



Ground Rent Estates 5 Limited

Strategic Business Plan

2024/25 - 2027/28

September 2024

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1. Introduction

Ground Rent Estates 5 Limited (“GRE5”) is 100% owned by Slough Borough Council (the Council). GRE5 owns the freehold lease of Nova House, a block of 68 apartments in Slough town centre. The building was previously office accommodation and was converted to an apartment block in 2015 with additional floors added to the building.

Nova House failed flammability tests in 2017 following the fire at Grenfell Tower. Further survey work then revealed significant defects with the compartmentation within the building and additional structural defects were identified in late 2022.

GRE5’s core activities are the collection of ground rent, freehold, extensions and management of some services at Nova House. Its income and costs are approximately £15k per annum and it has very limited options in terms of raising finance as it has minimal assets and value.

In 2018, the Council approved the acquisition of 100% of the share capital of GRE5 for £1 due to concerns about the capacity and ability of the company, and its existing shareholders, to undertake the substantial remediation works required and concerns about the safety of residents.

Whilst the scope of works was unknown at that stage, costs were anticipated to be less than £10m and it was assumed that any costs would be recoverable following a legal claim.

Interim fire safety measures were put in place to ensure the safety of residents, pending the completion of remediation works. These included a high-quality heat detector system, the presence of a 24-hour waking watch and immediate evacuation procedures in the event of fire. All measures continue to be assessed on an ongoing basis in conjunction with the Royal Berkshire Fire and Rescue Service (RBFRS).

A scope of works and Development Agreement were agreed with Slough Urban Renewal (“SUR”) in 2021 and all Aluminium Composite Material (“ACM”) Cladding was removed by the end of January 2022. However, the project was then delayed due to covid restrictions and additional tests and surveys that were completed during FY20/21 and FY 22/23, which identified a range of defects and technical issues.

Following the removal of the cladding, several structural issues were identified relating to the Spine Beam, bracing to the building, shims and column connections. This resulted in the halt of the cladding replacement whilst SUR and its building contractor, Morgan Sindall, made assessments and provided remediation options for the structural issues. The structural issues needed to be remediated before the cladding and balconies can be replaced. These have been completed.

The main phase of works has recommenced and is now expected to complete in Q3 FY24/25.

In FY21/22, the Council introduced a range of changes to strengthen governance, management, oversight, decision making and reporting. This included the recruitment of new GRE5 directors, new shareholder function arrangements, a new Senior Responsible Officer (SRO), a Council project manager and improved risk and financial reporting arrangements.

This Business Plan sets out the key strategic, operational and financial matters for GRE5 and is for a 3-year period from April 2024 to March 2028.

2. Strategic Aim and Objectives

2.1 Strategic Aim

The strategic aim of GRE5 is to ensure that Nova House meets all fire and safety requirements and that tenants can safely live in the property without the need for ongoing interim measures to address the fire and structural risks. As the freeholder of Nova House, GRE5 also strives to provide an excellent service to tenants and leaseholders.

2.2 Strategic Objectives

The strategic objectives of GRE5, all of which support its strategic aim, are as follows:

- **Tenant safety** – always act to maximise tenant safety and minimise disruption to their living conditions;
- **Building condition** - ensure that Nova House meets all the requirements of the Fire Risk Assessment and the Building Safety Act;
- **Service to tenants and leaseholders** - ensure the management of the building takes place in an efficient and effective manner and any issues are communicated appropriately;
- **Stakeholder management** - communicate with our stakeholders and keep them informed throughout each step of the remediation works of Nova House in a timely manner;
- **Shareholder interest** – protect the interest of the Council, as shareholder, and seek to maximise cost recovery through the legal process;
- **Exit strategy** – develop an exit strategy in conjunction with the Council, which obtains maximum value for the freehold interest in GRE5, following completion of the works to Nova House.

3. Key Activities

Activity	Description/Target Outcome	Actual/Target Completion Date
Cladding panel replacement work	The completion of all replacement cladding works and the replacement of the balconies to Nova House. This will include new secondary steels to support the replacement of the balconies to the building. It will also include the cladding of the external fire escape stair as a fire protection measure due to the lack of adequate fire glazing in adjacent flats.	ACM cladding removed in January 2022. Completion of reinstallation – November 2024 Balcony reinstatement December 2024
Structural/Stability Remedial Works	<p>The remediation of four main stability defects:</p> <ul style="list-style-type: none"> Internals lateral bracing – This needs to be fitted to the internal core prior to other works being carried out. Spine Beam – The undersized beam at 4th floor level requires propping to the two floors below, this will follow the lateral bracing works. Shims – There is a lack of connection between the level four slab, this needs remediating as part of the stabilisation works. Splice defects – There are numerous locations where the steel connection/splice details do not meet either building regulations or safety testing on the welds. These need to be remediated prior to the replacement cladding being installed. <p>In addition to the above stability defects, there are several smaller structural defects that have been identified as part of the survey and investigation works. These include:</p> <ul style="list-style-type: none"> Timber packers being used where they breach a fire compartment. Loose bolts at connections. Poor welded joints. Defects in the partitions. <p>Satisfactory mitigation measures are in place.</p>	Completed December 2023 Completed April 2024
Steelwork fire protection/sprinkler	Areas of the exposed steel frame have been found to be deficient in fire protection. The effect on the steels in the event of a fire is to be mitigated by the installation of a sprinkler system. The mitigation works will need to be implemented to the satisfaction of the fire officer. Satisfactory mitigation measures are in place.	October 2024
Internal works	Works to the main staircase compartmentation defects have been carried out, along with the replacement of flat entrance doors to meet fire protection standards. Further works include compartmentation defects within the communal areas (main escape routes) and installation of the sprinkler system.	Completed December 2023

Activity	Description/Target Outcome	Actual/Target Completion Date
	Further defects have been identified within the flats themselves. Remediation of these defects would be extremely disruptive to residents, and potentially not fully extensive due to access constraints. Therefore, it is proposed that these are also mitigated by the introduction of the sprinkler.	
Building management	There will be ongoing leaseholder and tenant liaison through regular leaseholder and tenant meetings.	Ongoing
Funding	<p>To date GRE5 has secured a £9.2m grant from Homes England to fund eligible cladding works and a £10m loan from the Council to support the cashflow of the works and ineligible costs. An insurance claim has been settled via mediation, the settlement figure exceeded the sum given as guidance by GRE5's legal advisors, however the terms of the settlement require the figure to remain confidential. This allowed the structural works to proceed. Additional Homes England funding is being sought and a variation of £12m has been submitted.</p> <p>Legal advice has been obtained as to the position regarding recovery of costs from leaseholders following the Building Safety Act. The process of establishing Qualifying and non-qualifying leaseholders is progressing.</p> <p>Further funding has been obtained from Homes England as part of the Building Safety Fund to cover management, legal and decanting costs with an additional contingency.</p>	December 2024
Business As Usual Position	All cladding and remediation works completed and a return to the business as usual position of solely providing building management services to Nova House.	December 2024
Exit	<p>Identify the most appropriate exit strategy for the shareholder. All the works will need to be completed and the management will need to be up to date and liabilities settled. Cladding certification will be required and remediation works completed to a standard to provide confidence in the building. A robust and satisfactory fire risk assessment following the works will be necessary.</p> <p>May include sale of GRE5 Ltd and/or sale of freehold lease. Leaseholders to be consulted in line with statutory requirements.</p>	Options and solution identified – FY 24/25 Implemented in FY25/26

4. Governance

The governance structures in place for GRE5 are as follows:

- **Director and Shareholder meetings** – Director and Shareholder meetings occur monthly due to the level of risk in the project. This forum allows the company to keep its shareholder up to date on key actions, risks and the financial position of the project.
- **Board of Directors** – the Board of GRE5 meets on a monthly basis to review the progress of the project, the current financial position and key risks and issues;
- **Progress meetings** – the project team meets on a weekly basis to review progress and agree key activities for the week; and
- **Service Level Agreement** – the company has a Service Level Agreement with the Council for the provision of company secretarial and financial support.

4.1 Board of Directors

The Board of Directors is required to:

- manage the day-to-day business activities and finances of GRE5 in accordance with the Companies Act and the Articles of Association;
- act in the best interest of the company and promote the success of the business;
- undertake legal responsibilities including preparing annual accounts, tax returns and company records;
- provide confidence to RBFRS that works will be carried in an appropriate and timely manner;
- carry out all urgent mitigating works as required as quickly as possible and with minimum disruption to residents;
- monitor progress and review the SUR/Morgan Sindall contract for the cladding removal and replacement and additional structural works;
- ensure proper management of the building;
- monitor and review the progress with the Insurance claim with Allianz;
- recover costs from insurers, leaseholders, and other parties as appropriate;
- obtain grants where possible including from Homes England;
- update the Business Plan and report to shareholders;
- ensure value for money is a key part of any assessment in relation to the works;
- review monthly income and expenditure and manage the financial position of the company;
- work with the shareholders on internal and external audits;
- review and understand the organisations risk profile and regularly review the risks and risk appetite; and

- undertake a skills audit and review ongoing training requirements.

The company has two Directors; Neil Simon and Martin Johnson (appointed in November 2021).

4.2 Council as Shareholder

GRE5 is a separate, distinct legal entity from the Council. However, the Council retains a degree of control through the ownership of all shares in the company. These shares, along with the reporting and governance structures in place give the Council the necessary means to exercise appropriate levels of control. As sole shareholder, the Council has the ultimate sanction of either removing the Board Members and appointing replacements or, ultimately resolving to wind up the company.

The relationship with the Council is primarily governed by the following:

- **the Loan Agreement** - a loan agreement was put in place in August 2022 for loan of £10m from the Council to GRE5 to allow the required works to progress. A variation which increased the loan value to £15m was agreed and signed in April 2023.
- **Director contracts** – each Director has a contract which clearly sets the responsibilities of a Director, including their relationship with the Council.

5 Key Business Risks

A detailed risk register for GRE5 is maintained and updated monthly by the Board of Directors and the Project Team. At each risk register review meeting the impact and probability of each risk are scored and the mitigations reviewed and assessed. A summary of the key risks and mitigations from the Highlight Report presented at each Board meeting is as follows:

Risk Title	Description	Risk Category	Mitigation
Additional variations making the project cost inefficient	Costs have increased significantly since the start of the project due to the additional structural works required and delays to the project. There remains a risk that costs could increase further.	Very High	Monitor the project carefully and continue to update the project cashflow monthly. Work with the Council, contractors and all parties to mitigate cost, risk and spend on all areas.
Further defects and associated costs	Further design, delays and remedial costs are added to the project.	Very High	Measure design and costs against requirement for remedial to take place by ongoing support from the design team. Seeking best value contractor for each element of work
Building is not safe – concerns for the safety of residents	Additional structural issues have been identified with the building which need to be remedied before the cladding can be replaced.	Low	Following works to the building this risk has now significantly reduced
Unable to repay loan	GRE5's ability to repay the loan to the Council is dependent on many factors including cost management, further structural issues, outcome of legal claim, potential GFA clawback and leaseholder recovery of costs.	High	Regular detailed financial reporting and cash flow planning Maintain a strong working relationship with Homes England including transparent and regular dialogue re the legal claim, additional structural costs and clawback mechanisms to maximise funding.
Leaseholders non-compliant with regards to repayment	Non repayment from leaseholders will impact the overall cashflow position of the company and may result in an inability of GRE5 to repay its loan.	High	Legal advice on the impact of the Building Safety Act, given new cost liability measures for leaseholders. Ongoing engagement with leaseholders including early discussion re the implications of the Safety Bill following legal advice. Creation of communication plan with clear wording.

6. Financial Projections

6.1 Income and Expenditure Account

There are currently two principal sources of income from Nova House:

- the annual service charge and reserve funds – to cover the management of the building; and
- the ground rent.

These charges are payable by the leaseholders to GRE5. Invoices for the service and reserve charges are issued by the managing agent (Red Rock Management) and collection of outstanding charges is handled by JB Leitch solicitors. The income from the service and reserve charges are held by Red Rock in trust accounts and used for the provision/maintenance of communal services for Nova House e.g. concierge, minor repairs, cleaning etc.

Invoices for the ground rent had been issued by the previous parent company of GRE5 and collection of unpaid ground rent again handled by JB Leitch. The ground rent is collected twice a year – 1st January and 1st July – with invoices normally sent out in May and November. Red Rock Management has been appointed to collect the ground rent. Annual income and operating costs are c£17k per annum.

6.2 Cashflow

A forecast cashflow for the works has been prepared and this is updated monthly for discussion at both the Board and Shareholder meetings. It is also used as a planning tool, allowing scenarios to be run for different assumptions in terms of changes to costs and funding sources.

The baseline scenario shows the costs incurred to date and the forecast for the remaining periods. Key assumptions are as follows:

- the majority of residents are deemed to be Qualifying under the Building Safety Act and total contributions of c£500k are included in the forecasts. Due to the timescales involved in the likely receipt of these funds (leaseholders can pay their contributions over ten years), no cashflow has been assumed from leaseholders until 12 months post project completion;
- GRE5 is able to utilise 25% of the contingency included in the variation to the Grant Funding Agreement (GFA) with Homes England. More detail on this funding is included later in this section.

The current position, based on actual costs spent to 31st August 2024, and forecast spend to the end of the project, are set out in the table below:

£m	Current To 31 Aug 24	Remaining forecast costs	Total costs
Costs			
Ongoing Costs - incl Waking Watch	4.1	0.7	4.8
Legal Fees	2.4	0.1	2.5
Development Contract - Cladding	19.9	1.2	21.1
Development Contract - Additional Structural Works	2.0	0.4	2.4
Other external works	0.4	-	0.4
Decant costs	0.4	-	0.4
Other costs	0.2	-	0.2
Total costs excluding interest	29.4	2.5	31.9
Interest Charges	1.9	0.3	2.2
Interest Received	(0.4)	-	(0.4)
Total Costs	30.9	2.8	33.7

The table shows that for the baseline scenario, the forecast remaining costs are £2.5m in total, prior to interest payable on the SBC loan.

The funding sources available for the forecast remaining costs are:

Funding Source	£m
HE funding under the GFA Variation (assumes 25% of contingency funding is accessed)	3.0
Retention funding under original GFA	0.2
Leaseholder contributions	0.5
Total	3.7

The company therefore has more than sufficient funding sources to complete the work. The £1.2m of funding available after payment of the remaining project costs will be used to repay the SBC loan.

The baseline assumptions noted above result in an outstanding loan to the Council of **£2.8m** following completion of the works and receipt of all other funding, including interest up to the completion of the works.

6.3 Scenario Planning

The risks for the project are set out in the Key Business Risks section. The Scenarios have been updated from the previous Business Plan to reflect the successful completion of the insurance claim. To analyse the impact of the risks, the cashflow forecast has been run for the following scenarios:

Scenario	Costs	Homes England Grant	Leaseholder contribution
1. Base Case	Current best estimate for development and operational costs.	Funding of £3.0m is claimed under the variation to the GFA. This is based on 25% of the contingency funding being accessed for costs included in the forecasts.	£500k received from leaseholders. Value of this recognised in Dec 25, ie 12 months post completion of the works.

Scenario	Costs	Homes England Grant	Leaseholder contribution
2. Best Case		Funding of £3.9m is claimed under the variation to the GFA. This is based on 75% of the contingency funding being accessed for costs included in the forecasts.	

The impact on the £15m loan facility from the Council is as follows for each Scenario:

Scenario	Impact on loan facility from the Council
1. Base Case	The Council loan balance outstanding at completion would be £2.8m for which there would be no means of repayment.
2. Best Case	The Council loan balance outstanding at completion would be £1.9m for which there would be no means of repayment.

The analysis shows that under the scenarios above, the Council will have a final cost exposure ranging from £1.9m to £2.8m.

Updated forecasts will continue to be presented to the Board and Shareholder on a monthly basis.

6.4 Sources of Funding

6.4.1 Homes England Grant and Variation

During FY 21/22, the Council and GRE5 successfully agreed grant funding of £9.2m from Homes England for eligible development costs. The Grant Funding Agreement (GFA) has been agreed with all parties and has been signed by GRE5 and the main contractor. All Conditions Precedent (CP) have been signed off and grant drawdown requests are being processed on a monthly basis. £9.0m has been drawn down by December 2023 with the remaining £0.2m retention expected in November 2024.

A variation to the GFA was agreed with Homes England in May 2024 which increased the grant amount for further eligible costs for secondary frame works supporting cladding and decant costs. The additional eligible costs awarded were £13.3m, including a contribution to legal costs of £1.3m.

Of the original GFA eligible costs, £6.7m were successfully reclaimed through the insurance claim. In addition, of the additional eligible costs requested under the variation, £2.3m had been successfully reclaimed from the insurers. The additional funding awarded was therefore reduced by £9.0m, giving net additional funding awarded of £4.3m.

A £1.8m contingency was included in the additional funding award to cover additional unforeseen costs. As noted above, just 25% of this has been assumed to relate to costs included in the current forecasts and, as such, it is assumed that GRE5 is not able to access £1.3m (ie 75% of the contingency amount) of the additional eligible costs awarded under the variation to the GFA.

6.4.2 Insurance Claim against the building's warranty provider

On 30 September 2021, GRE5 filed an insurance claim against Allianz in the courts with subsequent increases to the Particulars of Claim. On 6th June 2023, the Directors met with the mediator and

representatives from Allianz and the case was settled for a confidential amount. The funds were received in July 2023.

To date the funds have been used to repay a significant proportion of the Council loan and to cover current costs.

6.4.3 Council Loan and Parent Company Guarantee

In July 2021, the Council approved a loan facility to GRE5 of up to £10m to meet its short-term cash flow requirements, pending the:

- outcome of the legal proceedings;
- approval of the grant funding agreement with Homes England;
- completion of works to determine total final costs; and
- recovery of monies from leaseholders.

The £10m loan facility agreement was signed and sealed in August 2022. The loan facility agreement formalises a loan facility that was originally approved by the Cabinet in 2019 but was not approved in accordance with the Council's Investment Strategy. The Council has funded GRE5 costs to date; costs have been included in a separate capital programme cost centre on the Council's balance sheet. These costs will be recharged/passported to GRE5 no that the loan facility is operational.

A variation to the loan agreement was approved at Cabinet in March 2023 increasing the loan facility to £15.0m.

The peak loan facility requirement will be dependent upon the final position agreed with Homes England as noted above. From the scenario modelling completed, the end Council exposure is likely to be between £1.9m and £2.8m.

6.4.4 Leaseholder contribution

Alternative funding strategies are being considered to meet any funding shortfalls, including potential recovery of costs from leaseholders. A tribunal determined that leaseholders, and not the freeholder, were liable for waking watch costs, however the Building Safety Act 2022 has superseded this tribunal decision. This contains detailed provisions as to what costs qualifying and non-qualifying leaseholders are liable for. GRE5 is currently seeking advice as to the interpretation of the Building Safety Act 2022 and its implications on the recovery of any costs from leaseholders. An assessment of the number of qualifying and non-qualifying leaseholders in Nova House will be required and the amounts that could be recharged to each group as part of a recovery strategy.

6.5

Forecast Profit and Loss Account

The table below set out the draft profit and loss account for the year ended 31 March 2024 and the forecast profit and loss account for the next three years. This incorporates the end of the project, and includes estimated receipts from leaseholders for the fire safety works.

£m	Year ending 31 March 2024	Year ending 31 March 2025	Year ending 31 March 2026	Year ending 31 March 2027
Turnover	0.01	0.01	0.01	0.02
Cost of sales	(9.79)	(5.00)	-	-
Gross profit (loss)	(9.78)	(4.99)	0.01	0.02
Admin costs	(0.29)	(0.50)	(0.01)	(0.02)
Other operating income	8.05	6.19*	0.50**	-
Operating profit/(loss)	(2.02)	0.70	0.50	-
Interest income	0.33	0.03	-	-
Interest payable	(0.37)	(0.21)	(0.20)	-***
Profit before Tax	(2.06)	0.52	0.30	-

* consists of £3.2m of insurance receipt remaining on balance sheet as at 31 March 2024 and £3.0m of HE variation funding to be claimed in 24/25

** £0.5m of leaseholder contributions recognised in P&L in 25/26 on completion of current ongoing exercise regarding leaseholder liability. Cash will be collected over a ten-year period.

***Assumes the cessation of interest payable on the loan from SBC at this point, due to final crystallisation of the outstanding liability following completion of the works and confirmation of leaseholder contributions.