Coin Street secondary housing co-op

Summary of 30-year Business Plan

1. Introduction

1.1. This document is intended to share the headlines from the 30-year business plan for the combined Coin St Housing Co-operative. The 30-year business plan has been prepared by Coin St Secondary Housing Co-op (CSS) with the support of Campbell Tickell.

1.2. A business plan helps an organisation plan ahead to ensure future income is sufficient to cover planned costs. It is important to be confident the proposal for change makes sense financially and developing a 30-year business plan is our way of doing this.

2. Headlines

2.1. Using the individual co-ops and CSS business plans as a starting point and plotting them over the next 30 years, a 'merged' plan has been built which shows that the combined co-operative is financially viable.

2.2. In interpreting the information provided by the co-ops, the plan allows for a compliant level of repairs maintenance and cyclical work of the buildings and a 'decent home' level of kitchen and bathroom and replacement which may not be possible long term with the co-ops existing independently.

2.3. CSS is able to borrow money to cover one off spikes in spend when a significant piece of refurbishment work is needed. As it owns the long-term leases to the co-ops, it can borrow money in the way the individual co-ops can't. Individual co-ops show in their plans that they are either potentially running out of money through their kitchen and bathroom programmes and / or have had to slow the programme significantly to ensure they do not. The new co-op would have access to funds to cover large one-off investments up front, paying them off over time which has been the way CSS was set up to work. Debt could reach levels of £6m during a 30-year period but the value of the co-ops is approximately £21m (which is a good ratio) and borrowing meets the criteria set by the bank.

2.4. The key financial metrics for the combined co-operative can be found in Table 1.

2.5. When looking at the proposals through the lens of an individual member thinking about their rent and service charge costs it is important to note the following

2.5.1. All members are currently charged social rent, and this will not change. New tenancies will be based on every member being charged a social rent for the duration of their tenancy.

2.5.2. Social rent and service charges are regulated by the government. Social rent is calculated according to a formula that takes into account local incomes and property values, as well as inflation rates. The government set a social rent cap that all regulated social housing providers must adhere to. Service charges fall under the control of the Landlord and Tenant Act 1985, which sets out what is permissible and what is not in terms of charges that are recoverable.

2.5.3. The combined co-operative will operate within the same social rent setting regulations that each of the co-ops currently follow. As point 3.1 below acknowledges the business plan has assumed that rents collected in the future will be in line with the rents collected at the moment.

2.5.4. Inflation and the costs of maintaining each home continues to rise and, as long as that is the case, rents will rise but will be capped and controlled by the social rent regulations. Rents and service charges will be set by the tenant-led management committee, as they are now.

3. Key assumptions underpinning the business plan

3.1. **As the individual co-ops do now**, the assumed rent collected will follow the governments Rent Standard with an increase at CPI + 1% year on year. *There will be no resetting of rents due to the merger and it will remain at the discretion of the tenant led management committee to agree a Rent policy going forward on actual increases charged, balancing affordability and long-term financial health of the co-op.*

3.2. This merger means there is **no need for a lease charge payable to Coin Street** so that has been removed – rent and service charges pay directly for outgoings both the inside and outside the buildings and co-op management. *Historically the co-ops have approached CSS to reduce its 'lease charge' to them and have not had detailed data on how the funds are used, nor can they easily test for value for money. Under this new arrangement there is no longer a lease charge, and there is full transparency - all rents and service charge would be managed by the tenant led management committee and it would set its own Rent and Service Charge Policy*.

3.3. The combined business plan **does not propose a change in the total amount raised via service charges in each of the co-ops** and assumes a CPI + 1% year on year. *The merging of the co-ops does not change the impact of this process on members as service charges are aligned to the services the individual unit benefits from, regardless of whether they are in the same or different co-ops now. Independent of the proposed merger, it is important each co-op satisfies themselves that their current approach to service charges is compliant with regulatory requirements.*

3.4. Confederation of Co-operative Housing (CCH) have provided advice on what the combined co-op might expect to pay in **management fees** for the model, based on local rent and the mix of property sizes which is **very similar to the amount spent now**. *How the new co-op chooses to spend that i.e. the mix of its own staff it may decide to appoint, and a managing agent will be at the discretion of the new tenant led management committee but as a single merged co-op has potential to deliver better value for money and avoiding duplication.*

3.5. The business plan models a **realistic and compliant kitchen and bathroom programme** that would be affordable under the new proposed co-op where currently the co-ops run out of cash. *Current business plans for the individual co-ops show a need to delay kitchen and bathroom replacements and major works, to show a workable picture over 10 years, and risks going below the Decent Homes Standard, as set by the Government.*

3.6. That the new co-op is fully mutual and as such **is not charged corporation tax.** *CSS is not fully mutual and so pays corporation tax on any surplus from the lease charge after costs – this new co-op would not have to pay tax on any surplus earnings so any surplus can be reinvested back into the organisation.*

3.7. CSS currently has a **loan of £3m** repayable by 2033 and **will need to go up to £6m** of borrowing that will be **repayable over time**. *This has been costed and it assumes the same banking covenants are in place for the extended borrowing. Most of this will be required any way for major external redecoration programmes and is not caused by the merger, but co-ops could also access these funds if needed when the kitchen and bathroom programme and that has been assumed.*

3.8. Costs of any remediation of cladding required to be covered by a Building Safety Fund Grant and Net Zero initiatives have been limited to an allowance to get the buildings to EPC C.

3.9. **There may be efficiencies** that can be achieved through **economies of scale** on contracts; **value for money through procurement**; and possible **avoidance of duplication** through maintenance being managed by one entity. *We have not built any of these efficiencies into the financial modelling of this proposal, so if these can be achieved, they would improve the position outlined in Table 1.*

Coin Street
secondary housing co-op

30 YEAR BUSINESS PLAN FOR THE NEW CO-OP

Table 4: Key financial metrics														
	By year for first 10 years										In 5 year blocks to 30 years total			
	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035-39	2040-44	2045-49	2050-54
	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k	£k
Turnover	1,687	1,811	1,864	1,923	1,973	2,031	2,090	2,156	2,213	2,277	12,422	14,345	16,552	18,955
Operating costs	-1,438	-2,250	-1,321	-1,614	-1,425	-1,563	-1,531	-1,574	-1,619	-2,070	-10,450	-12,800	-13,461	-16,968
Operating surplus	249	-439	543	309	549	467	558	582	594	207	1,972	1,545	3,091	1,987
Net interest	-154	-180	-213	-216	-210	-207	-190	-160	-135	-115	-760	-1,056	-1,203	-1,659
Surplus	95	-618	330	93	339	260	368	421	459	92	1,212	489	1,888	328
Major repairs	2,981	665	597	376	230	277	157	207	256	161	4,362	2,863	6,807	4,007
Net debt	-2,069	-3,256	-3,397	-3,523	-3,236	-3,065	-2,658	-2,239	-1,821	-1,666	-3,267	-3,270	-5,223	-5,212

Figure 1 30 yr. financial metrics for combined Coin St Housing Co-op

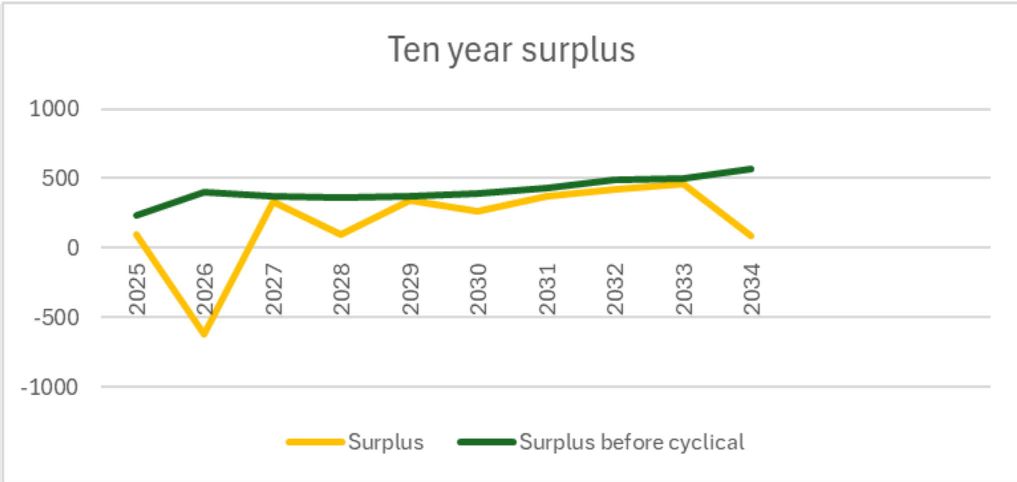

Figure 2 10 yr debt requirements for combined Coin St Housing Co-op

Figure 3 10 yr. surplus chart for combined Coin St Housing Co-op