APPENDIX A- THE BARNET GROUP BUSINESS PLAN

1 Budget overview 2023/24

Entity	Surplus/ (deficit) 2023/24 £'000	Key points
The Barnet Group	(42)	Continues to deliver a small loss from overheads
Barnet Homes	821	Key risks – additional income from Council not approved and ODH acquisitions program cannot continue.
Bumblebee	103	Key risks – more landlords exit the sector meaning lower lease and/or management deal volumes. and its' impact on cash flow
Your Choice (YCB)	86	Key risks – a 6% increase in all income has been budgeted but is yet to be agreed, primarily with Council as the largest customer. Occupancy levels at Ansell Court and Supported Living being at budgeted levels.
TBG Flex	468	Key risks – Staff turnover reduces significantly or more agency staff utilised.
Service Companies	**1,436**	
Open Door (ODH)	(2,793)	Key risks – Acquisition program does not progress, increased bad debts or increase in repairs costs.
Group result	(1,357)	

2. Key Assumptions

		2023/24	2024/25	2025/26	2026/27	2027/28
Barnet Homes	CPI	10.1%	10.0%	2.0%	2.0%	2.0%
	Pay increases	5.0%	5.0%	2.0%	2.0%	2.0%
	Management fee increase	6.7%	6.8%	2.0%	2.0%	2.0%
YCB	LLW increase	90p/hr	22p/hr	22p/hr	22p/hr	22p/hr
	Pay increases	5.0%	5.0%	2.0%	2.0%	2.0%
ODH	Unit Growth (Start 682 units)	126	74	92	39	0
Bumblebee	Unit Growth (Start 317 units)	53	36	50	60	56

2.1 The table above summarises the 'generic' assumptions for the entities, but there are further for each detailed below.

2.2 In YCB, the results each year assume the awarding of discretionary pay increases (generally in line with NJC), which are not currently funded by Council. Discussions are ongoing regarding a review of this and whilst the additional revenues have been assumed, these are not assured. If the revenues are not achieved, this will put pressure on YCB's ability to make future loan repayments.

3. Barnet Homes

3.1 Key items that support the Barnet Homes budget and assumptions made are as follows:

3.1.1 The key points are:

- Assist service is closed by 31 March 2022 and any related costs are included in 2022/23
- An additional £1.2m of funding from Council is secured due to damp and mould issues; this will allow the repairs service to break-even.
- Approval is achieved (and an appropriate mechanism devised) to recycle £300k of TBG Flex profits back to Barnet Homes from Year 2 onwards
- The Open Door Homes acquisition programme can continue. If not, that will reduce revenues by approx. £800k and results by £400k in Year 1 **and** 2
- The contract with Council ends in Year 3 and is subject to renewal. Years 4& 5 assume the renewal is on the same terms as currently.

3.2 <u>5-year summary</u>

Year £k	2023/24	2024/25	2025/26	2026/27	2027/28
Approved budget- 2022/23	52	42	66	84	
Proposed budget- 2023/24	821	755	45	28	12

Key reasons for the variation between the approved budget and the draft budget are:

- Additional margin from non-core services in year 1, years 2-5 relates to the 'recycling' of TBG Flex surpluses offset by lower 'speculative' development income.
- The additional Council funding relates to increases in repairs costs relating to damp and mould.

3.2.1 Barnet Homes financial performance continues to rely on development and acquisitions income to generate surpluses (£826k in Yr 1). External factors continue to create financial pressures on delivery of the management agreement, particularly repairs.

3.3 Core Services

3.3.1 This reflects the financial performance of the original Management Agreement. The specified savings in the early years of the contract have meant that revenue reduced faster than costs; but BH preferred to protect service delivery by cross-subsiding the profits from growth to offset the core contract losses.

3.3.2 The table below includes the additional £1.2m required from Council.

	Core Contract				
	2023/24	2024/25	2025/26	2026/27	2027/28
	Budget	Budget	Budget	Budget	Budget
Income	43,731	44,989	45,944	46,959	48,002
Operating Costs	44,402	45,600	46,725	47,883	49,076
Operating loss	(671)	(611)	(781)	(924)	(1,074)
Interest Receivable					
Interco Interest Receivable	49	39	30	23	--
Deficit before tax	(622)	(572)	(751)	(901)	(1,074)
Corporation Tax	40				
Deficit after tax	(662)	(572)	(751)	(901)	(1,074)

3.4 Non-Core Services

3.4.1 These include development fees, acquisition income and other services provided to Council outside of the main contract (e.g. Housing Options) and to other related Group companies

	Non-Core services				
	2023/24	2024/25	2025/26	2026/27	2027/28
	Budget	**Budget**	**Budget**	**Budget**	**Budget**
Income	13,040	12,079	12,475	12,808	13,246
Operating Costs	11,557	10,752	11,679	11,879	12,160
Operating Profit	1,483	1,327	796	929	1,086

3.4.2 Growth in development and acquisition fees is as per the table below.

Income £000	2023/24	2024/25	2025/26	2026/27	2027/28
Identified Development Schemes	1,720	1,731	1,377	1,118	999
Identified acquisition schemes	1,407	813	316	-	-
Speculative Development fees-Unidentified	-	-	700	1,600	2,150
TOTAL G&D INCOME	3,127	2,544	2,393	2,718	3,149

The identified development and acquisition schemes are all known, approved schemes where the risk is slippage or a solution to the interest rate issue for ODH acquisitions cannot be found. Significant speculative fees are required to continue the cross subsidy of the management agreement. These speculative fees in last years budget were £1.445m in 2025/26 and then £1.470m in 2026/27. The TBG Development Team are always finding new opportunities, but the ‘gap’ is significant especially with no acquisitions program to support generating revenue.

3.5 Key Risks

Key risks within the budget are as follows:

3.5.1 Downside

- Council do not agree to the increased repairs funding (£1.2m)
- ODH acquisitions cannot continue (£450k net loss plus possibly redundancy costs in Year 1)
- Uncertainty regarding growth and development income if targets for acquisitions and milestones for development fees are not met. Other efficiency savings will need to be found if the speculative schemes do not materialise.
- Continued inability to contain repairs costs
- Difficulties in recycling TBG Flex surpluses. (£300k+ from year 2)

3.5.2 Upside

- Additional development income from new opportunities
- Additional management fees from higher growth in Opendoor and/or Bumblebee
- Savings from amended SLA agreements (£100k)
- Greater contribution from TBG Flex surpluses

4. Your Choice Barnet

4.1 Key items that support the YCB budget and assumptions made are as follows:

4.1.1 The key points are

- The legacy YCB services (3 day Centres and affiliated services) contract extensions end in March 2024. The budget assumes YCB retain these contracts on similar terms (overall) to the existing contract.
- The YCC services contract ends in July 2024 and is on a full cost recovery basis. The following years are subject to renewal and a breakeven position has been assumed in these years either as cost recovery or if YCB is managing these services directly.
- Occupancy rates at Ansell Court and Valley Way is assumed to be at 90% and Supported living 94%.

- The new Atholl House service (similar to Ansell Court) has a phasing plan (and finances agreed with the Council). Breakeven is assumed until the service is at 90% occupancy and then it is hoped to make a small margin
- 6% increases in all services for 2023/24 has been forecast though the increase is yet to be agreed. 2% per annum thereafter has been assumed

4.1.2 In applying the above changes, the annual surpluses generated will be sufficient to make the loan repayments.

4.2 5- year summary

Year £k	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
Approved budget- 2022/23	128	155	185	211	
Proposed budget- 2023/24	86	142	147	149	142

Key reason for the variation between the approved budget and the draft budget is more cautious assumptions regarding margins that can be generated and TBG Flex surpluses ‘recycled’ offset the additional costs of the improved TBG Flex T&C’s.

4.3 YCB results continue to reflect the low margins that are common in Care & Support operations generally and that the current contract with Council is very challenging in that no annual increases are included in the contract, meaning increasing costs from LLW in particular have to be ‘absorbed’ within any margin YCB could make unless any changes in revenues can be agreed with Council (in particular).

4.4 Cheshire House is expected to be completed in 2024/25. However, no income or expense has been budgeted as negotiations have still not taken place with Council.

4.5 Key Risks:
Key risks within the budget are as follows:

4.5.1 Downsides

1. LLW increases are above the budgeted 2% and Council do not fund the additional rate.
2. Ansell Court, Atholl House and Valley Way occupancy below 90%
3. Fee increase of 2% will not be achieved
4. Reduction in privately funded, other LA and Commissioning Group users that cannot be recovered

4.5.2 Upsides

1. Reduction in agency costs/staff efficiencies.
2. Additional private funders in the day centres, replacing Council ‘places’.
3. Further contributions from TBG Flex

5. Opendoor Homes

5.1 5-year summary

The following table shows the current draft budget in the context of the current budget, approved at the November 2021 Board.

Year £k	2023/24	2024/25	2025/26	2026/27	2027/28
Approved budget- 2022/23	(2,276)	(2,556)	(2,799)	(2,745)	
Proposed budget- 2023/24	(2,793)	(3,089)	(3,536)	(4,098)	(3,990)

The worsening position reflects the higher interest rate assumptions (4.25% vs 3.75%) and the higher management costs as per the updated SLA from April 2022.

5.2 Assumptions

5.2.1 Rent

For the affordable rents, increases of 7% (as announced) then 5% and then CPI have been assumed.

Acquisition units which are used for temporary accommodation, is at LHA. No increase in LHA rates has been assumed for Years 1-3, then CPI only.

5.2.2 Breakdown of units in management

Units in Management	2022/23 Forecast	2023/24	2024/25	2025/26	2026/27	2027/28
New Build	316	362	362	362	362	362
Aquistions	211	291	365	457	500	500
Acquistion 155	155	155	155	155	155	155
Total units	**682**	**808**	**882**	**974**	**1017**	**1017**

The current Tranche 3 and Microsite programme will complete in early 2023/24 (there is only 1 site currently not complete) after which no further approved new build schemes are forecast and therefore there will be no development growth. With the open market acquisitions after the 500 units have been completed there is nothing in the pipeline at present. As a result, no growth is forecast for 2027/28.

5.2.3 Loan Interest Rate

Interest rates of 4.25% on Tranche 3 loan and on the £170m acquisition loan has been assumed throughout, in line with the business plan. For the various loans on the 155 units that were transferred from Council, the interest rate was fixed at the time of drawdown.

5.2.4 Bad Debt Provision

1.5% bad debt provision has been assumed for both new build and acquisitions in line with the business plan. Current results are showing collection (particularly on acquisition properties) is behind this assumption and so a lump sum of £75k additional has also been budgeted.

5.3 Risks

5.3.1 **Downside**

- A 'buffer' for bad debts has been included, but this may not be sufficient given the potential cost of living pressures on the residents.
- Loan interest rates are currently high and expected to increase which could result in slowing down, pausing or cessation of the acquisition programme and loss of income.
- Repair costs may be higher than budget either due to additional inflation or as the new build units begin to get older and thus more repairs become necessary.

5.3.2 Upside

- Any future rent increase or LHA increase above assumptions will benefit the plan.
- Staircasing of Hermitage Lane properties
- Future agreements with Barnet Homes on sub-CPI increase of costs
- Interest rates being below the assumed 4.25%

6. TBG Flex

6.1 5-year summary

Year £k	2023/24	2024/25	2025/26	2026/27	2027/28
Approved budget- 2022/23	327	358	386	407	
Approved budget- 2023/24	468	10	51	37	23

The overall position for TBG Flex is that it will be in surplus throughout the 5-year period, this is due to the 4% margin charged on all seconded staff. From Year 2 it is expected that £500k to £550k of surpluses will be 'recycled' to other entities within the Group as the surpluses are internally generated.

6.2 Assumptions

6.2.1 A 5% pay rise has been included for all staff for 2023/24 and 2024/25 and 2% for subsequent years.

6.2.2 Average monthly increase in employee numbers are based on current experience.

6.3 Other considerations in the TBG Flex budget are:

1. The margin of 4% demonstrates "arms-length" trading and to ensure reasonable profit is generated.

2. Other payroll costs include the apprenticeship levy at 0.5% of total payroll and administration charges for payroll.

6.4 Risks

Both downside and upside risks relate to volume of staff employed via TBG Flex. A secondary risk is that surpluses cannot be 'recycled' within the Group.

7. Bumblebee

7.1 Key Assumptions

7.1.1 The original business model consisted of income from leases, management agreements and letting of properties. Leases however proved to be popular, especially during the pandemic when high street outlets were closed and was the main source of income. There were management agreements and leases but there was slow growth in these 2 areas. The market has changed and lease volumes are slowing, with some landlords switching to a management model; also a number of private landlords are exiting the market. With this is mind the 5-year plan has assumed a change in the mix of income sources and slower growth than previously forecast.

7.1.2 **Units in management**

Units in Management	2022/23 Forecast	2023/24	2024/25	2025/26	2026/27	2027/28
Leases	360	404	448	501	549	
Management and lettings	27	49	70	96	122	
Approved budget - 2022/23	**387**	**453**	**518**	**597**	**671**	
Leases	278	290	296	304	314	322
Management and lettings	39	70	92	122	162	200
Total lease, management and Lettings	317	360	388	426	476	522
Sales		10	20	30	40	50
Draft budget 2023/24	**317**	**370**	**408**	**456**	**516**	**572**

Leases have reduced in line with current experience. Sales reflects the decision to enter the market of selling units.

7.1.3 <u>Income and cost increases</u>

Cost increases are in line with CPI. In 2023/24, 10.1% increase, then 10% and 2% thereafter in line with the rest of the Group. Management fee margin is 7% and 6% for lettings. Revenue per sale is £5,463.

7.2 5-year summary

Based on the above assumptions the 5-year summary is as follows:

Year £k	2023/24	2024/25	2025/26	2026/27	2027/28
Approved budget- 2022/23	171	286	434	601	
Approved budget- 2023/24	103	225	378	481	629

The lower estimates in the earlier years when compared to the previous budget is mainly due to:

- The revenue mix changing with more management agreements
- Slower rate of growth given the current economic climate
- The new sales model losses in Years 1 & 2.
- Cost increases in line with CPI.

7.3 Key risks

7.3.1 Downside

- Management and letting numbers may not be achieved if the economy changes
- Sales figures may not be achieved.
- In the current economic climate costs could be incurred on evictions.
- Bad debts

7.3.2 Upside

- With properties being let to private tenants bad debts may be lower
- With fewer leases repairs costs should be lower
- Lease income could be higher if a higher than budgeted rent per tenant is achieved
- Higher than budgeted management leases could be achieved resulting in higher revenue

8. The Barnet Group Company

8.1 5-year summary

Year £k	2023/24	2024/25	2025/26	2026/27	2027/28
Approved budget- 2022/23	(41)	(42)	(42)	(42)	
Approved budget- 2023/24	(42)	(44)	(45)	(46)	(47)

The budget is for a loss each year, this is due to the entity only incurring costs, director fees, insurance and audit fees relating to the entity, less some interest income.