

Tackling the need for affordable housing through a local housing company

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Introduction

- Background to Wokingham Borough
- How/why we developed the idea of a LHC
- The LHC structure
- Funding
- Development Pipeline
- Top Tips



Some context

- Population 160,000 (2015)
- 1,876 people on Housing Register
- Homelessness increasing
- 612 local households interested in shared ownership
- High average house prices - £416k at May 2017 – 57% higher than all England average.
- Small and high cost private rental sector
- 80% owner-occupiers in Borough (2011)
- Council stock of 2,650 – bought out of HRA subsidy system
- 4 Strategic Development Locations in Borough - 13,500 new homes by 2026 - 10,000 in SDLs
- 35% affordable housing (mix of on-site & commuted sums)



Background to Company

- Started to discuss in 2008 following the 2007 Housing Green Paper
- Worst funded LA in England
- Wanted to look at different ways to meet housing need that built up assets & created revenue stream
- Reviewed the following options:
 - Council-House Building (i.e. in HRA)
 - 50:50 Joint Venture
 - Commissioning through housing associations (“as is”)
 - Wholly-owned company
- Wholly-owned company was preferred option



Wholly-Owned Company

- Greatest control over homes built
- Most responsive to local needs
- Ability to deliver mixed tenure
- Housing Companies allow you to:
 - Build up asset base
 - Create income stream
 - Borrow to build more
- BUT higher risk and investment requirements



Legal Advice

- A company limited by shares
- Established using “wellbeing powers”
- “State aid” considerations
- Need certain Secretary of State consents
- The LHC will pay corporation tax if it makes a profit and pay VAT on services such as housing management.
- Would be a 'contracting authority' so would be subject to EU procurement rules
- Assured or Assured Shorthold tenancies would apply



Wokingham Housing Limited

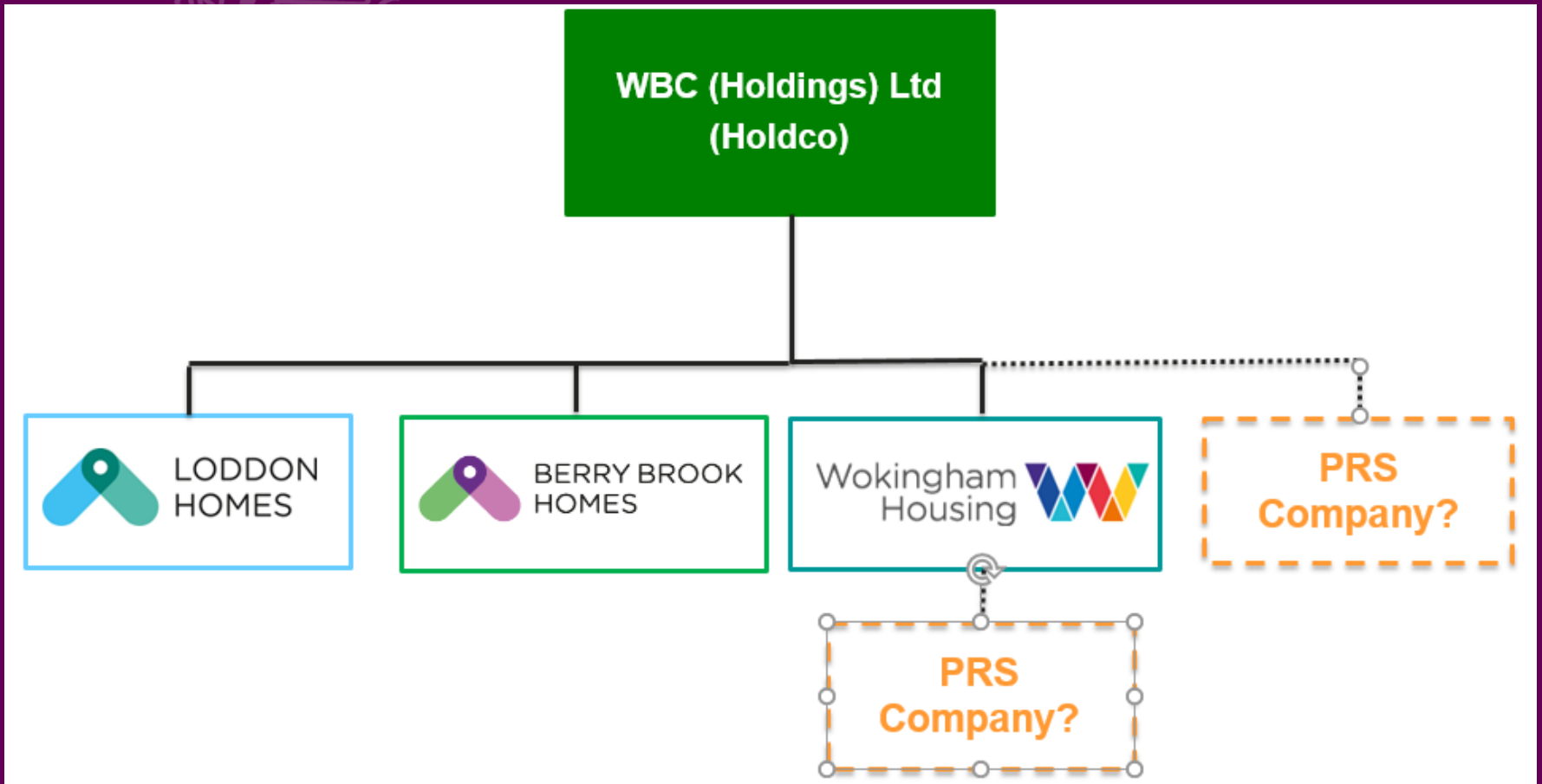
- Wokingham Housing Limited (WHL) was set up in June 2011
- Company limited by shares (WBC 100% shareholder)
- Initial business case - small scale development programme on council-owned land (75 units over 5 years)
- BUT more ambitious plans!



Our LHC Model



Housing Companies Structure



Company uses

Loddon Homes - For-Profit RP

- Stock with Government Grant funding e.g. Fosters, 52 Reading Road, Shared O/ship



Berry Brook Homes - Local Hsg Co

- All affordable – non Govt. Grant funded e.g. Phoenix Ave, Grovelands, Anson Wk



WHL – Development Co.

- Develops units for above + WBC HRA
- Funds/delivers private sale/private rented



Private Rented Sector (PRS) Co.



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Current structure – outbound

Committed Sums (CS) to...



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Loans to Holdco from WBC*



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3.5% loan*

Loan to WHL – working capital @5.75%



* CS repays loan on completion

WBC/LHL 'commission' WHL to build affordable homes and sells to Loddon



Wokingham Housing

In-bound



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Council services funded thro' interest charges and future profit from Holdco



Dividend

Surplus rental income



Profit

Tax

Interest payment

Interest payment



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Dividend



WHL create profit thro' transfer price (initial working capital from WBC)

Commercial Approach

- 2 key objectives: **homes + profit**
- Working capital loan – c.£1.9m by mid 2017/18
- Tough business case appraisals that tests:
 - Notional profit/ loss
 - GDV and ROI over NPV
 - VFM balanced against cost benefit analysis
- Decision gates process - reduce abortive costs
- Challenging build costs
 - Quality/ maintenance costs/ customer
 - Build at an acceptable price per sq metre



eyes wide open



How WHL operates

- WHL – small team of 5 staff (2 PT)
- Small Board of 4 – 3 Cllrs + MD
- Board meet every 2 months
- WHL's business plan –
 - Small sites < than 20 units – 10-15% Overhead and Profit (OH&P) charge
 - Large sites > than 20 units – 5-10%
- No capitalisation of costs - transfer price of assets cover OH&P
- External expertise key
- EA & Small Contractors Frameworks
- WBC SLA for services – esp. L/L



Setting up Loddon Homes

- Jan 2014 set up Loddon Homes - registered June 16 as a For-Profit RP
- HCA registration process – hard work persistent!
 - Concern about ‘independence’
 - 1st wholly owned Council FPRP – so potential to set ‘precedent’... but strong governance as a result
- Financed from Commuted Sums/ Borrowing/HCA Grants



How Loddon Homes operates

- 3 staff – MD, Business Finance Partner, Business Support Mgr
- Board of 8 – 3 Councillors, MD, 1 WBC tenant, 3 Independents
- Board meets every 2 months
- SLA with the Council – some Legal, HR, Property, ICT, but mainly landlord services – charged at cost + margin of 3-5%
- Brings in external expertise



How Berry Brook operates

- Set up April 2017
- No staff
- Board of 4 – 1 Council Chair, MD, 2 Independents
- Board meets every 2 months
- Funding from Commuted Sums/
Borrowing
- SLA with the Council for services
- Brings in external expertise



Currently...

- On-site at Phoenix (68) and Fosters Extra Care (34) + 3 other sites (17)
- Funding - £17.2m (CS) + c.£10m (borrowing from WBC)
- 6 future pipeline sites (150+ units)
- Agent for planning/delivery of HRA schemes – 11 units
- Profitable:
 - WHL in 2017/18 (& repay £1.9m debt)
 - Loddon Homes in 2018/19
 - Berry Brook Homes in 2019/20



Top Tips

- Be brave...
- Try to be clear about your objectives from the start.
- Don't reinvent wheel, but there won't always be someone to copy...
- Invest in advice/ staff – you can't do it as an add on to the day job...
- Get backing of Councillors and senior officers





Any
Questions?



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