

APPENDIX 2



LEATHERMARKET COMMUNITY BENEFIT SOCIETY

BUSINESS PLAN 2016 - 2022

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EXECUTIVE SUMMARY

Established in 2014 against a backdrop of rising property prices and a severe housing shortage, the Leathermarket Community Benefit Society (CBS) is a democratic organisation, led by and for the benefit of local residents and established to develop underutilised sites within the Leathermarket JMB estates (Bermondsey, South London). Each CBS development will deliver high quality, energy efficient homes, held in perpetuity by the CBS and rented to local people at truly affordable rents, i.e. comparable to rents charged by the local council, Southwark.

As well as contributing to new housing provision in Southwark, the Leathermarket CBS will use the provision of new homes to improve housing conditions for families & households within the existing housing stock by implementing a 'Better Fit' policy. The aim is to help tenants who have spare rooms to move to a new home, in order to help overcrowded tenants move to a property that meet their needs.

The Leathermarket CBS is now developing the first of hopefully many sites, a community-led scheme of 27 new truly affordable homes for rent on the Kipling Estate.

FINANCIAL SUMMARY

The CBS have focused this first business plan on the development of the first site – Kipling Garages, but have provided financial forecasts over the next 5 years to demonstrate how the Construction Grant provided by Southwark will be utilised and the asset value recycled to seed fund future opportunities.

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ORGANISATION AND MANAGEMENT

1 BACKGROUND

Leathermarket Community Benefit Society (CBS) is a local community organisation formed by members of the Leathermarket Joint Management Board (JMB). The JMB is a self-financed Tenant Management Organisation (TMO) established in 1996 under the government's Right-to-Manage legislation, enabling residents to manage independently their own services on housing estates within the Leathermarket area.

The JMB manages 1,500 homes under a Management Agreement with Southwark Council. The JMB enjoys a high level of local support securing the backing of 92% of its tenants on a 78% turnout in its last continuation ballot in 2011. The CBS was established because JMB residents were concerned by the lack of available affordable housing in the area and at the last continuation ballot requested the JMB work to alleviate this issue. This set off a chain of action culminating with the establishment of the CBS. Whilst a separate organisation, the CBS continues to work in close collaboration with its founding organisation with a co-terminus area of operation. The Council has asked to see more separation of governance between the JMB and the CBS. The action agreed to achieve this is set out in Appendix 1.

1.1 HOUSING NEEDS

In February 2012, the JMB organised a questionnaire of its tenants to establish the level of housing need amongst its tenants. The results are set out below:

- 99% of households have a household income of less than £30,000;
- 55% are registered for re-housing with the Council;
- 10% describe themselves as in housing need, but not registered with the Council;
- 70% of homes say they are overcrowded - compared with an average of 35% across Southwark as a whole;
- 56% do not have any money for a deposit if they wish to buy a property;
- 85% would not have the money for a deposit if they wish to rent privately;
- 93% cannot afford a rent above £200 per week or the maximum amount that housing benefit will pay.

When asked about possible solutions, tenants said the following:

- 94% thought there should be more genuinely affordable social housing in the JMB estates area;
- 85% expressed support for social housing being built on unused or under used land on their estate;
- 77% think that staying in the JMB estate area is important. 38% are involved in local community groups;

Following the continuation ballot, it was decided that a more detailed Housing Needs Survey of all residents was required to establish the exact need. An attempt was made to make personal contact with each of the JMB's 1,000 properties. This survey established that 30% of all tenants were inadequately housed, many chronically overcrowded but some were under-occupying (many of who had no financial incentive to down size as the bedroom tax did not apply). Using this data, the CBS was able to write a local lettings policy that prioritised downsizers, releasing larger homes for families and creating a far-reaching chain of benefit – a better fit for all (Appendix 2).

The survey also importantly reinforced the outcome of the initial survey with 85% percent of residents supportive of the building of more social housing on the estates underused land. In order to protect the day-to-day management and maintenance function of the JMB, an independent Leathermarket Community Benefit Society was set up as a community-led Development Vehicle.

1.2 RESIDENT-LED DEVELOPMENT

The history of the local area has shown that too often development has been done to communities, not with or for them. Due to these bad experiences, JMB residents are increasingly vocal with an active and thriving Tenants & Residents Associations (TRA) on each estate, ready to object to any planning application which impacts on existing residents. The CBS as a community led organisation is therefore best placed and able to unlock challenging sites and maximise the provision of, much needed, new truly affordable homes.

Residents have voiced that they want high quality, energy efficient homes that the community can be proud of. The CBS has taken a very different approach to community involvement, starting with a completely blank sheet of paper to involve local people in the design of the new homes and help to make sure they are well integrated with the wider estate and improve the local environment.

Custom build principles have been used for the design of the new homes, which means identifying possible tenants at an early stage and involving them in the design process.

1.3 FIRST DEVELOPMENT - KIPLING GARAGES SITE

With the help of the local TRA, the Leathermarket CBS identified the underutilised garages on the Kipling Estate as a potential site for new housing. Through mobilising local leadership, the London Borough of Southwark agreed to grant a long lease of the land to Leathermarket CBS, for a term of 125 years from September 2014 for the purpose of delivering homes for rent (in line with the Council's own rent levels).

1.4 FUTURE DEVELOPMENT

Local residents and TRAs have been enthused by the process and involvement during the first development and have already suggested other development sites, such as Joseph Lancaster Nursery site as the next development opportunity.

JOSEPH LANCASTER NURSERY SITE

Several sites within the wider Leathermarket estates have already been identified by the CBS for potential development including Joseph Lancaster Nursery Site. Following a number of consultations with local residents, an initial feasibility study has concluded that the site has the potential for 30-40 new homes. Once the legal documents for Kipling Garages are agreed, the Leathermarket CBS will press to agree a development programme for this site.

PEVERIL HOUSE

Peveril House was built in the mid 1960's. It has a concrete structure, with infill slabs. The block is in the Old Kent Road Regeneration Area. Residents experience a higher level of condensation (27%) than elsewhere in within the JMB. To date the Leathermarket CBS have commissioned a structural survey of the existing building and carried out a door-to-door survey of residents' feelings towards redevelopment. The initial feedback is that most residents like living in the block. Those that do not are predominately overcrowded. The structural survey has found the block to be structurally sound, although the balconies need to be replaced. If demolition and new build is the preferred option an initial study suggest that the re-development could deliver up to 148 homes.

All estates

The CBS has investigated opportunity sites across the area and estimates that there could be the potential for 700 new homes, sites include the JMB office and Elim garages.

2 MISSION & OBJECTIVES

2.1 MISSION

To generate social, economic and environmental benefit for the local residents of the Leathermarket area within a democratic community-led framework, by seeking and delivering opportunities for new genuinely affordable homes and improving the quality of existing neighbourhoods.

Developing new homes is in direct response to concerns of the residents of the JMB estates about the lack of rehousing options for themselves and their children who want to remain in the area, close to their families and support networks. The overarching mission of the Leathermarket CBS is framed by the need to facilitate the development of new housing, for the benefit of local residents.

2.2 PRIMARY OBJECTIVES

The objectives of the CBS are:

- To build buildings that the community is proud of;
- For local people to feel proud of what they have achieved;
- Develop high quality genuinely affordable homes for rent;
- Develop energy efficient homes focused on reducing energy poverty;
- Ensure the new homes are available for local people based on a local lettings policy to ensure a better fit for all (see CBS allocations policy (Appendix 2));
- Ensure the new homes are let at genuinely affordable rents in perpetuity; and
- To allow in-coming residents to participate in the design of their homes.

2.3 AMBITION

The CBS ambition is to establish a fruitful and long-term partnership with the local authority that maximises the delivery of new genuinely affordable homes within the local area. The first development will demonstrate the CBS' capacity to unlock and deliver genuinely affordable homes for the council. Helping the local community and council to reach its target of 11,000 new homes by 2025.

3 GOVERNANCE STRUCTURE

The CBS is structured to support projects that benefit the community and seek new opportunities to achieve this.

3.1 LEGAL STRUCTURE

The CBS was established in 2014 as a registered society, in accordance with the Co-operative and Community Benefit Societies Act 2014 and authorised as 'Community Benefit Society'. The primary trade activity is house building. It is regulated by the Financial Conduct Authority (Registration number: 32294R) as a business run for the benefit of the wider community, re-investing its profits in the community. The way that the CBS is structured means that it falls within the definition of a Community Land Trust.

Registered Office: 26 Leathermarket Street
London
SE1 3HN

The CBS is a not for profit organisation, democratically elected by its members, with membership open to anyone who lives or works in the JMB area. The CBS is committed to undertaking a membership drive.

3.2 OPERATIONAL STRUCTURE

The CBS Board determines the strategy of the society - directing, controlling and evaluating the CBS' affairs with operational management delegated to the Project Officer. Seven of the CBS Board Directors are democratically elected residents, four are co-opted Directors selected for the experience, knowledge and expertise they bring to the Board.

The effective oversight of CBS activities requires continuity of knowledgeable and committed Directors, complemented by input from members of the JMB. The challenge is ensuring that 'normal' residents feel confident about coming forward to be Directors, and can effectively represent the views of members. This means supporting in-coming Directors to develop the values, knowledge and skills to help achieve the CBS' objectives.

The CBS enjoys a strong partnership with Southwark Council and is working cooperatively to help the council achieve its target of 11,000 homes by 2025. The Council has agreed to the transfer of the

first site for development, the Kipling garages site, and the Council will be funding the construction costs. As a result of this, an officer of Southwark Council has an observer role on the Board, which adds to the strength of the CBS' operational structure. The partnership between the CBS, Council and igloo was recognised by the winning of a nation award granted by the National Federation of TMOs in 2016.

3.3 KEY STAKEHOLDERS

It is vital to the success of any organisation to understand, acknowledge and encourage participation of all stakeholders. The CBS has identified the following:

- Local residents & businesses;
- Tenant & Residents Associations;
- London Borough of Southwark;
- The Greater London Authority;
- Community Land Trust; and
- The Leathermarket Joint Management Board (JMB).

3.4 BOARD MEMBERS

The Board members provide overarching strategic direction. The CBS Rules require that a majority of Board members should be resident members. All JMB residents can apply to become a Board member. Resident Board members are elected for a three-year term at the Leathermarket CBS Annual General Meeting, the last AGM was held on 21st October 2015.

The democratically elected resident Directors of Leathermarket CBS are:

John Paul Maytum MBE – Chair of CBS Board

John Paul was recently awarded an MBE for public service. He is now a freelance communication consultant, having been a senior civil servant for many years.

Christine Parsons – Vice Chair of CBS Board

Chris is a tenants' representative with over 25 years' experience. Chris is a Board member of United Charities. She also serves on Southwark Council's tenant arbitration panel. Chris received a Lifetime Achievement award at Southwark Housing Heroes Awards in January 2016, as well as recently winning the TPAS Southern Region Tenant of the Year Award.

Sarah Hatchard – Treasurer of CBS Board

Sarah is the Treasurer of the Kipling Tenants & Residents Association and has been a resident representative for over 15 years. She is also a Director of the JMB and has many years of experience in housing.

Deborah Harrington

Deborah is the Vice-Chair of the Lawson Tenants & Residents Association & a health service activist.

Peter Coulthard

Peter is a Director of the JMB and Committee Member for Lawson Tenants & Residents Association.

Joanna Vignola

Joanna is a JMB resident on the Kipling Estate with a keen interest in community participation and development.

Sean Jeannette

Sean is a Director of the JMB and a Committee member for the Decima Street Tenant & Residents Association. Sean has recently retired and has many years' experience of luxury property management.

The co-opted Directors of Leathermarket CBS are:

Paul Munday – Director CBS Board

Paul has extensive experience of project managing new build development projects, housing projects and major repairs contracts at Director and CEO level. Paul is a Board member of Estuary Housing Association where he is Vice Chair and Chair of the Development Committee.

Dr Cormac Hollingsworth – Director CBS Board

Cormac is a Director of the JMB. He is a Doctor of economics and an investment analyst.

Claire Hickson – Director CBS Board

Claire has worked for many years at a senior level in central and local government. She was Cabinet Member for Communities and Economic Development, Southwark Council (2012-13) and a former Councillor for London Borough of Southwark (2010-2011).

Andy Bates – Director CBS Board

Andy is the Executive Manager & Company Secretary of the JMB. Andy has 30 years' housing experience, 27 at a managerial level. He is a Board member of United Charities and Wenlock Barn TMO.

3.5. KEY EMPLOYEES

Jane Mepham – Project Officer & Company Secretary

Jane has many years experience of providing legal advice in the housing sector and more recently has been involved in a number of resident-led community consultations.

As the CBS is about to enter the construction phase and start planning its second development the CBS board is reviewing the staffing resources required.

Financial & business advice

This is provided by the JMB's Manager, Andy Bates, who has an MA Management (distinction) and Finance Manager, Berni McEwan, who is CIMA Adv Dip MA qualified. Routine financial assistance is provided by the JMB's Bookkeeper, Michelle Daniel, who is MAAT qualified. As per the Action Plan in Appendix 1, the JMB and CBS are formalising a service level agreement for the provision of this support.

3.6. PROFESSIONAL ADVISORS

To supplement the experience of the Board the CBS have procured via OJEU the following professional team:

Development Manager - igloo: A purpose driven developer, funder and partner. igloo exists for People, Place and Planet. igloo is the UK's leading responsible real estate business working with communities, local authorities and investors who want to make the world better one place at a time. igloo works hard to fund, deliver and animate great Places, great for People and for the Planet. Igloo has a proven record of accomplishment of excellence and delivery, managing projects with a Gross Development Value of over £0.75 billion and winning numerous design awards, including National Housing Design Awards Winner.

Igloo has business planning and financial expertise and assisted the CBS in the development of this Business Plan. This has been provided by igloo's Financial Controller and Finance Asset Manager. This team is responsible for accounting and business planning for a number of multi-million property development businesses, including Blueprint (a partnership with Nottingham City Council and Siglion) and a partnership between with Sunderland City Council and Carillion.

Architect - Bell Phillips Architects: An architectural practice based in Bermondsey, established in 2004 with a strong track record of high quality design demonstrated through high profile competition wins, awards and features in publications and exhibitions.

In addition, for our first project, the Kipling Garages, the following team have been appointed:

Legal services - Anthony Collins: leading national advisor in the community-led housing sector.

Project Manager - DBK: An innovative owner managed property and construction consultancy; providing project management services to drive the project and lead the consultant team.

Structural Engineers - Engineers HRW: A local engineering practice with breadth and depth of experience in estate regeneration across London.

Planning - Tibbalds Planning & Urban Design: A creative team focusing on planning and urban design, providing planning consultancy advice to lead the planning application.

Quantity Surveyor - Measur: Specialists in quantity surveying, providing cost consultancy throughout the development in the form of project cost plans.

FINANCIAL INFORMATION

The CBS has ambitious plans for future developments; the financial information here has been forecast over a 5-year period. Detailed financial information is provided below on the first development: Kipling Garages, followed by identified future phases.

4 KIPLING GARAGES - PHASE 1

1.1 FINANCIAL SUMMARY

Gross Income for the year 2015/16:

Grant Funding: £663,211.60

Gross Expenditure for the year 2015/16:

Kipling expenditure: £204,779.76

Corporate expenditure: £44,525.23

B/F balance on expenditure 14/15 £30,390.33

Remaining Gross Budget for the year 2015/16: £383,516.28

1.2 KEY ACTIVITIES

The following are the key activities for the Leathermarket CBS in 2016:

- Secure the funding agreement with LBS;
- Secure planning permission for the development proposal - July 2016;
- Appoint a contractor to undertake the enabling works and main construction;

1.3 DEVELOPMENT APPRAISAL

For the full Development Appraisal please see Appendix 3, a summary of which is provided below:

Construction Costs: £7,133,009

Construction Contingency (5.00%): £357,129

Development Contingency (5.00%): £454,642

Planning / Statutory Fees: £110,014

Site Investigation: £9,569

Professional Fees: £1,483,122

Client Fee: £460,783

KIPLING TOTAL BUDGET £10, 008, 26

This figure includes GLA and other non-Southwark Council grant funding, which has already been spent.

1.4 PROJECT INCOME

Date	Company	Description	Total
Received			
6/11/2014	JMB	Float	£200,000
7/04/2014	United St Saviours	Match Funding	£4,050
01/11/2013	CLT	Match Funding - Technical Assistance Fund	£5,000
09/04/2015	GLA (TFL)	CRTB Milestone 3 (part 1) Kipling Garages	£81,891.31
29/05/2015	GLA (TFL)	CRTB Milestone 3 (Part 2) Kipling Garages	£149,127.43
06/08/2015	GLA (TFL)	CRTB Milestone 3 (Part 3) Kipling Garages	£40,790.16
10/11/2015	GLA (TFL)	CRTB Milestone 3 (Part 4) Kipling Garages	£37,351.10
04/11/2015	Southwark Council	Interim Funding Kipling Garages	£347,997.60
July 2016	Southwark Council	Grant Funding	£9,252,000

5 FUTURE PHASES

1.5 PHASE OUTLINES

Project	Size	Timing	Gross Development Cost
Kipling Garages	27 homes	Complete Dec 2017	£10m
Joseph Lancaster	30 homes	Complete July 2020	£11.1m
Peveril House	25 – 148 homes	Commence design 2021	tbc

1.6 FUTURE FUNDING OPTIONS

Whilst the first part of the financial section of the Business Plan focuses on the first development, the CBS is aware that the development and ownership of residential assets brings with it the potential to develop a revolving development fund for further sites.

The CBS will need sound financial management in order to maximise this potential. The CBS recognises that each development will come with the need to raise additional finance but hopes the legal agreements established on the first development could be used to establish a fruitful long-term partnership for both Council and community.

Each project will be unique however, some of the potential sources of funding for future projects identified include:

- Borrowing – Based on current financial projections, the CBS believes leverage borrowing of £1,075,000 on the rental income from Kipling Garages and £2,150,000 on the rental income from Joseph Lancaster;
- Grant – The initial seed-funding provided by the JMB to the CBS of £200,000 is to be retained as a float to help cash flow the initial stages of all new developments;
- Asset value/Debt: The benefit of the net rents from the development will be recycled to fund future developments;
- CLT Fund: Government funding for future CLTs;
- Public private partnership with local developers – direct delivery;
- Community shares;

- Cross Subsidy, using private and shared ownership sales;
- Mutual Home Ownership: Society members and residents pay a collective mortgage
- Estate Regeneration Fund
- GLA Big Issue Invest: Loan funding for community-led and small housing organisations.

6 FINANCIAL FORECASTS

1.7 INTRODUCTION

The plan is to borrow against the projected rental income stream of the new homes at Kipling garages, to part finance the next scheme Joseph Lancaster. Then to borrow against the projected Joseph Lancaster income to finance a phase three development.

The second element of the plan is to recycle part of the CBS funds, principally the client fee from Kipling garages and Joseph Lancaster (minus CBS staffing and infrastructure costs), to part finance future developments.

Based on its financial modelling the CBS believes that £590,000 can be borrowed against the rental income from Kipling garages and £1.4 million against the Joseph Lancaster income stream. The CBS is able to borrow more against Joseph Lancaster as the projected rent income is higher for the bigger scheme and significant elements of CBS core running costs are covered using the Kipling rental income stream.

This has been modelled by preparing a 30-year financial forecast including cash flow forecast, income and expenditure and balance sheet. The first five years of these have been included in appendix 4-6. The full 30-year financial statements are included in appendix 7, which include the senior debt calculation in borrowings sustainable from the rental income after expenses.

Various assumptions have had to be made, which will change over time. Therefore, the financial forecast will continue to evolve.

6.2 RENT LEVELS

With regard to the funding for Kipling the CBS has been told that a condition of funding by Southwark Council is that rent levels reflect the Council's own, with annual adjustments reflecting those directed by the Government. Therefore, the financial modelling has been made on this basis.

The starting point is the rents set by Southwark Council for its own new homes in the area. Rents will reduce by 1% until 2019/20. Thereafter it is assumed that rents will increase by CPI plus 1%, based on a statement by the Housing Minister in December 2015. There is concern within the housing sector is that the pressure on the Government will be to keep rents at below inflation. In addition,

the Government indicated that they foresaw rents remaining static during the Pay-to-Stay discussion in Parliament.

Unlike for councils and housing associations the Welfare Reform Act, and consequent government direction of rent levels, does not apply to the CBS. The request from the CBS is that it controls the level of the annual rent adjustment, which it would set at CPI plus 1% each year. The CBS approach would result in a much healthier borrowing capacity. The CBS would be able to borrow £840,000 on Kipling, rather than £590,000 against the Kipling rental stream, also £1,690,000, rather than £1,400,000 on Joseph Lancaster; total of £540,000 more.

Furthermore, there is a possibility that the Government may direct that there is a further four years of 1% rent reduction. Borrowing capacity on Kipling would be reduced from £590,000 to £290,000, whilst borrowing capacity on Joseph Lancaster would fall from £1.4 million to £1.22 million, a reduction of £180,000. The total drop in borrowing capacity would therefore be £480k.

In addition, the CBS will be in a stronger position to borrow from financial institutions if it controls its own rent adjustments, rather than having rent adjustments imposed externally.

6.3 KEY ASSUMPTIONS

- The new homes at Kipling garages are finished in December 2017. The new homes at Joseph Lancaster nursery site are completed in July 2020. Design work on the third scheme will start in 2021.
- All properties are being let at council rents. The amount is based on the amount that Southwark Council is charging residents moving into its development at Long Lane i.e. 1 bed- £127.18, 2 bed £145.80 and 3 bed £153.90. These figures were taken from appendix 4 of the LBS report 'Update on the Proposed Pipeline for the Delivery of 1,500 New Council Homes by 2018' presented to Cabinet on 9th December 2014.
- Tenants will pay their fuel and water charges directly and not as part of their rent.
- Voids & Bad debts – 3%. In 2015/16, the JMB's void and bad debt loss was 0.73%; however, the JMB expects this to increase due to the effect of Welfare Reform. The Council allows 6%.
- The management and maintenance requirement is £2,450 per unit per annum increasing with inflation. This is based on the JMB's actual spend in 2015/16. Southwark Council's management and maintenance figure is £4,040.

- The asset replacement required over 25 years is budgeted to be £800 per property per annum, starting in year 8. However, this model produces an annual average of £544 per property per year over the 25 years, to build up a sinking fund for asset replacement.
- The first call on the 5% client fee will be staffing, legal and administrative costs.
- The overhead costs on the Kipling scheme is £35,000 per year. This is made up of insurances and other CBS infrastructure costs e.g. auditors fees, FCA registration, bookkeeping service and office running costs.
- Capital values – have not been calculated by a RICS Registered Valuer but are based on a 6% yield on the net rentals. A formal valuation will be secured in the next twelve months.
- Amortising Debt - Interest rate of 6% has been assumed (this has not been ratified with any lenders at this point and is considered to be a cautious estimate), and is modelled with repayment over 25 years. It is assumed that an income cover ratio of 1.25% must be achieved.
- The Kipling construction cost is based on the Cost Plan prepared by Measur, which includes tendered costs for packages received to date from Buxton Building Contractors. Other costs use either agreed fees, or forecasts based on other projects.
- Joseph Lancaster costs are calculated on a cost per unit basis from Kipling costs.
- There is contingency sum within the capital costs for both Kipling and Joseph Lancaster.

Sensitivities in this analysis;

- A £10,000 per annum change in annual income over expenditure affects total borrowing by £130,000.
- Increase in construction costs: building cost inflation assumed to be 2.3%; Southwark council assume 3%. Whilst in 2015 the tender price index rose by 10%, however post –referendum most commercial investment transactions have stalled, values have been written-down by 5% indicating a substantial shock to new project starts.
- The JMB/ CBS service level agreement is still to be negotiated.
- Further work is required on the VAT implications of the CBS buying a management service from the JMB.
- Delay in grant income would affect cash flow.
- Delay in development timescale

6.3. CASHFLOW

The CBS will maintain minimum reserves of £250,000. Although the cash flow analysis shows at times much higher amounts this is due to the timing of when loans are taken. In reality the CBS would borrow at the point this income is required, which would normalise the cash flow position. It is expected that increasing surpluses in later years would be recycled into future projects. This has not been included in the modelling for clarity and to show affordability of debt financing from the first two projects. The CBS is committed to re-cycling any of its own funds above staffing and infrastructure costs to reduce the funding requirement on future schemes.

7 7.0 RISKS & MITIGATION

1.8 KEY RISKS IDENTIFIED

- Building cost inflation is above 2.3%;
- General inflation rises above 2.3%;
- Rents adjustments are not in line with the assumptions set out in section 6.2.
- Interest rates rise above or below 6%
- Do not secure construction funding from Council;
- Lack of community interest & involvement;
- Overspend on project budgets;
- Unexpected expenditure on projects;
- JMB management and maintenance costs rise at a rate above inflation;
- Voids and bad debts exceed 3%;
- Igloo - key risk loss of experienced development advisors.

1.9 RISK MANAGEMENT STRATEGY

Leathermarket CBS has employed a project team to advise on and manage risk. This covers all aspects of a development from design, through construction, and ongoing asset management. The CBS does have an opportunity in this area as it can draw on the extensive knowledge of the Leathermarket JMB when forecasting its asset management cost and liabilities.

The key steps of the Leathermarket CBS Risk Management Strategy are as follows:

1. Risk identification;
2. Risk analysis;

3. Risk allocation;
4. Risk monitoring and action plan.

This is reviewed on a regular basis, both at Board Level for key risks, and project level for all risks.

7.3 RISK MITIGATION

The CBS have modelled income and expenditure, cash flow and the balance sheet over a 30-year period. Unfortunately, the spreadsheet is too large to include in the written text, even as an extract, but is included in the appendices. The model extends and inflates the income and costs of Kipling garages and Joseph Lancaster over a 30 -year period. The CBS hope that new schemes will happen during this period, however the model is to show how the financing could work.

Several risks to the Business Plan are cost related. To manage this risk the CBS would implement a process where budgets are only released for project development on a stage-by-stage basis once funding is secured. This controls the exposure of the CBS, and limits potential abortive costs.

Construction, being the significant cost faced by the CBS would be procured on a fixed price basis, with assessed contingency levels to cover remaining client risks.

The model includes a £250,000 bottom line surplus buffer, which acts as a contingency for negative variances in both cost and income.

In the short term, building cost inflation is a limited risk as the CBS is close to having a guaranteed maximum price with the contractor for Kipling. The Joseph Lancaster capital cost can be varied by the client until the design and planning is completed, and the construction cost fixed.

A further risk is management and maintenance cost inflation, which the CBS believes to be manageable through the contractual arrangements the CBS is putting in place with the JMB.

7.4 Sensitivity analysis

- 1% increase in general inflation: Kipling borrowing capacity drops from £590,000 to £530,000, with Joseph Lancaster dropping from £1.4 million to £1.37 million. The total drop in borrowing capacity is therefore £90,000.
- 10% increase in construction costs: as noted Kipling is very close to going into contract. A 10% rise in construction costs would increase Joseph Lancaster construction cost from

£11.1m to £12.21m, which would increase the construction grant required by £1.11 million to £11.28 million.

- A 1% increase in interest rate: would reduce borrowing capacity on Kipling from £590,000 to £540,000, a reduction of £50,000. Joseph Lancaster borrowing would reduce by £70,000 to £1.33 million.
- 1% reduction in interest rate: would increase borrowing capacity on Kipling from £590,000 to £650,000 and on Joseph Lancaster from £1.4 million to £1.54 million.
- A further 4 years of 1% rent cut: Borrowing capacity on Kipling would be reduced from £590,000 to £290,000, whilst borrowing capacity on Joseph Lancaster would fall from £1.4 million to £1.22 million, a reduction of £180,000. The total drop in borrowing capacity would therefore be £480k.

Appendix 1

CBS Action Plan: June 2016

1. Separation of CBS and JMB

Aim: Greater separation of the CBS and JMB; whilst ensuring that the CBS board has the skills necessary to manage a £9.6m project

Action	Completed/ target date
TUPE transfer of Project Officer to the CBS	Completed
CBS Project Officer to be Company Secretary	Completed
CBS to file audited accounts	Completed
CBS to have separate insurance cover	Completed
Separation of officers between JMB and CBS. Current JMB chair will stand down in November 2016. Current CBS treasurer and vice-chair will stand down with immediate effect. Current co-opted JMB director will stand down from the JMB with immediate effect	November 2016
The CBS currently has three directors who are not JMB board members. The plan is to recruit a further resident director, from the group of people moving into the new homes	July 2016
Membership drive to increase CBS membership	On-going
Create a separate email address for the CBS	August 2016
Separate AGMs for the JMB and CBS	September 2016
CBS board to agree a strategy to encourage residents to come forward to stand as CBS directors. An aim should be to promote greater community involvement and separation of the democratic structures of JMB and CBS over the next eighteen months	January 2018

2. Governance

Action	Completed/ target date
Regular board meetings & minutes	In place
Amend CBS constitution to accommodate a Southwark nominee as a CBS director. In the meantime Southwark has nominated an observer	September 2016
Declaration of interest to be a standard agenda item	June 2016
CBS directors to notify the Company Secretary of any declaration of interest changes	June 2016

3. Financial capacity

Action	Completed/ target date
Business Plan, including a financial plan i.e. balance sheet, profit & loss and cash flow	14.7.16
Monthly bank reconciliation	In place
Service level agreement for the JMB to provide management and financial support to the CBS	July 2016
Resolve VAT issues regarding services provided by the JMB to the CBS	July 2016
CBS/ JMB boards to determine whether services are re-charged or provided as 'services in kind'	July 2016
Scheme of financial delegation i.e. who can authorise payments	In place
Enhance financial regulations i.e. above £5,000 quality/ price test; above £75,000 competitive tender & compliance with European	July 2016

procurement requirements

4. Contract administration

Action	Completed/ target date
Access by council to all contract document for audit purposes	Completed
European procurement of development manager and architect	Completed
Contract register	September 2016
Set up contract files in Southwark prescribed format	December 2016
All contract awards subject to board approval	In place

Version control: AB 7.6.16

APPENDIX 2

CBS LOCAL LETTINGS ALLOCATIONS POLICY

The Council and CBS have agreed that 50% local lettings criteria will be applied across three schemes, the Council's Long Lane development and the CBS's Kipling garages and Joseph Lancaster developments.

The Leathermarket CBS local lettings policy sets out the eligibility criteria for the allocation of the CBS new build homes to existing JMB tenants and the policy for determining priority for an allocation.

The CBS has adopted Southwark Council's approach to re-housing tenants as set out in the Housing Allocations Scheme November 2013.

1) Eligibility for allocation

A JMB tenant who wishes to apply for a new build property must be registered on Southwark Council's Housing Register as a 'qualifying person'.

The tenant must have lived in Southwark for the last 5 years

The tenant must not be in breach of their tenancy agreement, including rent arrears, anti-social behaviour and unlawful sub-letting. The 'no rent arrears' criteria can be waived for tenants who are downsizing.

2) Determining priority between tenants

A tenant's priority for housing is determined by priority bands; band 1 being the highest and band 4 the lowest.

Band 1

- Tenants who are under-occupying a JMB tenancy and wish to move to a smaller property. (Tenants who have reached the qualifying age for state Pension Credit will be allowed to transfer to a property with one additional bedroom)
- Tenants who are statutorily overcrowded as defined by Part X of the Housing Act 1985, and have not caused the overcrowding through a deliberate act.
- Tenants who have to move as their home require major works within six months. This will be determined and managed subject to the Leathermarket JMB's decant procedure.

Band 2

- Tenants who have a severe medical, welfare award, disability where the current accommodation is unsuitable, or it is unreasonable to remain in occupation. This can include where a tenant's condition is life-threatening and the tenant's accommodation is a major contributory factor, or the tenant's health is so severely affected by the accommodation that it is likely to become life-threatening.

- Tenants who are entitled to the Good Tenant Award (lived at the tenancy for 5 years, with no housing related debt or breach of tenancy agreement).
- Tenants who have priority on welfare grounds and require a move urgently because of a risk to their well-being or health.

Band 3

- Tenants who are overcrowded but not statutorily overcrowded as defined by Part X of Housing Act 1985.
- Tenants with a moderate medical priority where there is a clear objective need to move, because they include a person (or persons) whose illness or disability is either made worse by their present living conditions, or where a move to more satisfactory housing accommodation is likely to result in an improvement in health. However, the housing conditions directly contribute to causing serious ill-health.

Band 4

- All other tenants not included in Bands 1-3.

Additional Priority within the Bands

Within Bands 1 to 4 priority is accorded by:

- the number of priority stars the tenant has been awarded, in accordance with Southwark Council 'Priority Star system'
- the date of the tenant's registration.

3) Tenant participation

Priority is given to tenants who actively participate in the new homes design consultation process, with the provision of alternative engagement options for those who have difficulty participating due to health, childcare or other equalities factors.

APPENDIX 3

Kipling Development Appraisal

Prepared by Kym Shaen-Carter, igloo

24 June 2016

APPRAISAL SUMMARY

IGLOO

Kipling Garages

Summary Appraisal for Phase 1

Currency in £

REVENUE

Rental Area Summary

	Units	m ²	Rate m ²	Initial MRV/Unit	Net Rent at Sale	Initial MRV	Net MRV at Sale
G.01 3b6p	1	123.00	75.40	9,274	6,146	9,274	6,146
G.02 3b5p	1	101.90	91.01	9,274	6,146	9,274	6,146
G.03 3b5p	1	101.90	91.01	9,274	6,146	9,274	6,146
G.04 2b4p	1	103.90	85.28	8,861	5,745	8,861	5,745
1.01 3b4p	1	84.00	110.40	9,274	6,146	9,274	6,146
1.02 3b4p	1	81.30	114.07	9,274	6,146	9,274	6,146
1.03 2b3p	1	85.00	104.25	8,861	5,745	8,861	5,745
2.01 2b3p	1	81.30	108.99	8,861	5,745	8,861	5,745
2.02 2b3p	1	61.50	144.08	8,861	5,745	8,861	5,745
2.03 3b6p	1	107.10	86.59	9,274	6,146	9,274	6,146
2.04 2b4p	1	70.70	125.33	8,861	5,745	8,861	5,745
2.05 2b3p	1	61.50	144.08	8,861	5,745	8,861	5,745
2.06 1b2p	1	51.50	161.96	8,341	5,241	8,341	5,241
3.01 2b3p	1	81.30	108.99	8,861	5,745	8,861	5,745
3.02 1b2p	1	51.90	160.71	8,341	5,241	8,341	5,241
3.03 2b3p	1	70.90	124.98	8,861	5,745	8,861	5,745
3.04 2b3p	1	61.50	144.08	8,861	5,745	8,861	5,745
3.05 1b2p	1	51.50	161.96	8,341	5,241	8,341	5,241
4.01 3b4p	1	81.30	114.07	9,274	6,146	9,274	6,146
4.02 2b3p	1	61.50	144.08	8,861	5,745	8,861	5,745
4.03 2b4p	1	74.00	119.74	8,861	5,745	8,861	5,745
4.04 2b3p	1	61.50	144.08	8,861	5,745	8,861	5,745
4.05 1b2p	1	51.50	161.96	8,341	5,241	8,341	5,241
5.01 2b4p	1	81.30	108.99	8,861	5,745	8,861	5,745
5.02 2b3p	1	61.50	144.08	8,861	5,745	8,861	5,745
6.01 3b4p	1	81.30	114.07	9,274	6,146	9,274	6,146
6.02 2b3p	1	61.50	144.08	8,861	5,745	8,861	5,745
Totals	27	2,047.10			156,307	240,471	156,307

Investment Valuation

G.01 3b6p							
Current Rent	6,146	YP @	6.0000%	16,6667	102,430		
G.02 3b5p							
Current Rent	6,146	YP @	6.0000%	16,6667	102,430		
G.03 3b5p							
Current Rent	6,146	YP @	6.0000%	16,6667	102,430		
G.04 2b4p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
1.01 3b4p							
Current Rent	6,146	YP @	6.0000%	16,6667	102,430		
1.02 3b4p							
Current Rent	6,146	YP @	6.0000%	16,6667	102,430		
1.03 2b3p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
2.01 2b3p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
2.02 2b3p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
2.03 3b6p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
2.04 2b4p							
Current Rent	6,146	YP @	6.0000%	16,6667	102,430		
2.05 2b3p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
2.06 1b2p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
3.01 2b3p							
Current Rent	5,241	YP @	6.0000%	16,6667	87,346		
3.02 1b2p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
3.03 2b3p							
Current Rent	5,241	YP @	6.0000%	16,6667	87,346		
3.04 2b3p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
3.05 1b2p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
4.01 3b4p							
Current Rent	5,241	YP @	6.0000%	16,6667	87,346		
4.02 2b3p							
Current Rent	6,146	YP @	6.0000%	16,6667	102,430		
4.03 2b4p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
4.04 2b3p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
4.05 1b2p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
5.01 2b4p							
Current Rent	5,241	YP @	6.0000%	16,6667	87,346		
5.02 2b3p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		
6.01 3b4p							
Current Rent	5,745	YP @	6.0000%	16,6667	95,753		

APPRAISAL SUMMARY

IGLOO

Kipling Garages					
Current Rent	6,146	YP @	6.0000%	16.6667	102,430
6.02 2b3p					
Current Rent	5,745	YP @	6.0000%	16.6667	95,753
					2,605,114

Additional Revenue					
GLA Grant				322,785	
CLT Grant				5,000	
United St Saviours Grant				4,050	
					331,835

NET REALISATION 2,936,949

OUTLAY

ACQUISITION COSTS					
Fixed Price				1	1

CONSTRUCTION COSTS					
Construction	m²	Rate m²	Cost		
G.01 3b6p	166.22 m ²	2,578.49 pm ²	428,587		
G.02 3b5p	137.70 m ²	2,578.49 pm ²	355,065		
G.03 3b5p	137.70 m ²	2,578.49 pm ²	355,065		
G.04 2b4p	140.41 m ²	2,578.49 pm ²	362,034		
1.01 3b4p	113.51 m ²	2,578.49 pm ²	292,693		
1.02 3b4p	109.86 m ²	2,578.49 pm ²	283,285		
1.03 2b3p	114.86 m ²	2,578.49 pm ²	296,178		
2.01 2b3p	109.86 m ²	2,578.49 pm ²	283,285		
2.02 2b3p	83.11 m ²	2,578.49 pm ²	214,293		
2.03 3b6p	144.73 m ²	2,578.49 pm ²	373,184		
2.04 2b4p	95.54 m ²	2,578.49 pm ²	246,350		
2.05 2b3p	83.11 m ²	2,578.49 pm ²	214,293		
2.06 1b2p	69.59 m ²	2,578.49 pm ²	179,449		
3.01 2b3p	109.86 m ²	2,578.49 pm ²	283,285		
3.02 1b2p	70.14 m ²	2,578.49 pm ²	180,843		
3.03 2b3p	95.81 m ²	2,578.49 pm ²	247,047		
3.04 2b3p	83.11 m ²	2,578.49 pm ²	214,293		
3.05 1b2p	69.59 m ²	2,578.49 pm ²	179,449		
4.01 3b4p	109.86 m ²	2,578.49 pm ²	283,285		
4.02 2b3p	83.11 m ²	2,578.49 pm ²	214,293		
4.03 2b4p	100.00 m ²	2,578.49 pm ²	257,849		
4.04 2b3p	83.11 m ²	2,578.49 pm ²	214,293		
4.05 1b2p	69.59 m ²	2,578.49 pm ²	179,449		
5.01 2b4p	109.86 m ²	2,578.49 pm ²	283,285		
5.02 2b3p	83.11 m ²	2,578.49 pm ²	214,293		
6.01 3b4p	109.86 m ²	2,578.49 pm ²	283,285		
6.02 2b3p	83.11 m ²	2,578.49 pm ²	214,293		
Totals	2,766.35 m²		7,133,009		7,133,009

Construction Contingency		5.00%	357,129		
Development Contingency		5.00%	454,642		
Planning Application fee			10,395		
Design Review			1,800		
Southwark Legal S106 Fees			6,000		
Archeological			3,389		
Play Space			34,730		
Car club contribution			5,000		
Admin Costs £862			1,000		
S278			18,000		
Statutory/LA			29,700		
					921,785

Other Construction					
Site Investigation			9,568		9,568

PROFESSIONAL FEES					
Pre-planning (Grant fund)			331,799		
Council Interim (Grant fund)			345,917		
CBS cashflowing (including VAT)			174,170		
Post contract (including VAT)			631,236		
					1,483,122

Additional Costs					
Client Fee		5.00%	460,783		460,783

TOTAL COSTS 10,008,268

PROFIT (7,071,318)

Performance Measures					
Profit on Cost%			(70.65)%		
Profit on GDV%			(271.44)%		
Profit on NDV%			(271.44)%		
Development Yield% (on Rent)			1.56%		
Equivalent Yield% (Nominal)			6.00%		
Equivalent Yield% (True)			6.23%		
IRR			256.14%		

APPRAISAL SUMMARY**IGLOO****Kipling Garages**

Rent Cover	-45 yrs -3 mths
Profit Erosion (finance rate 0.000%)	N/A

APPENDIX 4

CBS INCOME & EXPENDITURE 5-YEAR PLAN

	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Income					
Leathermarket JMB Grant	0	0	0	0	0
GLA Grant	0	0	0	0	0
Southwark Grant - Kipling client fee	251,755	188,816	0	0	0
Southwark Grant - Joseph Lancaster Client fee	0	16,667	321,429	142,857	0
Rental Income - Kipling	0	50,644	200,549	198,544	203,110
Rental Income - Joseph Lancaster	0	0	0	0	169,258
Total Income	251,755	256,127	521,978	341,401	372,369
Expenditure					
Accruals Reversal	(65,874)	0	0	0	0
Voids and bad debt on rentals - Kipling	0	1,519	6,016	5,956	6,093
Management and Maintenance of rentals - Kipling	0	16,987	69,510	71,109	72,745
Voids and bad debt on rentals - Joseph Lancaster	0	0	0	0	5,078
Management and Maintenance of rentals - Joseph Lancaster	0	0	0	0	60,621
Asset replacement Kipling (major works)	0	3,756	15,371	15,725	16,087
Asset replacement Joseph Lancaster (major works)	0	0	0	0	13,406
Salary Costs	45,524	46,571	47,642	48,738	49,859
Other overheads	35,000	35,805	36,629	37,471	38,333
CBS contribution to Joseph Lancaster (recycled client fee)	0	350,000	0	0	0
CBS contribution to Peveril (recycled client fee)	0	0	0	0	460,000
Interest on senior debt - Kipling	0	7,639	30,216	29,648	29,044
Interest on senior debt - Joseph Lancaster	0	0	0	0	62,632
Total Expenditure	14,650	462,278	205,385	208,647	813,897
Funds brought forward	305,860	542,965	336,814	653,407	786,160
Surplus/(Deficit) for period	237,105	(206,151)	316,592	132,754	(441,528)
Funds carried forward	542,965	336,814	653,407	786,160	344,632

APPENDIX 5:

CBS BALANCE SHEET: 5-YEAR PLAN

	Year End				
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Fixed Assets					
Completed Houses - Kipling	0	2,600,000	2,600,000	2,600,000	2,600,000
Completed Houses - Joseph Lancaster	0	-16,667	-16,667	-16,667	2,846,000
Completed Houses - Peveril	0	0	0	0	333,333
Current Assets					
Prepaid capital costs	0	0	0	0	0
Accrued income	20	20	20	20	20
Cash at bank	542,966	861,262	1,168,640	1,291,610	1,687,812
Total fixed and current assets	542,985	3,444,616	3,751,993	3,874,963	7,467,165
Creditors					
Trade Creditors	0	0	0	0	0
Accruals	0	0	0	0	0
Senior Debt - Kipling	0	507,781	498,566	488,783	478,396
Senior Debt - Joseph Lancaster	0	0	0	0	1,381,450
Total Creditors	0	507,781	498,566	488,783	1,859,846
Net Assets	542,985	2,936,835	3,253,427	3,386,181	5,607,319
Capital and reserves					
Called up share capital	20	20	20	20	20
Revaluation Reserve - Kipling	0	2,600,000	2,600,000	2,600,000	2,600,000
Revaluation Reserve - Joseph Lancaster	0	0	0	0	2,662,667
Funds	542,965	336,814	653,407	786,160	344,632
Total Capital and Reserves	542,985	2,936,835	3,253,427	3,386,181	5,607,319
	0	0	0	0	0

APPENDIX 6

CBS CASH FLOW: 5-YEAR PLAN

	Year End				
	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Receipts					
Leathermarket JMB Grant	0	0	0	0	0
GLA Grant	0	0	0	0	0
Southwark Grant - Kipling client fee	251,755	188,816	0	0	0
Southwark Construction Grant - Kipling	5,035,103	3,776,328	0	0	0
Southwark Grant - Joseph Lancaster Client fee	0	16,667	321,429	142,857	6,667
Southwark Construction Grant - Joseph Lancaster	0	333,333	6,428,571	2,857,143	133,333
Southwark Construction Grant - Peveril	0	0	0	0	0
Rental Income - Kipling	0	50,644	200,549	198,544	203,110
Rental Income - Joseph Lancaster	0	0	0	0	169,258
Drawdown of senior debt - Kipling	0	510,000	0	0	0
Drawdown of senior debt - Joseph Lancaster	0	0	0	0	1,400,000
Total Receipts	5,286,859	4,875,788	6,950,549	3,198,544	1,912,369
Payments					
Kipling Project costs	5,035,103	3,776,328	0	0	0
JL Project costs	0	666,667	6,428,571	2,857,143	333,333
Peveril Project costs	0	0	0	0	800,000
Salary Costs	45,524	46,571	47,642	48,738	49,859
Other overheads	35,000	35,805	36,629	37,471	38,333
Voids and bad debts on rentals - Kipling	0	1,519	6,016	5,956	6,093
Voids and bad debts on rentals - Joseph Lancaster	0	0	0	0	5,078
Management and Maintenance of rentals - Kipling	0	16,987	69,510	71,109	72,745
Management and Maintenance of rentals - Joseph Lancaster	0	0	0	0	60,621
Asset replacement Kipling	0	3,756	15,371	15,725	16,087
Asset replacement Joseph Lancaster	0	0	0	0	13,406
Interest and capital repayments on Kipling debt	0	9,858	39,431	39,431	39,431
Interest and capital repayments on Joseph Lancaster debt	0	0	0	0	81,182
Total Payments	5,115,627	4,557,491	6,643,172	3,075,573	1,516,167
Opening cash at bank	371,734	542,966	861,262	1,168,640	1,291,610
Cash inflow/(outflow) for the period	171,232	318,297	307,377	122,970	396,202
Closing cash at bank	542,966	861,262	1,168,640	1,291,610	1,687,812
Of which finance for Peveril					1,400,000

Appendix 7: 30-YEAR BUSINESS PLAN MODEL