



# Flexible fund financial model user guidance

## Guidance to support completion of the financial model

### Disclaimer

The financial model has been provided to help you calculate year one funding requirements and the whole of life costs and to help us to understand and test the costs that you have provided.

The financial model is provided to you strictly on the basis that it is for Te Tūāpapa Kura Kāinga – Ministry of Housing and Urban Development’s internal assessment purposes only and must not be relied upon by you or any other recipient in any way or for any purpose. You must make your own independent financial assessment and due diligence and satisfy yourself as to all and any matters relevant to the housing proposal you are submitting a funding application for.

If you choose to use an alternative approach to calculating year one funding requirements and the whole of life cost we will require further information from you to demonstrate your assumptions to our satisfaction.

### General guidance

- Applicants are required to fill out at least one model per investment location. If you have specific projects for which you have more detailed costings, you are welcome to complete a financial model for each project. Applicants are welcome to complete as many models as they would like.
- The only sheet that applicants are able to manipulate is the ‘Inputs’ sheet and the two ‘Additional Details’ sheets.
- Only yellow-shaded boxes are able to be edited in the ‘Inputs’ sheet.
- The two ‘Additional Details’ sheets are fully editable and unformatted. These sheets can be used to provide further detailed breakdown on the development and operating and capital replacement costs – such as copy and pasting development costings or providing the calculations used to determine maintenance or tenancy management costs. This can help you accurately complete the ‘Inputs’ tab and can help give us confidence in the assumptions used in the ‘Inputs’ sheet.

## Summary section

### Purpose

To provide a summary and overview of the proposed delivery programme, including the year 1 Agreed Amounts, Crown Year 1 Cost (including upfront funding) and Crown whole of life cost (WOLC) on both a typology and tenure basis, and for the whole proposed delivery programme.

### Points to note

The applicant is only required to complete the applicant name, application date, investment location and number of each type of home (typology and tenure). The rest of the information will be populated once the other sections of the worksheet are completed.

## Development costs

### Purpose

To set out the development costs of the proposed delivery programme to determine the capital requirements used in the financing assumptions section.

### Points to note

All costs (except land and finance costs) should be entered on a GST-exclusive basis. The model will then calculate the GST for these costs for inclusion in the Total Development Cost (including GST, if any). This is the amount that will be used to calculate the total capital requirement in the financing assumptions section.

## Financing assumptions

### Purpose

To set out how the development costs of the proposed delivery programme (detailed in the development costs section) will be financed. The Debt amount is used to calculate the Debt Servicing and Repayment figure in the Agreed Amount calculation. Any Upfront Funding (UF) amount is included in the calculations of the Crown Year 1 Cost (incl UF) and the Crown WOLC.

### Points to note

As set out in the flexible fund information document, applicants are required to contribute as much equity (in the form of cash or land) as possible to the project. After equity sources have been exhausted, applicants are encouraged to maximise the amount of other funding available (such as through other philanthropic sources) and then finance the remaining capital requirements through debt (including by using other assets as security where necessary).

Only once all other sources of funding and finance have been exhausted, should applicants request upfront funding.

Upfront funding is included in the calculations for the Crown Year 1 Cost (incl. UF) and Crown WOLC but not in the Agreed Amount. This is because while upfront funding is not required to be repaid (except in exceptional circumstances such as a provider default, please refer to the commercial term sheet), the Ministry is required to account for it in the operational funding we assign to each funded home.

## **Interest rate assumptions**

### **Purpose**

Interest rates are a major driver of costs in housing projects. This section sets out the interest rates assumed over the life of the contract for inclusion in the calculations in the 'Programme Cashflow' and 'Chart' tabs.

### **Points to note**

The initial interest rate (cell D65 of the input sheet) will be used to size the debt servicing and repayment component of the Agreed Amount. This interest rate should be your and your financier's best estimate of the relevant interest rate at the time of tenancing, taking into consideration the actions that the Government has taken to lower financing costs for community housing providers, including the loan guarantee scheme and lending facility to the Community Housing Funding Agency.

The Debt Servicing and Repayment component of the Agreed Amount does not fluctuate with interest rates.

The interest rates for the four remaining periods should be based on your and your financier's best estimates of the long-term interest rates. Our expectation is that the long-term interest rates are not above the long-run average of 6.5%.

## **Operating and capital replacement expenditure**

### **Purpose**

To set out the expected ongoing costs of the delivery programme, so that they can be incorporated into the calculations of the Agreed Amount.

### **Points to note**

All amounts are to be input on an 'including GST, if any' basis. Total Repairs and Maintenance includes planned, reactive and grounds maintenance amounts. To reflect the fact that we expect that most homes will be new-builds, maintenance costs are modelled to ramp up over the first four years of operations (25% in year 1, 50% in year 2, 75% in year 3 and 100% in year 4 onwards).

Please provide your required ongoing costs for each cost category. The Agreed Amount includes a separate contingency in case actual costs are higher than estimated amounts.

As they are not incurred until much later in the life of the contract, capital replacement costs are not explicitly included in the Agreed Amount calculations. The estimates provided for capital replacement amounts are included in the calculations in the 'Programme Cashflow'

and 'Chart' tabs from year 10 onwards to ensure the contingency is sufficient to cover these amounts when they begin being incurred.

## **Contingency**

### **Purpose**

To set out:

- funding required to account for uncertainty, noting that where possible costs should be included in the model
- the extent to which this amount increases.

### **Points to note**

See the stage one application pack for more details on the Contingency and the Contingency Increase Level.

## **Project agreed amount**

### **Purpose**

This table takes the information provided in the previous sections and incorporates it into a Total Project Agreed Amount for the proposed delivery programme. This then feeds back into the summary tables at the top of the page.

### **Points to note**

No inputs are required for this table. The Total Project Agreed Amount represents the indicative total cashflow the applicant is requesting from the Ministry and tenant combined (noting that if the tenant contribution is higher or lower than anticipated, the funding from the Ministry is adjusted so that the agreed amount the provider receives is the same).