

CDL Board: 14/03/2024

Item: 2024 CDL Business Plan (Public)

Report Author: Ros Bridges

Contact No. 01743 258948



Purpose/ Summary: To present to the Housing Supervisory Board the 2024 CDL Business Plan

Recommendations:

The Housing Supervisory Board is requested to:

- Receive the summary of the March 2024 business plan

Discussion or Decision	Anticipated time
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Financial Implications:

The report presents the 2024 Business Plan. The following are the key financial headlines:

- A total of £145m 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 2024 Business Plan aims to deliver the following key outcomes:

- 882 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: CDL has assumed that £38.103m of financial benefits will follow back to the shareholder across the life of the company some of which will come from a first venture into the Private Rental Sector. 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 which will support activity for at least a five year period.

Relevant Risks and Controls (as per proposed register Q3)

There are a number of strategic risks covering the financials of the business. These and the current controls are shown below. The business plan is a key tool in managing financial risk.

Risk No.	Description of Risk	Current Controls In Place
1	Capacity to deliver the programme	<p>Following the sharing of key leadership roles with sTAR housing and the company entering into a development agreement with STAR the Cornovii team has been restructured and added to ensure adequate capacity is in place. The current status of the team is shown below:</p> <ul style="list-style-type: none"> Managing Director (Shared with STAR), Finance Director & Company Secretary (Shared with STAR), Assistant Director of Development (leaves Nov 23), Head of Development (Starts Oct 23), Senior Technical Manager, Senior Finance & Governance Officer, Finance & Office Administrator (Started Sept 23), Senior Development Officer, Sales & Aftercare Manager, Sales & Aftercare Executive (Out to recruit Oct 23), Development Manager - STAR (Agency since Jul 23) Senior Development Officer - STAR (Tupe'd to CDL Sep 23) Development Contracts Officer, <p>There is a robust Recruitment Process in Place A high performance culture encouraged within the team. Efficient processes are in place to ensure high productivity. Salary benchmarking exercise completed. Remuneration committee established. Sales process review completed to streamline processes ahead of next sales phases. Teams are now colocated at Mount McKinley allowing for ease of access to shared roles. Monks Estate Agents retained to support sales function</p>

2	Increased construction costs	<p>1) All development appraisals and cost plans will include inflation associated with changes forecasted within the BCIS indices and all developments will be competitively tendered or a VFM report will be produced by an independent cost consultant. Appraisal takes 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 on-site contracts.</p> <p>2) One Public Estate funding is secured wherever possible to assist with the cost of abnormals.</p> <p>3) Following the signature of the build contract at London Road and Oaklands 51% of the build programme is now delivered or in contract which reduces the exposure to build cost increases.</p> <p>4) Forecast assumptions are reviewed quarterly to capture any new information.</p>
4	Shocks to the economy including Brexit, COVID 19 interest rate changes and war	<p>1) The Business Plan is stress tested quarterly against increases in build cost, reductions in income and interest rate changes to understand sensitivities to such external factors.</p> <p>2) Agreed methodology in 22/23 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.</p> <p>3) BoFE forecast underlying increase in interest rates is captured in base business plan forecast and applied to future projections.</p>
5	Insufficient Land Supply or delays in securing land in line with business plan assumptions. (Including delays or inability to secure required planning permissions).	<p>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</p> <p>2) On-going market engagement with land owners and land agents</p>
6	Funding Structure is illegal or not HMRC compliant and penalties incurred	<p>1) Transfer pricing advice and defence documents commissioned and regularly updated.</p> <p>2) Company status confirmed via Counsel</p> <p>3) On-going liaison with Shareholder (sc)</p> <p>4) Tax computations now sitting with Big 4 company rather than local firm.</p> <p>5) New company set up to deal with land transfers more efficiently from a tax perspective (all HMRC compliant)</p>
10	Interruption to supply of materials and labour. Logistic/Supply Chain risk. Including contractor failure.	<p>1) Close working relationships with Contractors to identify signs of early issues and formulate appropriate responses.</p> <p>2) Appropriately qualified employer's agents employed at all developments to monitor contractor activities.</p> <p>3) Credit checks commissioned at tender stage to confirm financial capacity to deliver contract requirements and financial due diligence questionnaires completed with all major partners.</p> <p>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.</p> <p>5) Project Bank Accounts considered where further risk mitigations required.</p> <p>6) Signed up to Creditsafe monitoring agency.</p> <p>7) Sub-contractor register to assess the risk between each project</p>

	<p>12. Sales risk Decrease in sales values or partners not willing to take on affordables at the values required to maintain the required return at a project level.</p>	<p>1) Careful management of sales programmes to ensure incentives offered where possible at the right time. 2) Good publicising of the benefits of a CDL property over a.n. other 3) Discussions held with the council about reputational damage of not delivering additional affordable homes as a result of internal policy changes 4) Contingency in place to mitigate to a limited extent. 5) Sales targets per month established and specific sales cashflow monitoring reported monthly .</p>
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Legal and regulatory issues:	No	Advice taken:	Yes
<p>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.</p>			

The Housing Supervisory Board is asked to:

- Receive the summary of the March 2024 business plan.

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 2024 10-year CDL Business Plan for consideration.

1.2. The following are the main headlines:

- The 2024 CDL business plan delivers 882 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 24 units in the developing pipeline

2. Business Plan Deliverables

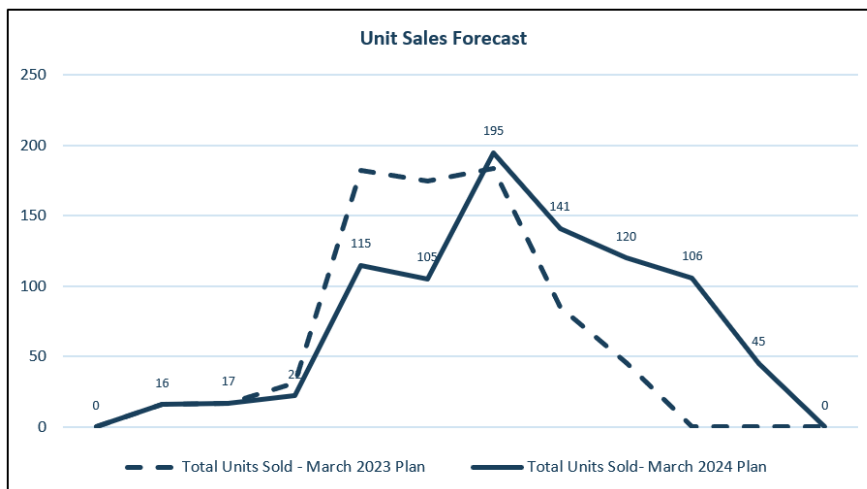
Units

2.1. The 2024 CDL business plan delivers 882 units across 10 Schemes. This is an increase of 146 units on the 2023 CDL business plan. Table 1 summarises the scheme units.

Scheme Name	March 2024 Plan
The Frith, Crowmoor (approved - completed)	33
Ellesmere Wharf (approved)	23
Ifton (approved)	35
Oaklands (approved)	23
London Road (approved)	135
Phase 2 Scheme	155
Phase 2 Scheme	259
Phase 2 Scheme	102
Phase 2 Scheme	28
Phase 2 Scheme	0
Phase 2 Scheme	89
TOTAL (1 & 2 confidence)	882

2.2. Starts on site and unit sales are shown below.

Year	24/25	25/26	26/27	27/28	28/29
Start on site	0	184	449	0	0



2.3. The total number of affordable units has increased but as a percentage of total units remains the same as the March 23 business plan. The business plan presents a policy compliant approach only across the majority of developments. 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	68	8%
2 Bed	234	27%
3 Bed	262	30%
4 Bed	175	20%
5 Bed	13	1%
Not yet known	130	15%
Total Units	882	

Bungalow	47	5%
House	691	78%
Flat	144	16%
Total Units	882	

2.5. Every project in the business plan covers its own costs and exceeds the 5% shareholder return threshold.

2.6. The March 2024 business plan includes 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. This approach was approved by CDL Board as part of the approval of the March 2023 Business Plan and work is continuing to put the necessary processes and procedures in place.

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	Oaklands	London Road
Social Value Headings				
% of contractors and subcontractors from a Shropshire postcode	65%	60%	92%	60%
Average EPC and carbon savings.	A	A	B	B
Employment and training opportunities	6 apprentices on site	6 apprentices on site	16 apprentices on site	4
Number and detail of Education settings supported by CDL activities		St Martins School, Oswestry, SY10 7BD	Oakmeadow Church of England Primary and Nursery School Bayston Hill SY3 0NU	Shrewsbury College London Road Shrewsbury SY2 6PR
	Quarterly updates to Ellesmere Town Council clerk and local member	Stakeholder Group with two parish councillors and two residents	Quarterly updates to Parish Council	
	One Public Estate funding	Regular engagement with childrens services home adjacent to the site		
	Regular letter drop to local residents to inform of on-site activity	Competition for street naming at St Martins School is now complete.		
	Town Councillor and local member updated bi-monthly as a minimum.			

3. Company Financing

Capacity

3.1. The peak debt in the new business plan reaches £40.725m in Sep-26 for new build activity. This increases to £44.944m 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. Recommendation

The Housing Supervisory Board is asked to:

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