. Following discussions around draft business plans with Holdco, it has been agreed that WHL's future development pipeline will aim to deliver the proposed level one aspirational programme.

10.3. Future Potential Development Programme Forecasts - *Level two aspiration programme*

10.3.1. As part of the development of the Business Plan, WHL was also asked to model a more ambitious programme, building on the low level aspirational development programme by overlaying a medium to high level of development aspiration. This shows that profitability within Wokingham Housing Group increases further. Table 8 below shows the forecasted returns for a programme adding in both small level one aspiration sites and larger schemes similar to Phoenix and Fosters, based on:

- 2 medium sites (25 units) and starting 1 large site (50 units) in year three;
- 3 small projects launched every 6 months in years three and four;
- 1 large scheme (50 units) started every six months in years four and five; and
- 3 small projects launched every 4 months in year five.

Table 8 – Wokingham Housing Group Profit and Loss summary – level two aspiration

WOKINGHAM HOUSING GROUP	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Units	16	109	221	338	430
INCOME					
TOTAL INCOME	138,724.03	293,497.78	1,668,208.76	2,346,032.40	3,423,888.46
DIRECT PROPERTY COSTS					
Rent and Rates	25,478.00	33,003.56	83,676.02	136,090.22	205,752.32
Heat, Light & Power	16,800.00	17,840.00	35,124.92	63,837.65	100,893.90
Maintenance	16,800.00	22,910.00	62,468.33	125,680.92	209,057.87
Tenant Services	5,760.00	14,364.00	65,129.70	101,073.75	146,736.34
Property Sale	39,000.00	12,000.00	12,000.00	12,000.00	12,000.00
TOTAL DIRECT COSTS	103,838.00	100,117.56	258,398.97	438,682.54	674,440.43
GROSS PROFIT	34,886.03	193,380.22	1,409,809.79	1,907,349.86	2,749,448.04
	25.15%	65.89%	84.51%	81.30%	80.30%
OVERHEADS EXPENDITURE					
Marketing Expenses	21,200.00	11,200.00	11,200.00	11,200.00	11,200.00
Gross Wages	307,125.10	308,899.88	321,497.87	395,408.39	460,633.95
Rent and Rates	9,600.00	10,080.00	10,584.00	11,113.20	11,668.86
Travelling and Entertainment	9,000.00	10,500.00	12,000.00	12,350.00	12,600.00
Printing and Stationery	600.00	1,200.00	1,200.00	1,200.00	1,200.00
Telephone and Computer Charges	6,300.00	5,320.00	5,320.00	5,775.00	6,100.00
Professional Fees	184,760.00	156,602.00	156,272.10	159,075.71	162,019.49
Bank Charges and Interest	36,588.95	61,294.41	57,414.38	73,481.66	90,631.49
Depreciation	25,540.39	92,960.69	480,770.07	730,316.12	1,053,093.89
General Expenses	23,680.00	26,260.00	26,659.92	26,659.92	26,659.92
Management Recharge	15,900.26	15,956.49	23,253.95	24,141.72	25,048.61
TOTAL EXPENDITURE	640,294.70	700,273.47	1,106,172.30	1,450,721.71	1,860,856.21
NET PROFIT / (LOSS)	(605,408.67)	(506,893.25)	303,637.49	456,628.16	888,591.82

10.3.2. On this basis WHLs would generate nearly £100k of additional profit in year three (£304k), more than £130k additional profit in year 4 (£457k) and profit by the end of year five of £890k (nearly £400k more/ around a 45% increase). This would be for developing an additional programme beyond the level one aspirational programme of 150 more units by the end of year five.

10.3.3. While this is a more ambitious programme than the agreed level one proposed programme, it is not unrealistic. In the modelling we have taken account of the additional staffing needs to be able to deliver a larger development programme, with one additional development officer in year four and another development officer in year five, so any increase in overhead is covered.

10.3.4. Should a more ambitious programme be needed, we believe this would be achievable, and certainly something between the two is highly feasible, realising something between £600-750k annual profits by year five.

10.4. Future Development Plan Forecasts – *Other factors*

10.4.1. In undertaking WHL's Business Planning we have also considered the impact of Right to Buy (RTB) on Loddon Homes and modelled what impact this might have on profits. RTB, as currently understood, would only kick in after tenants had lived in a Loddon general needs home for at least three years (so late in year five of our Business Plan). We modelled the sale of just two units at the end of year five of the Business Plan, using current WBC RTB rates. The impact of this creates some additional income for WHL as shown in table 9 below, providing an additional profit of around £145k.

Table 9 – Wokingham Housing Group Profit and Loss summary – impact of HA Right to Buy

WOKINGHAM HOUSING GROUP	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Units	16	109	221	338	430
INCOME					
TOTAL INCOME	138,724.03	293,497.78	1,668,208.76	2,346,032.40	3,927,595.38
TOTAL EXPENDITURE	640,294.70	700,273.47	1,106,172.30	1,450,721.71	1,860,856.21
NET PROFIT / (LOSS)	(605,408.67)	(506,893.25)	303,637.49	456,628.16	1,032,145.27

10.4.2. While there is continued uncertainty around the impact of the future RTB arrangements for Registered Providers, our view is that the impact will be broadly positive for the Wokingham Housing Group in terms of profit, although this will need to be re-invested to replace lost units.

10.4.3. Within WHL we are beginning to include Shared Ownership as one of the tenures of affordable housing that will make up the asset base within Loddon Homes. However, any modelling is dependent on the percentage earmarked for sale, the level of unsold equity that generates rental income and forecasting of future sales of unsold equity. This needs to be carefully modelled as affordable rent can sometimes be more financially viable and we propose to do this as part of the 2016/17 WHL Business Plan update.

10.4.4. Private Rented Sector (PRS) assets are another model to be incorporated in to the WHL Business Plan. However, WHL is currently focussing on the delivery of the affordable housing programme for Loddon Homes, and so detailed modelling on the impact of PRS asset within WHL, will be undertaken as part of the 2016/17 WHL Business Plan update. Our PRS modelling will need to demonstrate that PRS projects are viable and provide an asset worth more than the total project costs and an on-going income stream for the Council at an acceptable gross yield for the investment made. The PRS model would potentially need a third legal entity to cover PRS to be set up, but is seen by WHL as an important future source of revenue generation for WHL to meet one of its two primary objectives.

10.5. Financial Assumptions for the Business Plan

10.5.1. The financial model supporting the WHL Business Plan is based upon a detailed assessment of both known previous financial transaction extrapolation for existing business and an assessment of the income and costs pertaining to the planned growth of both WHL and LHL in the next 5 years. Adjustment has been made for known external influences and moderate inflationary adjustment for relevant costs.

10.5.2. Income is based upon the contractual terms for existing business adjusted for known influences to year on year chargeable amounts. New income streams are based on the delivery of existing new business and housing according to the rental rates applicable to that period. The direct costs supporting this income are based upon estimates of the costs per property (inflation adjusted) in servicing those properties once commissioned.

10.5.3. All other overheads have been based on a monthly analysis of costs already encountered and commensurate with supporting the business as is being planned in that period. This cost profile is also inflation adjusted each year based on assumptions consistent with the financial plan submitted to the HCA to seek Registered Provider status for LHL. Assumptions on increasing support activity have also been made on a monthly assessment of the start date for such costs and estimate of any step increases necessary over the plan period.

10.5.4. To reflect a true and accurate view of this plan, in financial terms, transactions (whether income or cost based) have been eliminated in the presentation of the financial forecast. Transactions between both Holdco and between WBC and WHL/ LHL are included to reflect both funding costs and the cost of support functions outsourced from WBC to WHL/ LHL.

11. CAPITAL EXPENDITURE

11.1. Table 10 shows the capital spend profile over the next 5 years showing the base case, level one and level two aspirational development programmes. Level one is deemed to be well within the capacity of the current WHL team, with an additional housing development officer only required to achieve the level two aspirational development programme.

Table 10 – Capital expenditure and funding over the next 5 years

WOKINGHAM HOUSING GROUP	2015 / 2016	2016 / 2017	2017 / 2018	2018 / 2019	2019 / 2020
Base Units	16	16	16	16	16
Wokingham Housing Group Capital Investment Summary					
Current base case pipeline only (Table 6 Equivalent)					
Units Added to base	-	93	138	138	138
CAPITAL EXPENDITURE	5,417,439.63	16,328,904.53	448,727.84	-	-
Approved proposed programme (Table 7 Equivalent)					
Units Added to base	-	93	180	222	264
CAPITAL EXPENDITURE	5,417,439.63	17,968,904.53	6,448,727.84	6,000,000.00	7,590,000.00
Potential level two aspiration (Table 8 Equivalent)					
Units Added to base	-	93	205	322	414
CAPITAL EXPENDITURE	5,417,439.63	17,968,904.53	14,248,727.84	17,640,000.00	15,590,000.00
Wokingham Housing Group Working Capital Investment Summary					
Other Funding (Base Case)					
Operational Drawdown	600,000.00	600,000.00	250,000.00	-	
Repayment	-	-	-	(200,000.00)	(300,000.00)
Grant Conhtribution	(700,000.00)	-	(700,000.00)		
TOTAL	(100,000.00)	600,000.00	(450,000.00)	(200,000.00)	(300,000.00)
	34,886.03	193,380.22	1,261,603.13	1,150,384.03	1,167,855.81
	614,754.31	607,312.78	625,402.23	659,662.39	695,528.56
		(413,932.57)	636,200.90	490,721.64	472,327.25

11.2. This forecasts shows that once the initial development programme is delivered, including the two major projects of Phoenix and Fosters; the agreed proposed pipeline of three new small projects every six months in 2018/19, building to three new small projects every four months from 2019/20, can be handled by WHL at an estimated annual capital cost of initially £6m and thereafter £7.6m. The more ambitious programme requires greater capital input from Commuted Sums and/ or borrowings at a total of £14.2m, £17.6m and £15.6m and would utilise more than the currently predicted Commuted Sums income profile.

11.3. Over the medium to long term a clear policy and approach has to be confirmed that the funding needs for future approved schemes for WHL and LHL will be made available from Commuted Sums or other non-interest bearing loans for affordable housing development and on a commercial basis for non-affordable housing activity, as new opportunities are identified.

12. RETURNS

12.1. As stated in the previous business plan, WHL's shareholder, Holdco seek a commercial as well as social return for its investment for the Council in setting up the Company. The WHL Board have considered the balance between adequately financing the running of the company and offering a satisfactory return to the shareholder. The Board have adopted the following strategy;

- 15% gross profit target
- 10% profit before tax
- 50% dividend paid to shareholder
- 2% tax paid[5]
- 3% earnings

13. RISKS

13.1. WHL's Risk Register shows the risks that might affect WHL to develop its business. The risk register identifies a number of risks, with the key risk being Government's recent announcement on planning changes for affordable Section 106 housing, which might significantly reduce Commuted Sums in the future.

13.2. The next key risk is Loddon Homes being unable to register as a For-Profit Registered Provider and therefore WHL not having its initial main client around which to build its business.

13.3. For both the top two risks the ongoing monitoring of the political environment to assess the potential impact of policy changes, combined with active mitigation of the risks through building up alternative income streams such as PRS and private sale development through alternative funding sources, would reduce the impact of these risks. Under such circumstances we would also be looking at a revision of rent levels, as well as changing our development emphasis on alternative tenure models.

13.4. The risks and their impacts on WHL's business plan are set out in summary below. All have actions which monitor and minimise the chances of these risks occurring within the risk register.

- Government's announcement on planning changes for affordable Section 106 housing significantly reduces Commuted Sums
- LHL fails to be able to register and is wound up - WHLs core ***initial*** business dries up

[5] Amendments to WBC's structure for managing its shareholding in all trading companies may mitigate tax liability - independent tax and legal advice has been taken on structure and taxation matters.

- Rent controls limit income growth in future years - Less profit created by LHL to invest in new homes/ fewer properties for WHL to build
- LHL management and maintenance costs higher than expected - Less profit created by WHL or LHL to invest in new homes and fewer properties for WHL to build
- WHL is not seen as positive partner by key stakeholders especially WBC - LHL cannot proceed without the support of WBC
- Development ambitions and process not sufficiently clear and robust leading to poor financial planning and cash flow estimates, and lax cost control - WHL fails to deliver projects reasonably to time and to budget and does not achieve objectives or profit expectations
- Skills and experience of the WHL Board fails to match the requirements of WHL strategic plan - Risk of failure to control and manage the business effectively
- Funding is not secured to fund LHLs development programme/ WBC will not fund for sale or PRS developments and operating cash flow of WHL - Project delays or project failures
- Interest rates higher than expected for borrowing - Difficulty in servicing debt and reduced profitability to invest
- WBC using all dividends/ profit to support non-housing development products and services - No profit to re-invest in WHL building its business or for LHL to build additional affordable housing through WHL
- Insufficient staff resources available/ weak staff skill set - Project delays or project failures
- Build cost greater than planned - Higher financing requirements and costs - fewer properties built

14. CONCLUSIONS

14.1. This Business Plan shows that WHL can achieve its two primary objectives of delivering affordable homes for the Wokingham Borough as well as a reasonable income on investment to support the Council's future affordable housing ambitions and wider service cross subsidy.

14.2. There are questions still to determine around commitment to the use of Commuted Sums for affordable housing development to provide an asset base against which Loddon Homes can borrow and deliver additional affordable housing and an ongoing self-supporting profit. Some clear policy statements around the use of Commuted Sums and the support for WHL to achieve its primary objectives would provide certainty for the business moving forward and confidence from partners in working with WHL.

14.3. In summary, the environment for WHL to operate within in the current housing market is very strong. In context, WHL is effectively a small local development company with significant advantages in having (a) council-owned land opportunities to develop, with financial support from the Council to undertake affordable housing development at zero interest costs, as well as (b) an opportunity for Council financial support to develop more commercial opportunities on commercial terms and conditions delivering a good return on investment. This is an enviable position to be in, and the opportunities to support the Council's twin aims of delivering affordable housing and creating an income stream should be grasped by supporting and growing WHL, and its subsidiary LHL, with both hands.