Appendix 1 – Financial Information

1 Introduction

1.1 This appendix provides greater detail behind the data and assumptions that have informed this business plan for Lincoln Homes (the Company) and the business case.

1.2 The key objective for the business plan is to show the following:

- That the Company can meet its financial obligations in terms of meeting both interest and repayment of the loans equivalent to 75% of the total development costs over a 40-year period

- That the Company returns to the Council should be sufficient to repay the initial 25% equity investment into the Company and the annual payments should cumulatively be sufficient to meet the costs of interest and repayment for the Council on the net borrowing it needs to undertake.

1.3 The modelling has been undertaken using a comprehensive model, including a set of financial statements.

2 Stock Profile

2.1 The table below identifies the key development information by each site.

	Searby Road				
Development Start	January 2019				
Market Land Value	£1million				
Total Development Cost	£5.871million				
	1Bed Flat	2Bed Flat	2Bed House	3Bed House	4Bed House
No. Market Sale		6	2	2	1
No. Market Rent	2	27	7	5	1
TOTAL	**2**	**33**	**9**	**7**	**2**
Market Values	£100k	£125k	£150k	£225k	£250k
Market Rent (Week)	£109.62	£114.23	£126.92	£138.46	£167.31
Size (Sq Mtr)	55.6	57.3	75.0	84.6(ave)	99
Build Cost (Sq Mtr)	£1,304	£1,304	£1,304	£1,304	£1,304

2.2 The above market values and rental levels are at this current time. There are directly derived from an independent commission by Cushman and Wakefield who have assessed the Lincoln area and each site to arrive at these assumptions. The build rates were also separately commissioned by the same firm and are within expected benchmarks.

2.3 It is important to note that the Company will be purchasing the land in its own right from the Council and therefore the land values have been reflected at market rates and at this stage are at an assumed level and require independent valuations. Stamp Duty Land Tax (SDLT) is unlikely to be payable due to the 'Group Status' of the transaction (i.e. the Council owning 100% shareholding of the Company).

2.4 Development costs have been spread equally of a build time estimated at 12 months per site.

3 Key Assumptions

3.1 In table 2.1 the core assumptions have been stated. In addition to this future inflationary increases need to applied as well as day to day operating costs, future investment needs and financing costs (as discussed in the next section).

3.2 Set-Up and On-Costs

3.2.1 For the initial set-up costs legal costs of £10,990 have been included and a further £30,180 for financial and other advice support. In addition, £10,000 has been added as a contingency to cover operating costs whilst the scheme is in development.

3.2.2 In addition to the direct build costs which are calculated based on size multiplied by price per square metre and land there are further direct on-costs to be added.

3.2.3 For each site values have been added for feasibility costs, architect services, employers agent and planning fees.

3.2.4 To cover any additional planning obligations, a CIL payment has been included at £2,500 per property for each made available for market sale or rental at market rates.

3.3 Operating and Management Costs

3.3.1 As the Company will be a separate legal entity to the Council there are some unavoidable operating costs. In summary, these cover the cost of external audit of the accounts, Board expenses and external accountancy support. The total of these is estimated at £21,000 per annum and are charged to each scheme on a per rented unit basis.

3.3.2 The day to day management of the rental properties will be operated by the Council's Housing team through a recharge that will benefit the HRA. This is estimated at £225 per property per annum. In addition, the Council will recharge some costs for financial and legal services and the procurement team. These are likely to cover the additional costs that the Council will incur so there is little gain for the General Fund. The Council costs are estimated at £13,750 and charged on a per rented unit basis to each scheme. Furthermore we have allowed for service costs of £8,600 per annum for services to communal areas.

3.4 Revenue Repairs & Future Investment

3.4.1 To ensure that all rental properties are maintained at an appropriate standard in terms of boiler servicing, day to day repairs and minor void repairs the following annual net allowances per property have been made within the modelling:

	Year 1	**Year 2**	**Years 3-10**	**Years 11+**
Market Rent	£68	£386	£504	£655

3.4.2 The market rent properties have marginal premium attached to them to reflect the higher rental charges and ensure to ensure that sufficient investment is made to enable quick re-letting times.

3.4.3 In terms of future investment and improvements to the rental properties the following net allowances have been provided for on a per unit per annum basis:

	Years 6-10	**Years 11-15**	**Years 16-20**	**Years 21-25**	**Years 26-30**	**Years 31+**
Market Rent	£199	£1,260	£807	£1,900	£379	£1,718

3.4.4 The costs are based on anticipated life-cycle replacement costs for items such as kitchens, bathrooms, boilers etc. Again, a premium has been attached to market rent properties, with replacements having a shorter life-cycle.

3.5 Sale Assumptions

3.5.1 There are a total of 11 properties assumed to be sold. The market values have been derived from the external commission by Cushman & Wakefield based on their research for the area and sites.

3.5.2 The values quoted are based on realistic expectations and the report quotes that housebuilders will quote a premium of up to 10% on their initial asking prices to then allow for discounts or incentives. Their report allows for the anticipated expected sale price and 2% discount for sale incentives.

3.5.3 To facilitate the sale the modelling allows for an additional 2% of market value to cover marketing and associated sale costs.

3.5.4 To provide a further contingency the modelling assumes that sales income does not materialise until up to six months from the completion of the scheme.

3.6 Voids & Bad Debts

3.6.1 The modelling has to make provisions for the loss of rental income for when a property is void in between lettings. Obviously with demand being high in Lincoln for quality market rented properties the void period would expect to be on the low side.

3.6.2 Therefore void loss as percentage of gross rents has been modelled at 2.25% for the market rented properties. This level is greater than current HRA performance for its stock (albeit older properties) and a higher provision is due to the higher rent levels.

3.6.3 A provision has been made of 1% of annual gross rent income to place in a bad debt reserve in case of the need to write-off bad debts. This is line with current HRA performance.

3.7 Taxation

3.7.1 As this will be a company set up as a separate legal entity from the Council it will not be able to benefit from the exemptions of certain taxes that the Council currently does.

3.7.2 Firstly the Company will need to register for VAT given that its turnover is greater than £82,500 per annum. However, rental income is currently not (and unlikely to be in the future) vatable. Therefore, all costs incurred by the Company will have unrecoverable VAT expenditure, i.e. it has to pay VAT.

3.7.3 The VAT rate assumed throughout the model is at 20%. The initial build costs will be exempt from VAT but all other costs including management, repairs, improvement, sale costs and development on-costs identified have had VAT added.

3.7.4 Corporation tax also needs to be factored in and is payable on the surpluses the Company makes in its profit and loss statement after the inclusion of interest charges. If the Company makes a loss in one year this is carried over to the next but this is not expected to occur apart from the first year of the company due to set-up costs and interest charges without any form of income during the development phases.

3.7.5 A corporation tax rate of 19% has been assumed, reducing to 17% from 2020.21 in line with current policy, but could be subject to change.

3.7.6 Recent advice suggests that the Council can use its group status on this transaction to avoid any Stamp Duty and Land Taxes (SDLT) due on the purchase of the land by the Company as it is being sold by the Council (only shareholder). If land or property is purchased in the future from other sellers then SDLT would be payable..

3.8 Inflation Assumptions

3.8.1 All the income and expenditure levels detailed above are at current levels. Inflation obviously has to be applied to both income and expenditure throughout. As the modelling commences in 2017.18 inflation (based on CPI) it is prudent to apply some inflation, given the latest forecasts following the result of the European ballot.

3.8.2 Therefore, the following CPI rates will be applied to all income and expenditure with additions or reductions to these for certain revenue streams identified further on in this appendix.

- April 2018 and each year thereafter: 2%

3.8.3 Market rents have been assumed to increase at 0.25% above CPI within the plan with the following exceptions:

- April 2018: 0.75%
- April 2019: 0.75%

The reason for higher than 0.25% increases is based on the expected impact from interest rates rises discussed further on in this appendix.

3.8.4 Both the revenue repairs and future improvements have an uplift of 0.5% above CPI in years 2 to 5 of the modelling.

4 Financing of the Company

4.1 The total development costs are £5.781million. However, with inflation applied at the various increments this increases to £5.871million. Therefore, the company will seek to finance 75% of these costs via loans provided via the Council. The remaining 25% will be in the form of a direct equity cash injection by the Council as discussed in section 6 below.

4.2 The modelling is set up for loans to be drawn down based on the overall cash flow. Therefore, there is the opportunity that once the plan is finalised and closer to the time of development an overarching position could be sought with the Council's treasury advisors, potentially saving on the interest costs projected within the model.

4.3 The total amount of initial loan drawdowns total £4.655million which is higher than 75% of the £5.871million. This is due to the loans being drawn upon commencement and therefore the interest charges effectively have to be covered during the period of development. Depending on actual cash flow there may need to be an additional facility for short-term lending within the development and in the mid-term of the overall plan.

4.4 The loans are a mixture of short-term (to be repaid when sales materialise) and longer-term to in effect cover the balance for market rent and for sale properties. A 40-year repayment period has been set within the model on an annuity basis using fixed interest payments. Therefore, the payments are on a fixed basis with the majority of the payment covering interest initially and then reducing during the term as the capital repayment element increases.

4.5 To avoid any state aid issues loans will be based upon market rates of 'Base plus' which equates to market lending rates. A rate of 5.00% above base is therefore charged to the company on the loans that the Council will actually take out to on-lend to the company.

4.6 Given recent developments post the European ballot with inflation forecast to rise it is inevitable that interest rates will rise from the low historical rates that are currently enjoyed. Therefore, the modelling contains uplifts to current interest rates from the Public Works and Loan Board (PWLB) to take account of this.

4.7 In summary the model assumes that rates will increase by:

- 0.25% for loans drawn in 2017.18
- Additional 0.25% for loans drawn in 2018.19
- Additional 0.25% for loans drawn in 2019.20

4.8 Within section 7 of this appendix the impact of further increases to interest rates is tested.

4.9 The loan portfolio used within the model is as follows:

Scheme	Loan Type		2018.19		2019.20	
	For	Period	Amount	Rate	Amount	Rate
Searby Road	Market Sale	1 Yr Maturity			£1.75m	4.5%
	Market Rent	40 Yr Annuity	£2.905m	5.5%		

4.10 The projected loan balances at the end of each year are demonstrated in a chart in section 5.

5 The Company's Projected Financial Position

5.1 The company financial forecasts are shown in the tables below. They demonstrate the first five years individually and then in 5 year bands.

5.2 <u>Income & Expenditure (Profit & Loss) Forecast Statement</u>

Income & Expenditure	2017.18 Yr 1	2018.19 Yr 2	2019.20 Yr 3	2020.21 Yr 4	2021.22 Yr 5	2026.27 Yrs 6-10	2031.32 Yrs 11-15	2036.37 Yrs 16-20	2041.42 Yrs 21-25	2046.47 Yrs 26-30	2051.52 Yrs 31-35	2056.57 Yrs 36-40	2061.62 Yrs 41-45
Rental Income	0	0	69,330	283,561	289,941	1,550,545	1,733,009	1,936,946	2,164,881	2,419,639	2,704,377	3,022,622	3,378,317
Void Loss	0	0	-1,560	-6,380	-6,524	-34,887	-38,993	-43,581	-48,710	-54,442	-60,848	-68,009	-76,012
Bad Debt Provision	0	0	-693	-2,836	-2,899	-15,505	-17,330	-19,369	-21,649	-24,196	-27,044	-30,226	-33,783
Total Income	0	0	67,077	274,345	280,518	1,500,152	1,676,686	1,873,995	2,094,522	2,341,001	2,616,485	2,924,387	3,268,522
Management Costs	0	0	-8,542	-34,850	-35,547	-188,688	-208,327	-230,010	-253,949	-280,381	-309,563	-341,782	-377,355
Revenue Repairs	0	0	-905	-8,046	-23,231	-149,577	-214,622	-236,960	-261,623	-288,853	-318,918	-352,111	-388,759
Improvements	0	0	0	0	0	-12,284	-137,518	-421,745	-413,142	-698,379	-320,140	-923,552	-1,019,676
Operating Costs	0	0	-4,058	-16,555	-16,886	-89,633	-98,962	-109,262	-120,634	-133,189	-147,052	-162,357	-179,255
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditure	0	0	-13,504	-59,451	-75,664	-440,181	-659,429	-997,977	-1,049,349	-1,400,803	-1,095,672	-1,779,802	-1,965,045
Surplus on Sales	0	0	0	522,349	0	0	0	0	0	0	0	0	0
Interest Receivable	0	3,227	5,301	224	92	1,772	6,665	3,031	2,599	0	4,090	2,976	4,714
Interest Payable	0	-79,888	-238,988	-178,016	-157,100	-764,535	-721,753	-665,637	-592,034	-495,491	-368,860	-202,765	-21,487
Corporation Tax	0	0	0	-51,455	-8,134	-52,405	-72,409	-100,807	-140,686	-182,452	-245,509	-301,919	-374,750
Surplus	0	-76,660	-180,114	507,997	39,713	244,803	229,760	112,604	315,052	262,255	910,534	642,877	911,953
Dividends Payable	0	0	0	0	-16,516	-26,022	0	0	0	0	-157,923	-30,267	-576,794
Retained Surpluses	0	-76,660	-256,775	251,222	274,419	493,200	722,961	835,565	1,150,617	1,412,873	2,165,483	2,778,093	3,113,252

5.3 This presents the forecast surpluses for the Company. After the first five years, the income and expenditure has been presented in 5-year segments for presentational purposes. A key point to note is that this statement does not show the debt repayment as this does not form part of the profit and loss statement, particularly for calculating corporation tax due.

5.4 This explains the retained surpluses balance increasing through the plan but does not necessarily match the cash balances as demonstrated in the Cash Flow statement below.

5.5 The dividend line shows the payments that the Company will make to the Council and the use of these is explained further on this appendix. The dividend payments have been maximised but on condition that the bank balances are not over drawn to prevent any further borrowing requirement.

5.6 There are two years where the company will make a loss on the basis that interest charges and operating costs are higher than the income for the year. This is to be expected in the early stages of the plan.

5.7 In the latter stages of the plan the interest payable reduces. However, there is no interest received on balances as these are fully utilised in the payment of dividends.

5.8 <u>Balance Sheet Forecast Statement</u>

Balance Sheet	2017.18 Yr 1	2018.19 Yr 2	2019.20 Yr 3	2020.21 Yr 4	2021.22 Yr 5	2026.27 Yrs 6-10	2031.32 Yrs 11-15	2036.37 Yrs 16-20	2041.42 Yrs 21-25	2046.47 Yrs 26-30	2051.52 Yrs 31-35	2056.57 Yrs 36-40	2061.62 Yrs 41-45
Rented Properties (at Cost)	1,000,000	1,861,195	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067	4,581,067
Properties for Sale (at Cost)	0	317,782	1,290,194	0	0	0	0	0	0	0	0	0	0
Equity Input	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815	-1,467,815
Depreciation	0	0	0	0	0	0	0	0	0	0	0	0	0
	-467,815	711,161	4,403,446	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252	3,113,252
Cash at Bank	467,815	2,117,178	8,528	66	0	81,505	131,207	7,637	12,910	-131,156	88,503	2,067	0
Surplus on Valuation	6,467,815	5,408,839	1,838,954	3,253,996	3,381,341	4,057,304	4,803,621	5,627,615	6,537,372	7,541,816	8,650,805	9,875,217	11,227,067
Rented Properties (at OM/EUV)	6,000,000	5,802,218	6,242,400	6,367,248	6,494,593	7,170,555	7,916,873	8,740,867	9,650,623	10,655,068	11,764,056	12,988,469	14,340,319
TOTAL ASSETS	6,467,815	7,919,396	6,250,928	6,367,314	6,494,593	7,252,060	8,048,079	8,748,504	9,663,534	10,523,912	11,852,559	12,990,535	14,340,319
Loans Outstanding	0	2,905,000	4,668,748	2,862,095	2,838,832	2,701,557	2,521,499	2,285,325	1,975,547	1,569,225	1,036,273	337,225	0
Reserves:													
Revenue Reserve	0	-394,442	-256,774	251,223	274,420	493,200	722,959	835,563	1,150,615	1,412,871	2,165,482	2,778,093	3,113,251
Revaluation Reserve	6,467,815	5,408,839	1,838,954	3,253,996	3,381,341	4,057,304	4,803,621	5,627,615	6,537,372	7,541,816	8,650,805	9,875,217	11,227,067
LOANS, CAPITAL & RESERVES	6,467,815	7,919,396	6,250,928	6,367,314	6,494,593	7,252,060	8,048,079	8,748,504	9,663,534	10,523,912	11,852,559	12,990,535	14,340,319

5.9 Again the first five years are presented on an annual basis and then in five year stages (the last of the five years being the figure presented).

5.10 The loan balances initially increase as the scheme is fully developed and then gradually reduce as per annuity payments are made.

5.11 The initial cost of building the properties is shown on the balance sheet in the first line. The balance between this and the Open Market (OM) or Existing Use Valuation (EUV) is shown as a surplus on valuation.

5.12 The Market Rented properties are valued at 100% of market value.

5.13 The modelling has also assumed that depreciation does not have to be accounted for as the properties are considered investments.

5.14 The Equity input from the Council is not officially repaid and is shown as an investment set against the property values. This is discussed further in section 6.

5.15 Market Values are forecast to increase by CPI only (2% long-term) with the properties potentially being worth £14.34million in 45 years' time.

5.16 As before cash balances are projected to be zero in order to maximise the dividend payments.

5.17 <u>Cash Flow Forecast Statement</u>

Cash Flow Statement	2017.18 Yr 1	2018.19 Yr 2	2019.20 Yr 3	2020.21 Yr 4	2021.22 Yr 5	2026.27 Yrs 6-10	2031.32 Yrs 11-15	2036.37 Yrs 16-20	2041.42 Yrs 21-25	2046.47 Yrs 26-30	2051.52 Yrs 31-35	2056.57 Yrs 36-40	2061.62 Yrs 41-45
Net Cash Inflow from Operating Activities	0	0	53,573	214,894	204,854	1,059,971	1,017,258	876,018	1,045,173	940,198	1,520,813	1,144,585	1,303,476
Interest Received	0	3,227	5,301	224	92	1,772	6,665	3,031	2,599	0	4,090	2,976	4,714
Interest Paid	0	-79,888	-238,988	-178,016	-157,100	-764,535	-721,753	-665,637	-592,034	-495,491	-368,860	-202,765	-21,487
Net Cash inflow(outflow) from above activities	0	-76,660	-180,114	37,103	47,847	297,208	302,169	213,411	455,739	444,708	1,156,042	944,796	1,286,703
Construction/Acquisition of Properties	-1,000,000	-1,178,977	-3,692,285	0	0	0	0	0	0	0	0	0	0
Sale Receipts	0	0	0	1,812,543	0	0	0	0	0	0	0	0	0
Equity / Grants Received	1,467,815	0	0	0	0	0	0	0	0	0	0	0	0
Equity / Grants Repaid	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Cash inflow(outflow) from investing activities	467,815	-1,178,977	-3,692,285	1,812,543	0	0	0	0	0	0	0	0	0
Net Cash inflow(outflow) before financing	467,815	-1,255,637	-3,872,399	1,849,646	47,847	297,208	302,169	213,411	455,739	444,708	1,156,042	944,796	1,286,703
Loans Drawndown	0	2,905,000	1,784,619	0	0	0	0	0	0	0	0	0	0
Loans Repaid	0	0	-20,870	-1,806,653	-23,263	-137,276	-180,059	-236,175	-309,779	-406,321	-532,952	-699,046	-337,226
Net Cash inflow(outflow) from financing	0	2,905,000	1,763,749	-1,806,653	-23,263	-137,276	-180,059	-236,175	-309,779	-406,321	-532,952	-699,046	-337,226
Corporation Tax Paid	0	0	0	-51,455	-8,134	-52,405	-72,409	-100,807	-140,686	-182,452	-245,509	-301,919	-374,750
Dividends Paid	0	0	0	0	-16,516	-26,022	0	0	0	0	-157,923	-30,267	-576,794
Increase/(Decrease) in Cash	467,815	1,649,363	-2,108,650	-8,462	-66	81,505	49,702	-123,570	5,274	-144,066	219,659	-86,436	-2,067
Opening Cash Balance	0	467,815	2,117,178	8,528	66	0	81,505	131,207	7,637	12,910	-131,156	88,503	2,067
In-Year Movement	467,815	1,649,363	-2,108,650	-8,462	-66	81,505	49,702	-123,570	5,274	-144,066	219,659	-86,436	-2,067
Closing Cash Balance	467,815	2,117,178	8,528	66	0	81,505	131,207	7,637	12,910	-131,156	88,503	2,067	0

5.18 In similar format to the above statement the Cash Flow is shown in five-year segments with the first 5 years individually.

5.19 The statement shows the actual cash flows of the Company. It demonstrates that there is never a shortfall in cash balances on account of the initial loans to fund the development costs and initial interest costs, with the exception of years 26 to 30 due to the demands of capital investment in the stock. This can be alleviated by short-term borrowing and plan demonstrates that this can be easily financed and repaid in the following years.

6 The Council's Equity Investment

6.1 In order to avoid any state aid issues but also to assist viability for the Company the proposal is that the Council inputs an initial equity investment of 25%. This is in line with the approaches other Councils have taken in respect to setting up such companies.

6.2 The equity investments are shown in the above balance sheet and cash flow statements, totalling £1,467,815 initially in 2017.18.

6.3 The Council has three options in terms of it can finance the equity of £1,467,815;

- Borrowing 100% or
- Using the receipts from the land sale
- A mixture of the two

6.4 The land receipts available from Searby Road are anticipated to be £1million.

6.5 DCLG regulations state that any borrowing undertaken by a Council for the purposes of purchasing equity within a company has to be repaid within a 20-year period.

6.6 Modelling has been undertaken to test the first option of borrowing 100% of the £1,467,815 but has conclusively shown that the Company will not be able to provide returns sufficient to cover this level of borrowing.

6.7 Therefore the mixed approach of using £1million of land receipts and £467,815 of borrowing, repaid over a 20-year period (from the time of drawdown) is the only viable approach.

6.12 The borrowing is proposed in the following phases to match the start of the scheme:

Year	**20-Year Annuity Loan**
2018.19	£467,815 (2.96%)

6.13 The interest rates are based on current PWLB rates with an allowance for increases as per paragraph 4.7.

6.14 Whilst the equity within the above accounts will not be repaid, though the option is possible in the latter years of the plan, it must be demonstrated that the Council's General Fund is in no worse a position from taking out this borrowing in terms of cash.

6.15 The table below demonstrates the anticipated dividend payments it will receive from the Company, as per the above financial statements, but also the c2% premium it will effectively make from the loans that the Council has provided to the Company. These are the first three columns to the left.

6.16 The next two columns show both the interest and repayments for the combined loans the Council has taken out to fund the equity.

6.17 The next position when taking into account the income the Council will receive from the Company and what it needs to pay on the equity loans is shown on both an annual and cumulative position.

Year		Dividend Income	Interest Premium	Total Income From Company	Loan Interest	Loan Repayments	Net Position	Cumulative Net Position	Land Equity	Net Land Position	Net Surpluses
1	2017.18	£0	£0	£0	£0	£0	**£0**	**£0**	£1,000,000	**£1,000,000**	**£0**
2	2018.19	£0	£29,341	£29,341	-£6,924	£0	**£22,417**	**£22,417**	£1,000,000	**£977,583**	**£0**
3	2019.20	£0	£98,761	£98,761	-£13,719	-£17,442	**£67,600**	**£90,017**	£1,000,000	**£909,983**	**£0**
4	2020.21	£0	£68,125	£68,125	-£13,199	-£17,962	**£36,963**	**£126,980**	£1,000,000	**£873,020**	**£0**
5	2021.22	£16,516	£57,698	£74,214	-£12,663	-£18,498	**£43,053**	**£170,033**	£1,000,000	**£829,967**	**£0**
6	2022.23	£16,022	£57,222	£73,244	-£12,112	-£19,049	**£42,083**	**£212,116**	£1,000,000	**£787,884**	**£0**
7	2023.24	£10,000	£56,719	£66,719	-£11,544	-£19,617	**£35,558**	**£247,674**	£1,000,000	**£752,326**	**£0**
8	2024.25	£0	£56,188	£56,188	-£10,959	-£20,202	**£25,027**	**£272,701**	£1,000,000	**£727,299**	**£0**
9	2025.26	£0	£55,628	£55,628	-£10,356	-£20,805	**£24,466**	**£297,167**	£1,000,000	**£702,833**	**£0**
10	2026.27	£0	£55,036	£55,036	-£9,736	-£21,425	**£23,875**	**£321,042**	£1,000,000	**£678,958**	**£0**
11	2027.28	£0	£54,411	£54,411	-£9,097	-£22,064	**£23,250**	**£344,291**	£1,000,000	**£655,709**	**£0**
12	2028.29	£0	£53,751	£53,751	-£8,439	-£22,722	**£22,590**	**£366,881**	£1,000,000	**£633,119**	**£0**
13	2029.30	£0	£53,055	£53,055	-£7,762	-£23,400	**£21,894**	**£388,775**	£1,000,000	**£611,225**	**£0**
14	2030.31	£0	£52,320	£52,320	-£7,064	-£24,097	**£21,158**	**£409,933**	£1,000,000	**£590,067**	**£0**
15	2031.32	£0	£51,543	£51,543	-£6,345	-£24,816	**£20,382**	**£430,315**	£1,000,000	**£569,685**	**£0**
16	2032.33	£0	£50,724	£50,724	-£5,605	-£25,556	**£19,562**	**£449,878**	£1,000,000	**£550,122**	**£0**
17	2033.34	£0	£49,859	£49,859	-£4,843	-£26,318	**£18,697**	**£468,575**	£1,000,000	**£531,425**	**£0**
18	2034.35	£0	£48,945	£48,945	-£4,059	-£27,103	**£17,784**	**£486,359**	£1,000,000	**£513,641**	**£0**
19	2035.36	£0	£47,981	£47,981	-£3,250	-£27,911	**£16,819**	**£503,178**	£1,000,000	**£496,822**	**£0**
20	2036.37	£0	£46,962	£46,962	-£2,418	-£28,743	**£15,801**	**£518,979**	£1,000,000	**£481,021**	**£0**
21	2037.38	£0	£45,887	£45,887	-£1,561	-£29,600	**£14,726**	**£533,705**	£1,000,000	**£466,295**	**£0**
22	2038.39	£0	£44,753	£44,753	-£470	-£30,483	**£13,800**	**£547,505**	£1,000,000	**£452,495**	**£0**
23	2039.40	£0	£43,554	£43,554	£0	£0	**£43,554**	**£591,060**	£1,000,000	**£408,940**	**£0**
24	2040.41	£0	£42,289	£42,289	£0	£0	**£42,289**	**£633,349**	£1,000,000	**£366,651**	**£0**
25	2041.42	£0	£40,954	£40,954	£0	£0	**£40,954**	**£674,303**	£1,000,000	**£325,697**	**£0**
26	2042.43	£0	£39,544	£39,544	£0	£0	**£39,544**	**£713,847**	£1,000,000	**£286,153**	**£0**
27	2043.44	£0	£38,055	£38,055	£0	£0	**£38,055**	**£751,902**	£1,000,000	**£248,098**	**£0**
28	2044.45	£0	£36,484	£36,484	£0	£0	**£36,484**	**£788,386**	£1,000,000	**£211,614**	**£0**
29	2045.46	£0	£34,825	£34,825	£0	£0	**£34,825**	**£823,211**	£1,000,000	**£176,789**	**£0**
30	2046.47	£0	£33,073	£33,073	£0	£0	**£33,073**	**£856,283**	£1,000,000	**£143,717**	**£0**
31	2047.48	£0	£31,223	£31,223	£0	£0	**£31,223**	**£887,507**	£1,000,000	**£112,493**	**£0**
32	2048.49	£55,902	£29,271	£85,173	£0	£0	**£85,173**	**£972,680**	£1,000,000	**£27,320**	**£0**
33	2049.50	£34,007	£27,209	£61,216	£0	£0	**£61,216**	**£1,033,896**	£1,000,000	**£0**	**£33,896**
34	2050.51	£34,007	£25,033	£59,040	£0	£0	**£59,040**	**£1,092,936**	£1,000,000	**£0**	**£92,936**
35	2051.52	£34,007	£22,735	£56,742	£0	£0	**£56,742**	**£1,149,679**	£1,000,000	**£0**	**£149,679**

6.18 There are no years in which the Council's equity borrowing annual cost is greater than combined income from the Company.

6.19 The dividend and interest premiums from the Company are not considered repayments of equity in accounting terms. The table above just shows the cash inflows to the Council to ensure it is not is a worse position.

6.20 The above table also goes on to the cash position in terms of potentially the Council recovering the net land receipts of £1million that were used to fund the equity. The table shows that over a 33-year cumulative basis, the Council would have received sufficient returns from the Company for the equity loans to be repaid and land receipts recovered.

6.21 Furthermore the Council remains the 100% shareholder for the Company with a net balance sheet worth of in excess of £9.97million after allowing for the Company loans outstanding and equity investment in year 33, though tax due is estimated at £0.995million would be due if the properties were sold.

6.22 The Council can benefit from continued premiums from the Company loans (albeit on a reducing basis) and dividend income.

7 Key Financial Indicators & Sensitivity Analysis

7.1 The table below shows the key indicators for the business plan for the Company, with explanations for each of the measures.

7.2 Furthermore the table shows the impact if interest rates were to increase by 0.5% over and above those assumed and if CPI inflation long-term was at 2.5% instead of 2%.

	Note	Base				Interest Rates +0.5%				Inflation +0.5%			
Development Cost	1	£5.871m				£5.871m				£5.913m			
NPV	2	-£0.561m or -£13.4k per rent unit				-£0.823m -£19.6k per unit (4.5%)				-£0.246m -£5.9k per unit			
NPV (with OM/EUV)	3	£2.144m or £51k per unit				£1.410m £33.6k per unit (4.5%)				£3.028m or £72k per unit			
IRR (with OM/EUV)	4	5.8%				5.8%				6.33%			
Total Costs	5	£10.358m				£10.857m				£m			
Position at Year		**10**	**20**	**30**	**40**	**10**	**20**	**30**	**40**	**10**	**20**	**30**	**40**
Company Debt £m	6	2.702	2.285	1.569	0.337	2.723	2.333	1.629	0.357	2.702	2.285	1.569	0.337
Asset Cover	7	2.11	3.18	5.85	34.16	2.09	3.12	5.64	32.22	2.23	3.55	6.88	42.22
Gearing	8	1.39	1.32	1.90	5.64	1.26	1.19	1.68	491	1.43	1.43	2.17	6.76
Corporation Tax	9	£112k	£173k	£323k	£547k	£88k	£147k	£300k	£532k	£122k	£203k	£389k	£666k
Net Gain to Council £m	10	0.321	0.481	0.856	1.884	0.286	0.458	0.804	1.683	0.425	0.615	1.034	2.572

Note 1 This is the total development cost excluding financing costs for the scheme.

Note 2 This is the Net Present Value of the scheme. This effectively takes the costs (including development and excluding interest and equity input) and income over the 40-year period discounted at an interest (discount) rate of 4%.

Note 3 This is the NPV as before but takes into account the Open Market Value at 40 years.

Note 4 This shows the internal rate of return when allowing for the Open Market Value in 40 years

Note 5 This is the total scheme costs including interest but excluding the sale receipts for market sale properties.

Note 6 This shows the debt owed by the Company at each of the 10 year stages

Note 7 This shows the net asset worth (OM/EUV Values less the equity input) divided by the Company Loans outstanding – demonstrating the ability for the Company to cover its debts. I.e. a ratio above 1 means that it is able to do so.

Note 8 In this ratio it looks at the at the net income before interest as a percentage of the interest payable – also considered interest rate cover. I.e. a ratio above 1 means that it is able to do so.

Note 9 This is the amount of corporation tax payable for each 10-year period.

Note 10 This is represented as the net cash gain to the Council derived from the table in section 6. So is effectively the cumulative cash position after the dividend income and loan premiums on the Company borrowing set against the Council’s equity borrowing. These values exclude the £1million net land receipts.

7.3 If interest rates were to increase above those allowed for in paragraph 4.7 this would have a significant impact to both the Council and the Company. Whilst it still shows that the Company is viable, it extends the payback position.

7.4 An increase in inflation has a positive impact for the Company and likewise for the Council albeit at the extra cost of corporation tax.