WV Living
City of Wolverhampton Council Housing Company

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Wholly Owned Housing Company
Development of the Business Case

What is covered

• Outline the proposition to develop a Council owned housing company
• Why this approach was considered
• What will be delivered
• How the business model works
• Approvals and Future Programmes

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Why build more housing?

• The City of Wolverhampton Council Corporate Plan recognises the need to deliver more housing at a quicker pace
• Over 8,000 households on the housing register
• An increase in delivery pace needed to meet projected household need
• The house building industry is unlikely to deliver pace required without Council intervention

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Key Drivers – Housing Supply (1)

• Demand for housing across all sectors/tenures
  – New build
  – Market Housing
  – Market rent
  – Sub market rent

• Demand assisted through gov’t programmes
  – Help To Buy
  – Help To Buy ISA

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Key Drivers – Housing Supply (2)

- Increase the quantum of housing developed in the City
- Develop a sustainable, well managed market rent model in the City
- Stimulate private housing markets
- Provide new pathways to low cost home ownership
  - Shared ownership
  - Rent to Buy
- Contribute to regeneration programmes subject to risk profile

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Key Drivers - Finance

- Capital receipts for the General Fund
- Revenue income to the General Fund through additional Council Tax and New Homes Bonus payments
- Generate revenue income to the General Fund through lending to the company to build
- To use rent levels based on the Local Housing Allowance (LHA) to ensure affordability and manage risks where appropriate
Options considered for new housing delivery (1)

1. Rely on market forces
   - unlikely to significantly increase the rate of build
2. Public sector land disposal programme
   - reliant on market forces
3. Housing Revenue Account (HRA) new build
   - limited ability due to borrowing cap/social rent policy
4. Joint Venture with private sector Partner

[Link to wolverhampton.gov.uk]
Options for new housing delivery (2)

5. Wholly Owned Housing Company
   – Trading company set up to develop market (and sub market) housing for rent and sale
   – Housing developed on a commercial basis outside of the HRA
## Appraisal of Options

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Weighting</th>
<th>HRA New Build</th>
<th>Wholly Owned Company (WOC)</th>
<th>Joint Venture</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before weighting</td>
<td>After weighting</td>
<td>Before weighting</td>
<td>After weighting</td>
</tr>
<tr>
<td>Potential to deliver the level of homes in a five year timeframe</td>
<td>5</td>
<td>1</td>
<td>5</td>
<td>25</td>
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<tr>
<td>Timely procurement</td>
<td>4</td>
<td>16</td>
<td>4</td>
<td>16</td>
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<tr>
<td>Supports risk transfer</td>
<td>4</td>
<td>2</td>
<td>8</td>
<td>12</td>
</tr>
<tr>
<td>Potential to complement and enhance the Council’s wider regeneration strategies</td>
<td>2</td>
<td>4</td>
<td>8</td>
<td>4</td>
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<tr>
<td>Meets sustainability objectives</td>
<td>4</td>
<td>5</td>
<td>20</td>
<td>5</td>
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<tr>
<td>Enables Council control of development</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>Attractive to the private sector</td>
<td>3</td>
<td>4</td>
<td>12</td>
<td>4</td>
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<tr>
<td>Legally deliverable</td>
<td>5</td>
<td>5</td>
<td>25</td>
<td>5</td>
</tr>
<tr>
<td>Potential to achieve Value for Money</td>
<td>4</td>
<td>4</td>
<td>16</td>
<td>4</td>
</tr>
<tr>
<td>Weighted Score (200 max)</td>
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</tbody>
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**Weightings based on assumed level of importance to deliver outcomes and within timescale**

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Housing Company Opportunities

- Council owned land supply
- Low costs finance available from the Council via prudential borrowing to finance house building outside of the HRA
- Established ALMO to offer housing management services
- Housing Company set up as trading subsidiary of the City of Wolverhampton Council
  - Compliant with EU procurement regulations as under control of Council

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Viability of this approach

• Initial modelling demonstrated that the Housing Company approach stacked up financially
• Modelled based on 3 sites with little market appetite/value to test viability
• 114 properties overall
• 80 for sale, 34 for rent
Financial Summary

• The model produced a surplus of £1.3m
• Based on a modest assumption of only 1% rent increase per year over 30 years, this could be higher
• Return based on borrowing assumptions
• Rent figures sound as based on current market rental levels
• Build costs based on national construction costs index
• Surplus is after build costs, net of repairs and maintenance, inflation and life cycle and exit costs
• Demonstrated to deliver 114 dwellings on 3 sites with zero/negligible market worth.
• Model assumes exit after 30 years via disposal of any remaining properties to a registered social landlord, disposal costs are covered within the model
Managing Risk

- Risk managed by assessment of each development
- Pipeline of land supply across different markets to spread risk
- Financial modelling based on an exit strategy in event of risks being realised via HRA/affordable housing model

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Risk 1 - Unable to sell market housing

Impact
• Capital receipts not realised
• Reduced ability to fund further development

Mitigation
• Joint Venture to spread risk
• Convert to market rent
• Convert to affordable rent

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Risk 2 - Unable to let all market/sub market housing

Impact
• Reduced income stream
• Reduced ability to repay debt and fund further development

Mitigation
• Renegotiate loan terms (timescale)
• Convert to market sale
• Convert to affordable rent

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Risk 3 – Government applies restrictions to wholly owned companies

Impact

• Reduced income stream through rent
• Right To Buy
• Reduced ability to repay debt and fund further development

Mitigation

• Assess development on HRA business terms
• Renegotiate loan terms (timescale)
• Convert to market sale
• Convert to affordable rent

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Risk 4 – Rents levels fail to keep up with loan charges

Impact
• Reduced income stream through rent
• Reduced ability to repay debt and fund further development

Mitigation
• Assess development on HRA business terms
• Renegotiate loan terms (timescale)
• Convert to market sale
• Convert to affordable rent

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Establishing the company
Options/ Mechanisms

• i. Direct Subsidiary of the Council
• ii. Direct Subsidiary of ALMO

• Corporation tax liabilities favored the former

• What is needed to deliver:-

• Land Supply and developing the pipeline – the disposals programme – 5 year programme

• Financing the new build – loan from Council financed through the PWLB

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Establishing the company
Options/ Mechanisms

- Light organisational structure”
- City Council is sole shareholder
- Directors appointed and controlled by the Council
- Business Planning and Monitoring Group
- Project Board to drive strategy and delivery
- Limited “back office” resourcing required from the Council – WV Living has no employees
- £40m commercial Funding from City Council including £1m Share

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Establishing the Company
Options/ Mechanisms

- Houses developed for market rent will be owned by the Company
- Affordable Housing to be sold to the Council and let through the Housing Revenue Account
- Housing developed through the Council’s Housing Development Team

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Establishing the Company Considerations

- Branding is important
  “WV LIVING” has its own Identity
- 5 Year Land Supply
- Council’s approach to the use of its land identified for Housing development
- Speedy establishment of delivery
- Increase overall housing delivery from circa 500 to 700+ per annum

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• Timeline

• June 2016 - Cabinet approval to set up Housing Company

• September 2016 - First Business Plan approved

• Quarterly/Half Yearly – Updates to business plan

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• Phase 1 – 4 sites
  – 3 Former schools following Building Schools for the Future programme
  – 1 Leisure Centre
  – 3 sites medium sized up to 80 units
  – 1 site large circa 270 units
• Phase 1
  – Mixture of new homes across the 4 sites
  – Market Sales
  – Market Rent
  – Affordable Housing

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• On site – Early Summer
• First homes to be completed Spring 2018
• Sales and Marketing key
• Future phases in development

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Buy or rent homes in Wolverhampton with WV Living

- **Our Developments**
  Take a look at our latest developments: Darnesmore Pastures, Peascroft and Sweet Briar. A range of 2 bed apartments, 2, 3 and 4 bed houses in the Wolverhampton area.

- **Advice for the home buyer**
  Need advice about buying your home? A first time buyer or looking to rent? Want to know how much you can borrow or want more information about Equity Loans, Shared Ownership and Mortgage Brokers?

- **A great place to live, learn, work**

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Danesmore Pastures
A collection of 2, 3 & 4 bedroom homes
Located in Ashmore Park, Wednesfield, Danesmore Pastures is an exciting new development of 2, 3 and 4 bed homes. The contemporary design and high specification creates an attractive mix of homes whilst the development itself is beautifully laid out. Find out more.

Peascroft
A collection of 2, 3 & 4 bedroom homes
Located in Briston, Peascroft is an exciting new development of 3 and 4 bed homes. The contemporary design and high specification creates an attractive mix of homes whilst the development itself is beautifully laid out. Find out more.

Sweet Briary
A collection of 2, 3 & 4 bedroom homes
This impressive new development of 2, 3 and 4 bedroom homes showcasing contemporary design and high specification creates an attractive mix of homes located less than a mile from picturesque East Park. Find out more.
• Viability and Commercial operation
• Driven by detailed market intelligence
• Returns for the Council
• Pump primes the Housing Market
• Accessible home ownership
• Help to Buy
• Shared Ownership
• Private Rented Offer
• Up to 800 – 1,000 new homes over 5 years
• Future Sites through the Council’s disposals programme
• Starter homes initiative
• Regeneration
  – Heath Town high rise estate
  – City Centre living future options

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Website is now live
www.wvliving.co.uk