

Report title	The WV Living Business Plan 2023 - 2028	
Decision designation	AMBER	
Cabinet member with lead responsibility	Councillor Bhupinder Gakhal City Assets and Housing	
Key decision	Yes	
In forward plan	Yes	
Wards affected	All Wards	
Accountable Director	John Roseblade, Director of Resident Services	
Originating service	Housing	
Accountable employee	John Roseblade	Director of Resident Services
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Report to be/has been considered by	WV Living Shareholder Board	12 April 2023

Recommendations for decision:

The Cabinet is recommended to approve:

1. The updated business plan for WV Living 2023-2028.
2. That authority be delegated to the Cabinet Member for Resources and Digital City in consultation with the Chief Operating Officer and the Director of Finance to approve detailed loan agreements, amendments to any loan agreements and the execution of any loan agreements or other financial instruments between the Council and WV Living.
3. That the Council will continue to act as guarantor for contracts entered into by WV Living where appropriate and that authority be delegated to the Cabinet Member for Resources and Digital City in consultation with the Chief Operating Officer and the Director of Finance to authorise any such guarantees.

4. The establishment by WV Living of subsidiary companies to act as management companies for developments at The Marches and Hampton Park and the transfer of these management companies to homeowners upon completion of developments.
5. That authority be delegated to the Cabinet Member Resources and Digital City in consultation with the Chief Operating Officer and the Director of Finance to approve the establishment of additional subsidiary management companies for future developments and the transfer of these management companies to homeowners upon completion of developments.
6. Amendments to WV Living policies as detailed in the report.
7. That in the light of the new Business Plan the Council confirms that it has confidence that WV Living is a going concern for at least the next 12 months.

Recommendation for noting:

The Cabinet is asked to note that:

1. Updated business plans for WV Living will be brought to Cabinet for approval on an annual basis.

1.0 Purpose

- 1.1 The purpose of this report is to provide the annual refresh of the WV Living Business Plan for approval by Cabinet. This report considers the purpose of WV Living as a vehicle to meet Council priorities for housing in the City. The financial implications for the company and for the Council are considered and recommendations are made for continued financial support as both a shareholder and lender to WV Living

2.0 Background and the Updated Business Plan

- 2.1 WV Living has undertaken the annual update of the Company five year business plan. As the company strategy and operating model has remained unchanged from last year the only changes made are to the financial model. Going forward it is intended that whilst the financial model shall continue to be updated annually the full text of the business plan will be updated every three–five years unless there are significant changes to the strategy or operating model. The updated income and expenditure statements and balance sheets can be found in Appendix 1 to this report. The business plan was approved by the Board of Directors on 9 March 2023, endorsed by the Shareholder Board on 12 April 2023, and is now recommended for approval by Cabinet.
- 2.2 Since WV Living was established in 2016 it has developed 451 new homes in Wolverhampton with a further 178 homes under development giving a total of 629 which includes 135 affordable homes. WV Living has supported the Help to Own Scheme by the delivery of 100 new properties at The Marches.
- 2.3 Properties built by WV Living continue to be in demand and are forecast to deliver a profit of over £1.5 million in 2022-2023 after a record year in 2021-2022 with profit of £2.3 million. This performance demonstrates the progress made in WV Living becoming a sustainable business to deliver upon its four key objectives:
- Profit for Purpose
 - Creating desirable homes and communities
 - Creating local investment and employment
 - Delivering regeneration and neighbourhood improvements.
- 2.4 The foundation of WV Living is to provide choice and offer local people the opportunity to buy high-quality, good value homes. The Company aims to tackle new build sites deemed to be commercially unviable by other developers which historically has resulted in them remaining vacant and derelict for several years. Procurement processes target their contractors to create opportunities and apprenticeships for local people, and particularly young people, appointing local labour wherever possible.
- 2.5 In order to maintain the progress of the company a small core team of permanent staff was recruited in 2022-2023 to provide the resources to support delivery of the business plan.

2.6 The business plan will continue to be refreshed annually and brought to Cabinet for approval, The WV Living Shareholder Board will continue to meet quarterly to review performance against the business plan.

3.0 Company Financial Position

3.1 The business plan forecasts a profit of £1.5 million in 2022-2023 with profitable performance in each of the subsequent years as summarised in the Table 1. The financial assumptions remain broadly consistent with the previous plan although land prices, costs and margin expectations have been adjusted to current levels.

Table 1

Pre-Tax Profit (Loss)	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£000	£000	£000	£000	£000	£000	£000
Previous Plan 2022 - 2027	1,468	274	1,604	2,521	3,575	3,921	0
Current Plan 2023 - 2028	2,319	1,472	668	1,491	2,532	2,314	3,313

3.2 Table 2 shows that the company is forecast to move into financial surplus (after taxation) in 2025-2026 with profits from that point being available for distribution to the Council as dividends or used for reinvestment in the business. For comparison the equivalent table from the Business Plan reported in April 2022 is shown in Table 3

Table 2 Forecast Retained Surplus

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
Base Case	£000	£000	£000	£000	£000	£000
Annual surplus (deficit)	1,192	541	1,116	1,900	1,735	2,484
Retained surplus (deficit)	(2,686)	(2,145)	(1,029)	871	2,606	5,090

Table 3

Prior Year Base Case	2022/23	2023/24	2024/25	2025/26	2026/27
	£000	£000	£000	£000	£000
Annual surplus (deficit)	223	1,202	1,890	2,680	2,938
Retained surplus (deficit)	(4,725)	(3,523)	(1,633)	1,047	3,985

3.3 The forecast retained deficit at the end of 2022-2023 of £2.7 million is a reduction of £3.4 million over the previous two years from a peak of £6.1 million. This is also an improvement of £4.7 million on the same projection from April 2022.

3.4 Sensitivity analysis has been undertaken on the business plan to identify risks associated with under-delivery and the impact on the business. Three key risk areas were identified:

- Reduced margins
- Reduced sales
- Increased interest rates

Sensitivity analysis was undertaken for a range of scenarios including, at the extreme, a combination of reduction in margin of 3% points, reduction in sales of 10% and increase in interest rate of 5%. The company remains profitable in every year at this scenario. A summary of the sensitivity analysis results is included at Appendix 2.

3.5 WV Living has been partly funded by loans from the Council made under the agreed Loan Facility. During 2022-2023 the company repaid all loans and future loan requirements are forecast to be substantially lower than historic levels as a result of improved management of development contracts and cash. Forecast loan levels and interest payments to the Council are shown in the Table 4.

Table 4

Funding	31/03/22	31/03/23	31/03/24	31/03/25	31/03/26	31/03/27	31/03/28
	£000	£000	£000	£000	£000	£000	£000
Year end Funding Requirement	5,000	0	0	4,000	3,000	6,000	1,000
Interest paid to CWC	1,974	114	0	41	309	205	134

3.6 Cabinet is recommended to approve that authority be delegated to the Cabinet Member for Resources and Digital City in consultation with the Chief Operating Officer and the Director of Finance to approve detailed loan agreements, amendments to any loan agreements and the execution of any loan agreements or other financial instruments between the Council and WV Living.

3.7 To provide ongoing support to WV Living, Cabinet is recommended to approve that the Council will continue act as guarantor for contracts entered into by WV Living where appropriate and that authority be delegated to the Cabinet Member for Resources and Digital City in consultation with the Chief Operating Officer and the Director of Finance to authorise any such guarantees.

3.8 The financial model supporting the business plan demonstrates WV Living as a sustainable business and Cabinet is recommended to confirm that the Council has confidence in WV Living as a going concern for at least the next 12 months.

4.0 Risk Register

- 4.1 The company risk register has been updated to identify risks and facilitate their management and mitigation. A copy of the risk register is attached at Appendix 3.
- 4.2 The largest risk to the company delivering their business plan is the identification of viable sites. WV Living has provided assurance to the Shareholder Board that appropriate, robust actions are being taken to identify and secure sites. A dedicated employee has been recruited to oversee this work.
- 4.3 As part of the mitigation to the risk, WV Living are, in line with the Business Plan, looking at urgent opportunities adjacent to the Council's area, but not within it, in order to supplement the existing limited pipeline. In line with the Business Plan such opportunities (ie outside the City of Wolverhampton) are only progressed where there is insufficient pipeline currently (which is the case). In the proposed scenario the level of profit, whilst not substantially greater than the normal rate of return is considered sufficient to help mitigate the risk of a lack of pipeline.

5.0 Subsidiary Companies

- 5.1 Modern housing developments contain areas of open space and other unadopted land for the benefit of residents that requires regular maintenance. This is paid for by residents by way of an estate management charge as included in their purchase documents. It is usual practice for an estate management company to be set up by the developer to control funds and management of the unadopted area for each development. A managing agent is appointed to undertake the maintenance. Once development is complete the unadopted areas of land are transferred to the management company and it becomes wholly jointly owned by the owners of the estate for them to appoint directors and a managing agent. This fosters community engagement in the estate and ensures that residents are in control of the maintenance service.
- 5.2 Creation and disposal of subsidiary companies is a matter requiring Council consent under the terms of the shareholder agreement dated 31 January 2017. Therefore, approval is requested from Cabinet for the establishment by WV Living of subsidiary companies to act as management companies for developments at The Marches and Hampton Park and the transfer of these management companies to homeowners upon completion of developments.
- 5.3 Additional management companies will be required to manage future developments by WV Living and approval is therefore sought for authority to be delegated to the Cabinet Member for Resources and Digital City in consultation with the Chief Operating Officer and the Director of Finance to approve the establishment of subsidiary management companies and the transfer of these management companies to homeowners upon completion of developments.

6.0 Policies

6.1 Under to the terms of the Shareholder Agreement dated 31 January 2017 between the Council and City of Wolverhampton Housing Company Limited (WV Living), Council consent is required to amend any of the Policies as defined, being the Market Rent and Lettings Policy, Sales Policy, Debt Recovery Policy and Remuneration and Expenses Policy.

6.2 Since the initial business plan was approved by the Council and adopted by WV Living (as attached to the Shareholder's Agreement) the Council has approved subsequent Business Plans that have included amendments to the WV Living business model such that it no longer includes engaging in the letting of properties. In addition, WV Living has recruited permanent employees to run the business and completed sales of numerous developments. In the light of these factors WV Living has reviewed the Policies and the Board of Directors has, subject to approval by the Council, approved the following:

- Deletion of the Market Rent and Lettings Policy and of the Debt Recovery Policy as no longer being relevant to the company's business.
- A revised Remuneration and Expenses Policy to include employees and consultants in addition to Directors (Appendix 4).
- A revised Sales Policy to reflect the latest consumer code requirements and the experience gained from sales activity undertaken to date (Appendix 5).

6.3 It is recommended that the Council approves the changes to policies.

7.0 Evaluation of alternative options

7.1 The alternative option is to not approve the updated business plan and to ask WV Living to conclude the development of sites already under construction. Whilst there are no loans outstanding to the Company the Council has £8 million of equity investment. Financial modelling indicates that under this scenario WV Living would not be in a position to fully repay the equity back to the Council. In addition to the financial impact, this option would not facilitate the development of much needed housing in Wolverhampton and the development of difficult brownfield sites.

8.0 Reasons for decision

8.1 The principal driver for the approval of the business plan is to facilitate much needed housing in Wolverhampton and to unlock difficult brownfield sites.

9.0 Financial implications

9.1 The financial implications of the business plan are detailed in the body of the report. Monitoring of the business plan will be overseen by the Shareholder Board.

9.2 The Council has an investment of £8 million in the company. The financial modelling and due diligence undertaken provides assurance that the company will have sufficient

retained surpluses in order that the Council can recover the investment either through dividends or repayment of equity in the future.

- 9.3 There are currently no loans outstanding to WV Living, however in the future it may be necessary to provide loans to the company to facilitate site purchase and development. Should loans be required then there will be a need to increase the capital programme accordingly. The expenditure in the capital programme will be offset by equivalent capital receipts from loan repayments. Interest would be chargeable at a commercial rate on any such loans.
- 9.4 The ongoing financial implications for the Council will be included in reports to members through the routine Budget monitoring, Capital Programme and Treasury Management reports where appropriate.
[CN/14042023/A]

10.0 Legal implications

- 10.1 WV Living was established as a trading company under the Local Government Act 2003 and as such the Council must comply with the requirements under that Act as well as the other detailed provisions that apply. The steps recommended in this report meet the Council's legal obligations.
- 10.2 The proposed decisions ensure that the requisite authority is in place for decisions proposed to be made by WV Living.
[DP/17042023/A]

11.0 Equalities implications

- 11.1 There are no specific equalities implications arising from this report, these have already been picked up in previous decisions made and in those relating to specific schemes.

12.0 All other implications

- 12.1 WV Living which is committed to ensuring its new homes are energy efficient and support national and local efforts to reduce the production of greenhouse gases.
- 12.2 There are no immediate corporate landlord implications. It is possible that future developments undertaken by WV Living may include the acquisition and development of land currently owned by the Council. The sale of land will generate capital receipts for the Council.
- 12.3 By providing high quality attractive homes for sale and market rent, the project will, over the longer term, improve the quality of new homes in all areas of the City including areas with lower housing market values.
- 12.4 Improvement to the quality of housing in the City will contribute to increased health and wellbeing.

13.0 Schedule of background papers

13.1 Cabinet 27 April 2022 – WV Living Business Plan

14.0 Appendices

14.1 Appendix 1 - WV Living Business Plan 2023-2028 Financial Statements (in exempt report)

14.2 Appendix 2 - Sensitivity Analysis (included in exempt report)

14.3 Appendix 3 - Risk Register

14.4 Appendix 4 – Revised Remuneration and Expenses Policy

14.5 Appendix 5 - Revised Sales Policy