



Housing Supervisory Board: 16/03/2022

Item: 7 AppendixA. 2023-2033 CDL Summary Business Plan (PUBLIC)

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Purpose/ Summary: To present to the Housing Supervisory Board the 2023 10-year CDL Business Plan

Recommendations:

The Housing Supervisory Board is requested to receive:

- Receive the summary of the CDL March 2023 10-year business plan, noting CDL’s proposals to enter into the Private Rented Market

Discussion or Decision		Anticipated time	
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Financial Implications:

The report presents the 2023 Business Plan. The following are the key financial headlines:

- A total of £123m to be invested in new build development activity over the plan period
- A total of £7m to be invested in PRS over the plan period

Intended outcomes:

The 2023 Business Plan aims to deliver the following key outcomes:

- 736 new homes

People: shareholder, customer, stakeholder and staff implications:

A fully funded Business Plan ensures that adequate resources are available for CDL to achieve its Corporate Objectives.

Shareholder: The business plan will deliver energy efficient, adaptable, affordable housing for sale and rent in communities throughout Shropshire, providing housing solutions for key workers as well as properties which can be adapted for people with disabilities. The developments will often be on complex land parcels which have been undeveloped or derelict for some time, thereby regenerating communities. Build contracts will be let to local contractors wherever possible and apprenticeships and local schools supported and involved during the build process. In this way the business plan will address the key areas as set out in the Shropshire Plan of healthy people, healthy economy, healthy environment and healthy organisation.

Customer: CDL will deliver a mix of homes which will meet unmet housing demand within Shropshire . This includes 2 bedroom homes, bungalows and low carbon homes, some of which will be offered for rent.

Stakeholder: CDL will engage with key stakeholders including Homes England, STAR Housing, local contractors, Registered Providers (RPs) and local agents to support CDL to deliver the programme.

Staff Implications: CDL has outlined a staffing structure within the business plan.

Relevant Risks and Controls (as per proposed register Q3)

Risk No.	Description of Risk	Current Controls In Place
1	Capacity to deliver the programme	Following roles now in place: Lead Director of Development, Head of Development, Finance Director & Company Secretary, Technical & Self Build Manager, Development Officer, Aftercare & Sales Manager, Sales & Aftercare Assistant and Development Contracts Officer. Robust Recruitment Process in Place High performance culture encouraged within the team. Efficient processes in place to ensure high productivity. Salary benchmarking exercise completed. Remuneration committee established. Sales process review work commenced.
2	Increased construction costs	1) All development appraisals and cost plans will include inflation associated with changes forecasted within the BCIS indices and all developments will be competitive tendered or a VFM report will be produced by a independent cost consultants. Appraisal take account of abnormals on site as far as possible. The JCT contract allows for a large proportion of this risk to fall with the contractors for onsite contracts. 2) One Public Estate funding is secured wherever possible to assist with the cost of abnormals.
4	Shocks to the economy including Brexit, COVID 19 interest rate changes and war	1) The Business Plan is stress tested against increases in build cost, reductions in income and interest rate changes to understand sensitivities to such external factors. 2) Agreed methodology in Q3 to take into account collateralisation levels when setting the interest rates. The higher the asset strength the lower the interest rate. In the immediate term this has allowed CDL to reset borrowing at 2.5 percentage points lower than before.

5	Insufficient Land Supply or delays in securing land in line with business plan assumptions. (Including delays or inability to secure required planning permissions).	1) Strategic Land and Development Grp formed to provide the strategic leadership for the land options appraisal work between CDL and SC Estates Team, to deliver clarity around SC owned residential sites which are suitable for development 2) On-going market engagement with land owners and land agents 3) Monthly meetings in place with SC finance colleagues to progress any issues and consider disposal strategies.
6	Funding Structure is illegal or not HMRC compliant and penalties incurred	1) Transfer pricing advice and defence documents commissioned and regularly updated. 2) Company status confirmed via Counsel 3) On-going liaison with Shareholder (sc)
10	Interruption to supply of materials and labour. Logistic/Supply Chain risk. Including contractor failure.	1) Close working relationships with Contractors to identify signs of early issues and formulate appropriate responses. 2) appropriately qualified employer's agents employed at all developments to monitor contractor activities. 3) Credit checks commissioned at tender stage to confirm financial capacity to deliver contract requirements. 4) Performance bonds in place as part of all JCT contracts (at the cost of the contractor) to insure up to 10% of contract cost is reimbursed in the event of contractor failure. 5) Project Bank Accounts considered where further risk mitigations required.

Legal and regulatory issues:	No	Advice taken:	Yes
CDL continues to procure financial advice where appropriate from its external advisors including; RSM and KPMG tax advisors, Trowers and Gateley’s legal advisors, Azets Accountants and Shropshire Council finance department.			

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1. Report Headlines

- 1.1. In accordance with the Shareholder agreement the Housing Supervisory Board is required to approve Cornovii’s annual business plan The report brings forward the 2023 10-year CDL Business Plan for consideration.
- 1.2. The following are the main headlines:
 - The 2023 CDL business plan delivers 736 units across 10 Schemes
 - Homes delivered will average an EPC rating of B (in line with updated SAP 10 regulations)
 - The plan proposes an entry into the PRS market with the retention of 33 units
 - There are an additional 346 units in the developing pipeline
 - The number of affordable units could be increased subject to additional Shareholder support

2. Business Plan Deliverables

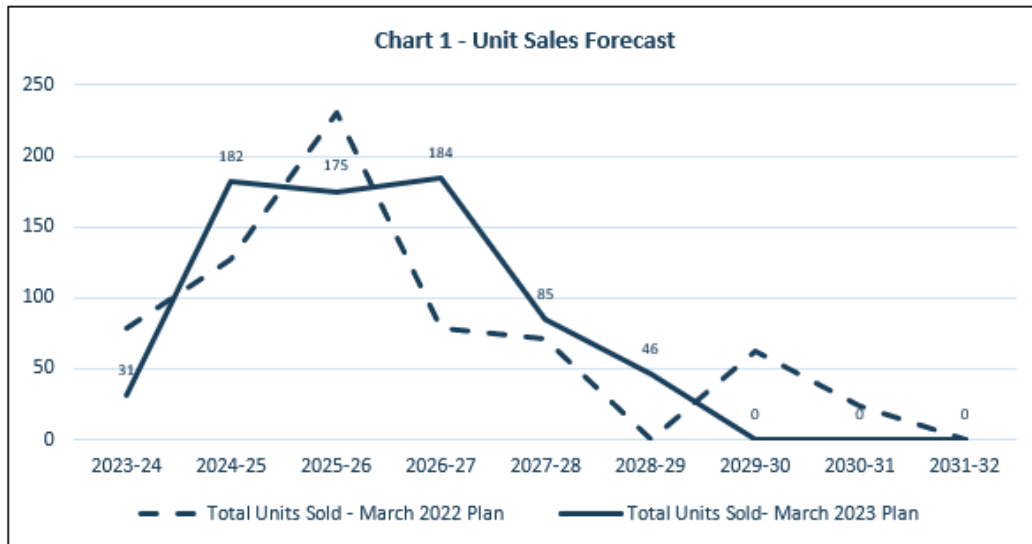
Units

2.1. The 2023 CDL business plan delivers 736 units across 10 Schemes. This is an increase of 8 units on the 2022 CDL business plan. Table 1 summarises the scheme units.

Scheme Name	March 2023 Plan
The Frith, Crowmoor (Approved - Completed)	33
Ellesmere Wharf (Approved)	23
Ifton Green (Approved)	35
Phase 2 Scheme	23
Phase 2 Scheme	135
Phase 2 Scheme	250
Phase 2 Scheme	100
Phase 2 Scheme	24
Phase 2 Scheme	28
Phase 2 Scheme	85
TOTAL (1 & 2 confidence)	736

2.2. Starts on site and unit sales are shown below. The build programme is ambitious in 2023-24 as a result of the plan to recover time lost from prior year delays.

Year	23/24	24/25	25/26	26/27	27/28	28/29
Start on site	508	24	28	0	85	0



2.3. The total number of affordable units has increased but as a percentage of total units remains the same as the March 22 business plan. The business plan presents a policy compliant approach only across the majority of developments along with additional affordable units at Ellesmere Wharf, The Frith and Ifton Green. This proposal presents the most commercial proposition and maximises the financial return to the shareholder. Additional affordable units can be added to future sites on a site-by-site basis if there is an acceptance that shareholder return will reduce.

2.4. The mix of unit types in the business plan is shown below.

1 Bed	40	5%
2 Bed	107	15%
3 Bed	121	16%
4 Bed	90	12%
Not yet known	378	51%
Total Units	736	

Bungalow	54	7%
House	269	37%
Flat	35	5%
Not yet known	378	51%
Total Units	736	

2.5. Every project in the business plan covers its own costs and exceeds the required shareholder return threshold.

2.6. The March 2023 business plan brings forward proposals for CDL to enter the PRS market by retaining stock at four of its forthcoming developments. It is proposed that 33 units will be retained within CDL’s ownership and operated via a managing agent. The aim of the proposal is to offer a long-term investment solution to the Shareholder, with a different risk profile to CDL’s core business of new build, as well as providing CDL with alternative options should a market slowdown adversely impact sales rates. Section 3 of this report explores the proposals in more detail.

Specification

- 2.7. CDL remains committed to building good quality sustainable homes. The majority of CDL Homes will meet the following standards:
- CDL is working towards all homes being built to Future Homes Standards which will result in all homes adopting ‘fabric first’ principles, with renewable technologies, a EPC rating B (Environment Impact Assessment rating ‘A’) and will be 75% above existing building regulations. Further, CDL is exploring options to move all properties from gas heating to electric renewable heating.
 - All CDL homes will meet National Described Space Standards and will be built to M4(2) compliance where possible.
 - CDL will deliver a net gain in biodiversity across all our development sites.
 - All CDL homes are designed to be tenure blind.
 - Affordable homes will be integrated into CDL sites rather than being isolated on a layout.

Supporting the local economy/Social Value – Live Sites

- 2.8. A key objective of CDL is to support local SME and suppliers to build capacity, create job and training opportunities.
- 2.9. In addition to the affordable housing delivery the operational sites are currently expected to deliver the following social value outputs.

Table 8

Social Value (live sites)		
Project Name:	Ellesmere Wharf	Ifton Green
Social Value Headings		
% of contractors and subcontractors from a Shropshire postcode	71%	65%
Average EPC and carbon savings.	A	A
Employment and training opportunities	6 apprentices on site	6 apprentices on site
Number and detail of Education settings supported by CDL activities	ON HOLD- Welshampton C of E Primary School Ellesmere, SY12 0PG	
	Quarterly updates to Ellesmere Town Council clerk and local member	Stakeholder Group with two parish councillors and two residents
	One Public Estate funding	Regular engagement with childrens services home adjacent to the site
	Town Councillor and local member updated bi-monthly as a minimum.	Competition for street naming being run at St Martins School.

3. Private Rented Sector

- 3.1. The business plan brings forward proposals for CDL to retain 33 of its new build properties. This will require an initial investment of £6.5m over a six year time frame. The properties will be will be rented out for market rents generating a long-term income stream for the shareholder over a 45 year period.
- 3.2. The proposal assumes that £7m of the existing £49m loan facility will be ‘top sliced’ and applied to PRS activity under a new loan arrangement.
- 3.3. The next few paragraphs explore the risks, benefits, and tax impacts associated with this arrangement as well as the practical steps needed to enter the market.

Benefits

- 3.4. Entering into the PRS market will attract the following benefits:
 - Provides a long term revenue income stream for the Shareholder (through interest payments and dividends).
 - Offers the business plan resistance against a downturn in sales rates or values as properties can be flipped to PRS until an upturn is evident.
 - Addresses housing need in Shropshire both on a general level but could also be adapted rented to SC to house complex disability support clients.
 - Activity is secured against capital assets which it is anticipated will increase in value.

Risks

- 3.5. The following risks should be considered.
- Non payment of rents.
 - Void costs.
 - Property damage.
 - Illegal activity.
 - General disputes.
 - Interest Rate risk

Tax impact

- 3.6. CDL has taken specific advice from KPMG on the tax impacts arising as a result of entering the PRS market and these centre around a change in VAT status for CDL. Additional costs arising have been factored into the business plan.
- 3.7. In terms of corporation tax any profits and losses arising will be grouped with the new build activity and taxed at the usual rate.

Delivery Timetable

- 3.8. In order to successfully enter the PRS market a number of steps will need to be achieved such as agreeing a new funding arrangement, agreeing relevant policies and appointing a managing agent.

4. Company Financing

Capacity

- 4.1. The peak debt in the new business plan reaches £37.51m in Feb-26 for new build activity. This increases to £41.596m in the same month with the addition of PRS cashflows. This is within the overall funding availability of £49.000m and below the Golden Rules level which requires 7.5% headroom is left available within the loan capacity at all times.
- 4.2. The current assumption is that some projects may be delivered via Joint venture arrangements. Permissions are yet to be defined and agreed within the terms of the loan arrangements to allow this to happen but will be worked on during the next business plan period.

Pipeline and diversification of activity

- 4.3. CDL continues to explore opportunities to purchase sites for inclusion within its business plan. CDL's main focus will be to continue purchasing sites from the council and deliver housing developments which meet a number of strategic objectives identified within the Shropshire Plan.
- 4.4 CDL continue to explore new opportunities to support the council in the delivery of its housing strategy and the commissioning of development services, this includes exploring new delivery partnership approaches to regeneration and development activity.

5. Recommendation

5.1 The Housing Supervisory Board is asked to:

- Receive the summary of the CDL March 2023 10-year business plan, noting CDL's proposals to enter into the Private Rented Market