

**North London Housing Partnership**

In-depth assessment of different housing company and delivery structures

FINAL Report v3.0

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1. Executive Summary
	1. Introduction
		1. This report summarises the outcomes of Altair’s work with the North London Housing Partnership (NLHP) to conduct an in-depth assessment into different housing company structures and housing delivery methods. It includes detail on the context of housing companies in the wider sector and the recent removal of the HRA debt cap, before outlining each member of the NLHP’s current approach to housing delivery, highlighting any successes, failures and lessons to be learned.
		2. The report provides a suggested methodology for conducting an options appraisal of different delivery approaches, a Toolkit for establishing a local housing company, as well as providing a range of case studies showing the range of approaches that different authorities across the country have taken. A key objective has been to ensure that readers of the report can learn from the experience of others and not have to ‘reinvent the wheel.’
		3. We have recently seen a rapid rise in local housing companies. Local housing companies (LHCs), as defined in the Smith Institute report of 2017, ‘Delivering the renaissance in council-built homes: the rise of local housing companies’, are “arms-length commercial organisations wholly or partly owned by councils…the homes LHCs provide sit outside of the local government housing financing system (Housing Revenue Account) and are not subject to the Housing Act and most of the social / affordable housing regulations”.
		4. There are as many as 150 LHCs currently operating in England, most of which have been formed over the last few years; the Smith Institute report estimates that, collectively, LHCs could increase completions over time from 2,000 homes per year to 10,000 – 15,000 homes per year by 2022.
		5. LHCs are viewed positively by government. They are enjoying cross-party support and are viewed as an example of ‘entrepreneurial councils’ taking the initiative and innovating.
		6. We also discuss the recent lifting of the HRA debt cap and the fact that this has led a number of boroughs to move away from LHCs where their HRA is financially strong enough to fund new housing development.
	2. Member organisations’ approaches to housing delivery
		1. The six member organisations have adopted a range of approaches to housing delivery reflecting different politics, demographics, land, market conditions and other factors.
* London Borough of Barnet - through its wholly-owned trading company (The Barnet Group), the council has established two models through which to deliver housing in the borough – a Registered Provider (Opendoor Homes) and a wholly-owned council housing company (as yet unnamed).
* London Borough of Camden – delivers new housing in house and via its intermediate rent vehicle Camden Living, a wholly-owned council company formed in 2016. Camden Living provides affordable rented housing on behalf of the Council to people living and working in Camden. The organisation has set a Camden Living Rent designed to enable Camden residents to access genuinely affordable housing. Homes are built through Camden Council’s Community Investment Programme.
* London Borough of Enfield - currently has Housing Gateway Ltd, 100% council owned, acquiring and providing sub-market rent accommodation in which to assist the Council in reducing its costs of temporary accommodation and to also improve the quality of the private rented sector. Prior to the lifting of the debt cap and changes to the use of RTB receipts, the Council had sponsored the establishment of an RP – in the light of the changed operating environment the use of this vehicle is under review. The Council also has a company established to deliver a small sites development programme – Enfield Innovations Ltd. With the completion of this programme its future is under review with options such as providing market rent accommodation for families being considered.
* London Borough of Haringey - currently delivering new housing in house and is in the process of establishing a council owned housing company.
* London Borough of Islington - currently supports delivery of new housing in house. Although a decision was taken back in 2007 not to use specialised delivery models, the establishment of a wholly owned company is now underway.
* City of Westminster - currently supports delivery of new housing in house and has no specialised delivery models.
	+ 1. Although the focus of this assignment was to review different LHC structures, generally NLHP members are not using LHCs to build. LHCs are not considered by the member boroughs to give the freedoms they need. Further, once this review had been commissioned the Government announced the lifting of the HRA debt cap thereby immediately reducing even further the potential attraction of utilising a LHC vehicle, at least for those LAs with an HRA that has sufficient capacity to develop.
		2. Overall we noted that, with some notable exceptions, the enthusiasm for LHCs is now reducing.
	1. Company structures and governance
		1. The report sets out the range of corporate delivery structures available to a local authority that wishes to set up a local housing company and their respective benefits.
		2. We then set out some key considerations in relation to identifying appropriate governance arrangements.
	2. Conducting a strategic options appraisal
		1. In order to determine the best delivery vehicle for developing new housing, we consider it is essential to evaluate the options in a structured way. Our typical methodology for carrying out a strategic options appraisal involves three main elements:
* Understanding the local context, including political, organisational, financial, governance, ownership and housing need
* Developing and appraising the options - including listing all the strategic objectives for appraisal, which should be scored, based on the ability of each model to deliver the objectives, and a justification provided for the marks awarded
* Detailed planning on the delivery structure before commencing
	+ 1. We describe how to conduct such an appraisal. It is important that each of the above stages are carried out otherwise there is a risk of wasting both time and money on pursuing an option that does not deliver the desired outcomes.
	1. Toolkit
		1. The toolkit provided looks to cover the rationale behind setting up types of vehicles; the processes involved including contracts, leases, articles of association etc.; the governance processes; funding mechanisms; set up timeframes; associated costs; delivery to date; areas of good practice; and lessons learnt.
		2. Depending on the delivery model which local authorities consider, there are key barriers which will need to be considered and addressed to ensure success; attracting talent, the planning system, governance processes, use of right to buy receipts and expertise in housing delivery teams.
		3. If the decision is taken to proceed in setting up a LHC creating a business plan should be one of the first activities that is undertaken. The business plan should clearly set out the LHC’s objectives, its delivery mechanism, the programme for delivery, financial projections, delivery risks and the governance structure.
		4. The main purpose of a business plan is to confirm that the thinking and rational behind the LHC is correct and that it will be viable. The document will act as a benchmark for performance and a tool to get buy-in from internal and external stakeholders. Of key importance, the objectives & priorities need to be concise and financial projections realistic. If these elements are lacking credibility and structure it will be hard to launch the LHC.
		5. Beyond the business plan, energy should be spent to build a high performing development team supported by compliant and pragmatic processes:
			+ 1. An effective development team should include a diverse range of skills from strategic thinkers to delivery motivated individuals. It is recommended that as a minimum, individuals have strong project management skills and if possible, can offer an area of expertise e.g. design, cost management etc.
				2. Regarding practical programme delivery, areas not to be overlooked are; programme & project management, stakeholder engagement, governance & approval, the procurement strategy, scheme viability, legal & planning services. If any of these areas are neglected, it could disrupt housing delivery efforts.
		6. The assignment as originally conceived was focused heavily upon local housing companies and therefore, most of the content in this section is predicated on a LHC being the likely delivery vehicle and as had already been noted, the six NHLP boroughs are primarily focused on in-house, direct delivery.
		7. However, much of the content will still be relevant whatever delivery route is adopted.
	2. Case studies
		1. At Appendix 2 there are 12 case studies which demonstrate how different models of housing delivery vehicles have been implemented by different local authorities. The case studies include examples of Wholly Owned Companies, Direct Delivery, Multi Authority, JV and Lease Back arrangements and the associated aims and objectives of the organisations in using their chosen model.

Section A – Assessment of North London Housing Partnership

1. Background, history and market context
	1. Overview
		1. This report summarises the outcomes of Altair’s work with the North London Housing Partnership (NLHP) to conduct an in-depth assessment into different housing company and delivery structures. In Part A, we include details on the context of housing companies in the wider social housing sector and the recent removal of the HRA debt cap, before we outline each member of the NLHP’s current approach to housing delivery, highlighting the successes and challenges of the different approaches that have been adopted.
		2. In Part B, we include a Toolkit section which covers a number of key lines of enquiry that ought to be considered by NLHP members as they decide upon or review their existing approaches to housing delivery.
	2. Housing in context
		1. 2017 saw the 10th anniversary of the collapse of Lehman Brothers, which became a totem for the onset of the 2008 recession. The effects of the recession are well-documented, in particular the effects on the financial sector, the housing market and the Government’s fiscal response. New housing supply was severely arrested and house prices fell significantly across the UK. That said, the housing market in London and the South-East showed remarkable resilience; there were some reductions in the rate of house price growth, and some reversal of growth, but this was quickly followed by a return to the pre-recession upward trend, which has continued across the capital, including in the boroughs of the NLHP:

**Average house price (as of January each year) by London borough, 2009 – 2018**

*Source: UK House Price Index*

* + 1. Government spending in general has been severely curtailed throughout the prolonged period of austerity, and thereby the opportunities for stimulus investment into the housing sector were much reduced. As the supply of new housing dwindled, population trends in London and the South East continued relentlessly upwards, and consequently the supply and demand curves generated rising prices. Chasing affordability, London’s population started to spread to the outer London boroughs, the suburbs and then the home counties, trading increased commuting costs for lower house prices. Demand in these outer London areas fuelled prices and supply of new homes continued to fail to keep pace.
		2. In the financial sector, the volume of lending reduced, and the demands of mortgage lenders intensified. Loan-to-equity ratios have acted as a barrier to entry for first-time buyers in an already inflated market.
		3. Together, these factors have contributed to the acceleration of trends away from owner-occupied housing and fuelled the growth of market renting. This is the reversal of a longstanding post war trend. The Government has promoted the “Help to Buy scheme” in response, which has received a positive response from the housebuilders with 60%+ of new homes for first time buyers being marketed through this route.
		4. Nevertheless, this continued lack of accessibility of homeownership has led to owner occupation being in continuing decline for the first time in 80 years. In contrast, private renting has been growing for the last 20 years. The Help to Buy initiative may halt this tenure switch, but the full impact has yet to be seen.

**Changing breakdown of housing tenure in the UK (Proportion of all households %)**

* 1. History of Local Authority Stock Ownership
		1. From the early twentieth century a legal duty was placed on local councils to provide housing, with the post-war era seeing a boom in building by local authorities and the birth of the modern concept of a ‘council house’. Most early affordable housing was managed by local authorities but, following legislative changes since the 1970s, housing associations played an increasingly important role in delivering housing in the UK.
		2. From the 1980s onwards many local authorities chose to transfer the ownership of their housing stock to independent organisations through Large Scale Voluntary Transfers (LSVT). Over 1.3m homes have transferred from 130 local authorities in England. Many of these homes were part of LSVTs; however, a number of authorities in England have carried out partial stock transfers where estates or other packages of council properties were transferred while the council retained ownership of some of its stock. Stock transfer housing associations now account for around 44% of all social homes in England, while around 100 local authorities in England still own and manage their stock.
		3. The early 2000s saw the introduction of another local authority housing model, the Arm’s Length Management Organisation (ALMO). Many local authorities which did not pursue stock transfers sought to secure government funding for investment in their stock through the creation of an ALMO. ALMOs were able to apply for government grants that were unavailable to local authorities.
	2. The rise of local housing companies
		1. Recent years have seen the rapid rise of local housing companies. Local housing companies (LHCs), as defined in the Smith Institute report of 2017; ‘Delivering the renaissance in council-built homes: the rise of local housing companies’, are “arms-length commercial organisations wholly or partly owned by councils…the homes LHCs provide sit outside of the local government housing financing system (the ring-fenced Housing Revenue Account) and are not subject to the Housing Act and most of the social / affordable housing regulations”.
		2. There are as many as 150 LHCs currently in England, although far fewer appear to be operational, most of which have been formed over the last few years; the Smith Institute report estimates that, collectively, LHCs could increase completions over time from 2,000 homes per year to 10,000 – 15,000 homes per year by 2022.
		3. LHCs are viewed positively by government, enjoying cross-party support and being viewed as an example of ‘entrepreneurial councils’ taking the initiative and innovating to meet local housing needs.
	3. Housing revenue account financing and removal of the Debt Cap
		1. Housing Revenue Account (HRA) Self-Financing was introduced in 2012. It was a significant change from the previous regime and was intended to give local authorities greater freedom to operate their HRA. The system was based on each council’s notional HRA 30-year business plan and its ability to support a certain debt level. Some Councils had to pay money to the Government to increase their debt – others received money to reduce their debt. The intention was that the HRA debt for each Council was at the supposedly fundable level. An overall debt cap was introduced for each HRA, based on each Council’s original debt profile – critically, this did not allow for the development of new dwellings.
		2. While some councils fared well under the self-financing regime, a number of challenges were felt, for example:
* The debt cap did not change to accommodate changes in the rent regime to include rent reductions
* The impact of increased Right to Buy sales and the consequential reduction in the size of the HRA
* The impact of welfare reforms and the subsequent effect on rent arrears
* Only the costings for the Decent Homes Standard were allowed for in original council business plans, rather than subsequent improvements; doubts were also raised as to whether original allowances for maintenance were sufficient
	+ 1. The overall impact of these challenges was to put many councils in a position where they were struggling to maintain existing properties and could not begin to consider development of new stock. These issues were exacerbated by the HRA debt cap, which gave local authorities very little room for manoeuvre or long-term planning.
		2. In October 2018, the Government announced that the HRA debt cap would be removed with immediate effect. This was welcomed widely, with forecasts predicting an increase in council-delivered new homes ranging from 9,000 homes per annum up to 20,000 homes per annum.
		3. However, the opportunity afforded by the removal of the HRA Debt Cap will only bring significant benefits if the HRA is sustainable over a long period and Councils are effective and efficient in delivery of their housing services. Whilst the HRA debt cap has been removed, there will still be constraints that the HRA will have to work within including the requirements of Prudential Borrowing and hence the need to demonstrate its long-term viability to be able to borrow further.
		4. Each local authority will need to ensure that the HRA is viable over the life of its business plan incorporating any proposed increased borrowing levels. Each local authority’s appetite to risk will also be critical. One of the key measures for financial performance will be the interest cover ratio within the HRA. Revising the approach on this measure could potentially give Councils much greater scope to deliver their housing objectives.
		5. Whilst in many cases there will be clear opportunities within the HRA to develop, individual local authorities may still want to consider what other options for development are available to them such as other external providers and local housing companies.
		6. With greater borrowing and greater development activity comes increased risk and increased scrutiny on the HRA and its long-term viability. This will require close working between housing and finance teams to maximise the benefits from the opportunity that this change in government policy clearly provides.
		7. Notwithstanding the increased risks, the removal of the cap has led many boroughs to immediately consider moving their strategy away from LHCs where the HRA is financially strong enough to support development.
	1. NLHP project context
		1. We understand that the NLHP are a group of pro-growth authorities, committed to supporting the delivery of more homes to help meet local housing need. The NLHP comprises the London boroughs of Barnet, Camden, Enfield, Haringey, Islington and Westminster.
		2. At an individual borough level, the members operate a range of different delivery vehicles, new build programmes and estate regeneration strategies. With the launch of the GLA’s ‘Building Council Homes for Londoners’ programme in May 18, they are well positioned to support the Mayor’s ambition to upscale the delivery of new Council homes over the next 4 years.
		3. This project specifically focuses on providing an assessment into the effectiveness of the different housing company structures – either already in place or are currently under discussion across the NLHP authorities. An initial review was completed in late 2017 to benchmark the type of models being brought forward; their primary focus; delivery targets and future plans. Following this review, Housing Directors agreed that a more detailed examination – commissioned as a group of authorities - would be an invaluable tool in terms of identifying best practice and cross- learning. The opportunity to work with an independent adviser appointed under the LGA’s programme would enable the authorities to not only undertake this assessment, but to also extend this to provide bespoke technical support and advice on delivery where appropriate.
		4. In respect of outcomes from the project, the NLHP is aiming for a comprehensive toolkit that would be shared between the six authorities, with existing good practice and lessons learnt made available more widely for the benefit of other local authorities across London and nationally. The toolkit would look to cover the rationale behind setting up types of vehicles; the processes involved including contracts, leases, articles of association etc.; the governance processes; funding mechanisms; set up timeframes; associated costs; delivery to date; areas of good practice; and lessons learnt.
		5. In addition, given that local authority dedicated delivery bodies are able to submit bids under the Mayor of London’s Building Council Homes Programme, it is hoped that the learning arising from this project will help to inform company structure led bids which may be submitted after the initial bids deadline of 30th September 18 – given that there will be a continuous process for submitting bids over the 4 years similar to the GLA’s current Affordable Homes Programme (subject to available funding).
1. Member organisations’ approaches to housing delivery
	1. Introduction
		1. This section of the report details and explores the various approaches to housing delivery currently employed by the member organisations of the North London Housing Partnership. For each partner, we explore their strategic housing objectives, current delivery model(s) and the rationale behind these, the successes and challenges, and any learning points that may be of interest to the other NLHP members.
	2. London Borough of Barnet

**Overview**

* + 1. London Borough of Barnet is an increasingly diverse borough, with individuals from BAME backgrounds comprising 39.5% of the population. This is set to increase, as is the proportion of people aged over 65. Barnet is an expensive place to live, with private rents considerably higher than the national average.
		2. Barnet is the largest borough of London in terms of population, with an estimated ~400,000 residents. This population is projected to increase by approximately 6% between 2018 and 2030.[[1]](#footnote-2)
		3. Barnet recently reviewed its 2015 - 2025 housing strategy and adopted a revised strategy on 1st April 2019.

**Strategic housing objectives**

* + 1. Barnet Council’s 2019 – 2024 Housing Strategy identifies five key themes on which the Council will focus over the strategy period:
* **Raising standards in the private rented sector –** The loss of a private rented tenancy is the biggest reason for homelessness in Barnet. The Housing Strategy sets out a fresh approach to the private rented sector by the Council: the LEAD agenda (Licensing, Enforcement, Advice and Data).
* **Delivering more homes that people can afford –** Barnet’s most recent Strategic Housing Market Assessment has shown that there is a need to provide up to 3,060 new homes per year to accommodate the forecast population growth. The Housing Strategy sets out Barnet’s commitment to continue to explore innovative opportunities to accelerate the delivery of new homes.
* **Safe and secure homes –** The Council has in its portfolio a number of high-rise units, which have come under significantly increased attention following the tragedy at Grenfell Tower in 2017. The Housing Strategy reaffirms the Council’s commitment to deliver “best practice in fire safety.”
* **Promoting independence –** Barnet’s population is ageing, with the number of over-60s in the borough expected to increase to over 120,000. The Housing Strategy sets out Barnet’s approach to addressing this, and also sets out Barnet’s ambition for Barnet to be the most ‘Family Friendly’ borough in London by 2020.
* **Tackling homelessness and rough sleeping in Barnet –** While the number of homeless and households living in temporary accommodation is falling in Barnet, the Homelessness Reduction Act 2017 introduced new duties for local authorities in relation to homelessness. In parallel with the Housing Strategy, Barnet is bringing forward a detailed Homelessness Strategy with its own set of objectives.
	+ 1. Further, from our discussions with officers, we understand that the current priorities for housing delivery are also to:
* Maintain overall social housing numbers and to pursue additional intermediate products including alternative types of ownership
* Accelerate supply across all tenures
* Deliver new rented housing at or less than 65% of the market rate

**Current delivery models**

* + 1. Through its wholly-owned trading company (The Barnet Group), Barnet Council has established two models through which to deliver housing in the borough – a Registered Provider (Opendoor Homes) and a wholly-owned council housing company (as yet unnamed).
		2. **Opendoor Homes** is a subsidiary of Barnet Homes (the Council’s ALMO, which sits within The Barnet Group), created in order to gain Registered Provider status. Opendoor Homes achieved RP status from the Homes and Communities Agency (now Regulator of Social Housing – RSH) in 2017, with the stated purpose of developing 320 new homes in the borough in order to:[[2]](#footnote-3)
* Increase housing supply, thereby preventing homelessness, including making a financial contribution towards general fund pressures arising from homelessness demand
* Provide homes that people can afford
* Sustain quality, particularly in the private rented sector
* Support vulnerable people
* Provide efficient and effective housing services
	+ 1. To support the RP in achieving these aims, Barnet Council provided Opendoor with a loan of £59.8m, with the potential to extend to £65m if required. Opendoor is also supported by a grant of £19m from LB Barnet, funded through Right to Buy receipts.
		2. **Wholly-owned council housing company –** As set out in the *rationale* section below, the purpose of the wholly-owned council housing company was to enable the council to develop and own homes for private rent. However, progress on this initiative has stalled while further evaluation is undertaken.

**Rationale for delivery models**

* + 1. **Opendoor Homes**; In mid-2014 the Council’s Assets, Regeneration and Growth Committee approved the creation of a development pipeline on council-owned land. The Council then set out in its 2015 – 205 Housing Strategy that this pipeline would include the building of new homes on existing council land held in the HRA.
		2. It was agreed that the RP would provide the Council with a payment of £2,000 per annum for each new home completed in addition to an interest margin on the loan. The establishment of the RP therefore supported the Council in satisfying its obligations to invest prudently.
		3. **Wholly-owned council housing company –** The rationale for the formation of a wholly-owned council housing company was to enable the Council to develop and own homes for private rent, given the stipulation in the Localism Act 2011 that wholly-owned companies be set up for any Council activity undertaken for commercial purposes. It was the Council’s view that creating a housing WOC would:[[3]](#footnote-4)
* Increase the supply of homes in Barnet and meet wider housing demand
* Increase investment in regeneration
* Create realisable capital assets for the Council
* Enable the Council to control the housing mix through the planning process and design standards
* Enable the Council to retain full control of the development and construction process, including the marketing
* Generate long-term revenue for the Council

**Successes, challenges and learning for NLHP Members**

* + 1. The Council has adopted a mature group structure approach comparable to those seen in the commercial sector and also now amongst registered providers. It has retained full control of nominations for all new properties and has also implemented a governance structure with a strong element of skills based non-executive appointments.
		2. Long term revenue is being generated by the mix of commercial and social objectives being pursed.
	1. London Borough of Camden

**Overview**

* + 1. London Borough of Camden’s population is roughly 250,000 and is set to grow significantly. Camden is a highly diverse and contrasting borough. It contains business centres, residential districts, and green spaces, all with varying levels of wealth or deprivation. The borough occupies 1.4% of London’s total area but contains 7% of its employment and 2.9% of its population.[[4]](#footnote-5)
		2. There are approximately 100,000 dwellings in Camden, the majority (85%) of which are flats – either purpose-built or converted. The cost of housing in Camden is among the highest in the country, in terms of both buying and renting.

**Strategic housing objectives**

* + 1. Camden Council’s strategic objectives are set out in the Camden Plan. This plan was developed in response to Camden 2025 – a collaboratively designed vision for the future of the borough launched in 2018. The Camden Plan sets out a number of key objectives which the Council commits to pursuing. It states:[[5]](#footnote-6)
* We will build as many genuinely affordable homes as we can as quickly as we can and help others (including housing associations and developers) to do so as well. We will build more affordable homes than we have done in a generation.
* We will make sure that everyone has a sustainable roof over their head or is on a pathway to achieving this, minimising homelessness and rough sleeping.
* We will strive to make homes in Camden safe, well-managed and well-maintained, and make sure that people’s homes meet their needs. We will do everything we can do reduce the number of households living in unsuitable accommodation. We will play an active role in shaping a private rented sector that works.
* We will do all we can to help young people who have grown up here, or who have strong connections to the borough, to gain a foothold in Camden and build their adult lives here.
* We will support people living in our homes to live fulfilling, connected and healthy lives, tackling social isolation and unemployment head on. We will focus our offer around what tenants need and make it easier to get this support, treating everyone as an individual.
* We will focus on building communities that are mixed, with well-designed homes and infrastructure that encourage integration, cohesion and active lifestyles.
	+ 1. We also understand from our discussions with Council officers that:
* Social rent homes are an absolute priority for Camden.
* Shared ownership is not supported as it is seen as an unaffordable product in Camden’s housing market.

**Current delivery models**

* + 1. Camden Council delivers its housing both in-house and through Camden Living, a wholly owned council company, formed in 2016. Camden Living provides affordable rented housing on behalf of the Council to people living and working in Camden. The organisation has set a *Camden Living Rent* designed to enable Camden residents to access genuinely affordable housing. All the homes are built through the Council’s *Community Investment Programme* (CIP).
		2. The CIP is targeting 3,000 mixed-tenure homes over 15 years beginning in 2012. Market sale is developed as a product to deliver cross subsidy, noting that the commercial housing market is self-sufficient already in Camden.
		3. In addition, the Council’s Cabinet is considering whether to purchase 50 ex-RTB homes for TA.
		4. Camden Living is a wholly owned company limited by shares. The organisation operates separately from the Council in accordance with its own statutory and constitutional requirements (though its objects were drafted in a way which aligned with Camden Plan objectives while retaining a commercial focus). However, it is governed by Council officers and is managed on a day to day basis in a way that ensures alignment with the Council’s wider objectives. Camden living buys its homes from the CIP.
		5. Development is financed via the Housing Revenue Account.
		6. An in-house team of circa 40 alongside a 20 strong property team (valuers, surveyors etc.) manage the CIP, which as stated above includes some non-residential development including schools, community facilities etc. The approach continues to evolve as learning takes place. Some disciplines are bought in, including Employer’s Agent, Clark of Works, Architects etc., whereas additional in-house disciplines are being established including sales and marketing. Aftercare and defects management has proved a particular challenge and a focussed team within Development is being established to provide a more joined up (with the development process) service.
		7. Development always takes place on Camden owned land. There is neither the risk appetite nor the financial capacity to compete on the open market for land led deals. Typically, parcels of HRA land associated within existing estates which may or may not include existing homes will be acquired by the CIP who plan and then execute the schemes.
		8. Camden has worked extremely hard at its resident consultation and through its Citizen’s assemblies consults widely to gain acceptance for schemes before proceeding. Council officers reported that its schemes are a relatively easy ‘sell’ given the commitment to:
* Social rents
* No change to tenancy terms and conditions for existing residents
* Council remaining as landlord of the new homes
* Social rent homes are always built first (not the private sale in contrast to most private development)
* High quality build and space standards
* The support for ballots in line with the Mayor’s new guidance

**Rationale for delivery models**

* + 1. The rationale for the establishment of Camden Living is set out in a report submitted to the Council’s Housing Scrutiny Committee Cabinet in late March 2016. The stated intent of the establishment of Camden Living was to support the Council in achieving its commitments as set out in the Camden Plan, in particular by:
* Providing an improved intermediate rent housing offer for residents in the borough in accordance with the Intermediate Housing Strategy and Planning policy, addressing a gap in the Camden market.
* Offering the Council, as sole shareholder, the opportunity to benefit from capital growth of assets created by the Community Investment Programme that would otherwise be sold to private purchasers.
* Acting as a vehicle to generate revenue income which may be used to support Council services.
	+ 1. This rationale was supported by financial modelling of the proposed business case for Camden Living, which concluded that establishing the company could deliver a surplus to the general fund for reinvestment.

**Successes, challenges and learning for NLHP Members**

* + 1. The Community Investment Plan (CIP) is considered a success and has built 721 new homes of the following tenures:
* 285 Council homes (156 additional homes and 129 replacing poor quality homes with brand new often larger homes to help meet demand)
* 13 Shared Ownership homes
* 65 Camden Living homes let at below market rent to people who couldn’t otherwise afford to stay in Camden (63% of tenants are public sector workers offering social value and a quarter are sons and daughters of social housing tenants in the borough)
* 358 homes for sale to help pay for the new affordable homes, schools and community facilities, including 70 units purchased by the Department of Transport and subsequently returned to the Council as replacement housing for residents displaced by the development of High Speed Two
	+ 1. In 2018, Camden Council secured £30 million of funding from the Mayor of London to help continue building 308 new rented council homes through the CIP.
		2. Using a council owned company along with an in-house development team can deliver both a large number and a wide range of new build properties. By ensuring that the WOC is governed and managed as a council service / department, it has ensured it has worked with the Council to pursue identical objectives.
		3. Community liaison officers who handle all the resident consultation and engagement are seen as a particular success and are embedded within the development team itself.
	1. London Borough of Enfield

**Overview**

* + 1. London Borough of Enfield has a population of approximately 332,000, making it the fourth-most populated London borough. The population of the borough is forecast to grow by 5% between 2015 and 2023 and is estimated to reach 340,000 by 2032.[[6]](#footnote-7)
		2. Enfield has a large population of residents aged under 15, representing just over one fifth (21.23%) of the population, while 12.6% of residents are aged 65 or over.
		3. The borough is home to a hugely diverse population, with just under two fifths of the population identifying themselves as belonging to a BME group.
		4. The Council has stated in its new Local Plan Consultation document, December 2018, that it needs to plan for 1,876 to 3,500 homes a year as set out in the draft new London Plan and the government’s targets.
		5. The numbers are similar to those being asked for in other London boroughs like Haringey, Havering, Redbridge and Waltham Forest. Enfield’s figure of 1,876 new homes a year is less than 3 per cent of London’s annual housing need. However, in the last 5 years, the number of homes delivered in the borough has on average been approximately 550 new dwellings per year. To achieve 1,876 to 3,500 new homes a year for the next 15 years will mean the council will need to look at new ways of building new homes, new sources of housing land supply - in ways and in areas of the borough not previously considered.[[7]](#footnote-8)

**Strategic housing objectives**

* + 1. The stated aims and objectives of the Council’s housing strategy (which is currently under review) are:[[8]](#footnote-9)
		2. Aim 1: Address housing need and promote personalised housing advice, options and choices. The objectives to achieve this aim are:
* Preventing homelessness
* Addressing severe overcrowding
* Delivering housing related support services
	+ 1. Aim 2: Increase housing supply to meet the needs of local people. The objectives to achieve this aim are:
* Increasing the number and mix of homes of all tenures including affordable and family sized homes
* Providing the right type and number of accessible and specialist homes
* Making the best use of our housing stock
	+ 1. Aim 3: Improve the quality of homes and neighbourhoods and contribute to strong communities. The sated objectives to achieve this aim are:
* Improving the quality and sustainability of existing homes and neighbourhoods
* Improving standards and management of homes in the private rented sector
* Delivering well designed, environmentally sustainable new homes and neighbourhoods
* Addressing worklessness with a focus on the social rented sector
	+ 1. Although pro-growth, the focus of the new Housing Strategy under development is very much on ensuring that it is ‘good growth’ – that is growth for the benefit of existing residents who can stay and benefit from the improvements. Therefore, the Council’s delivery models have developed to focus on homelessness, prevention, and relief estate renewal, increasing supply of council homes as well as the development of the large scale Meridian Water programme where 10,000 new homes targeted to benefit Enfield residents will be delivered over the next decade.
		2. Rent levels are a key issue given the low wages of residents.

**Current delivery models**

* + 1. The Council is currently building up its in-house development and regeneration capacity to increase the pace and scale of housing supply and to directly influence the product type, tenure and quality. The use of a company vehicle is considered when there are activities or benefits that the Council cannot achieve through direct delivery.
		2. It has two existing housing vehicles. Enfield Innovations Ltd which has led on the development of a small sites programme and the Housing Gateway Limited which is 100% owned by the Council, and is responsible for the acquisition, refurbishment and management of a portfolio primarily of street properties, to provide sub-market accommodation for Enfield residents. The aim is to secure local properties for local people in housing need and to assist the Council in discharging its homelessness duty to residents in Temporary Accommodation
		3. Housing Gateway Limited was formed in 2014 as an innovative way to help assist the Council in reducing its budget pressures, by providing more affordable accommodation in the Private Rented Sector. It currently owns and manages over 500 units of accommodation of varying sizes.
		4. Key aims of Housing Gateway are to:
* Increase the supply of cost effective Private Rented Sector accommodation that can be accessed by Enfield Council to reduce other (homelessness) budget pressures
* Secure local properties for local people
* Set exemplary landlord standards with well managed and maintained accommodation
	+ 1. Financing has been through PWLB but given the scale of the existing portfolio, options to refinance externally are also being explored to create additional internal borrowing capacity.
		2. Red Lion Homes (RLH) is a new council sponsored RP (as yet unregistered), which the Council initially agreed to support through investing RTB receipts. It was intended that the vehicle would help the Council spend its anticipated £154m of RTB receipts, which are expected between 2018/19 and 2022/ 23 and for which the HRA does not have the available 70% match funding. With the lifting of the debt cap and the ability to utilise RTB receipts on its own development and acquisition programme the future use of the company is currently under review.

**Successes, challenges and learning for NLHP members**

* + 1. The Housing Gateway has been a very successful initiative from a financial investment and cost avoidance perspective as well as in meeting housing need. It provides the Council with a route to offer housing on assured shorthold tenancies and with scope to vary rent levels according to the product type and affordability.
		2. Challenges have been in the PWLB financing strategy (which sought repayment of capital and interest on an annual basis) and providing sufficient flexibility of financing to enable the Gateway to further grow. With a large scale portfolio the Company is now looking at sources of external financing.
		3. Companies such as Enfield Innovations undertaking development must have adequate financial capacity to withstand the typical risks that may materialise in development resulting in additional costs or time delays which may affect the original financing plan.
	1. London Borough of Haringey

**Overview**

* + 1. Haringey’s population is approximately 282,900 and has historically grown rapidly, expanding by 17.7% between 2001 and 2011, and a further 11% between 2011 and 2018. There are approximately 114.313 dwellings in Haringey.[[9]](#footnote-10)
		2. Haringey has a higher than average proportion of younger and working-age people, with the latter group (20 – 64) representing 66.3% of the total population. Nearly two-thirds of the borough’s population are from BAME backgrounds. It is also one of the most deprived areas in the country, ranking as the 30th most deprived borough in England. The borough is also growing rapidly, with population growth expected to exceed 10% between 2015 and 2025.
		3. Haringey has recently been subject to changes in political leadership and in housing delivery strategy following the curtailment of the proposed Housing Delivery Vehicle (HDV) joint venture with Lendlease. The subject has received wide coverage and the details are not discussed again here.

**Strategic Housing Objectives**

* + 1. LB Haringey is currently operating within its 2017 – 2022 Housing Strategy which was adopted by the previous administration. It should be noted however that Haringey is in the process of actively reshaping this strategy to bring it in line with the borough’s revised priorities and commitments; however, content within this section has been lifted from the current version of the strategy.
		2. Haringey’s current strategy sets out four key strategic objectives:
* Achieve a step change in the number of new homes being built
* Improve support and help to prevent homelessness
* Drive up the quality of housing for all residents
* Ensure that housing delivers wider community benefits

**Current delivery models**

* + 1. Haringey does not currently deliver new housing through an ALMO or wholly owned company. However, in July 2018 a new housing company to be owned by Haringey Council was given the go-ahead, paving the way for more council homes in the borough. It was intended that the new Wholly Owned Company would ramp up delivery of quality new-build council-owned homes, with a particular focus on providing homes for the more than 9,000 families on the council’s housing register, including 3,000 homeless households in temporary accommodation.
		2. However, the current focus is now very much on developing council homes at council rent wherever possible for current residents. The former agenda for growth is taking a back seat in favour of ensuring that existing residents rather than newcomers to the borough are the beneficiaries of the Council’s investment.
		3. To deliver this, Haringey will focus on existing HRA land and will not be purchasing land. It may however also look to acquire built properties in order to deliver it targets. Haringey will not deliver intermediate products.
		4. Target is 1000 homes through the following routes:
* Using existing land in council ownership
* Working with partners, likely to be an RP on regenerating the Broadwater Farm estate
* Acquiring homes, potentially through s106 deals
* By targeting 80% social v 20% market rent split on all sites
* In addition, Haringey is open to the idea of buying back former RtB homes if the HRA can afford the borrowing required

**Learning for NLHP Members**

* + 1. Biggest learning point is their 1,000 homes target in next 4 years, which subject to further analysis could be delivered via HRA – something that would have been impossible prior to the lifting of the debt cap.
	1. London Borough of Islington

**Overview**

* + 1. Islington’s population is estimated to be 233,200 and is forecast to grow by 7% between 2018 and 2028.
		2. The second-smallest London borough, Islington is the most densely populated local authority area in England. The housing environment in Islington is characterised by low household size and a high proportion of flats. Islington also contains some of the UK’s most deprived wards.
		3. As well as being one of the most densely populated, Islington is also one of the most expensive places to live in London.

**Strategic housing objectives**

* + 1. Islington Council’s vision for housing, as set out in its 2014 – 2019 Housing Strategy, states **“we will make sure everyone in Islington has a place to live that is affordable, decent and secure”**. The Council is also operating within its 2018 – 2022 ‘Commitment’: *Building a Fairer Islington*. In addition, a new Housing Strategy is being developed which will go forward for approval in autumn/winter 2019.
		2. To support the achievement of the Council’s objectives, the 2014 – 2019 Housing Strategy sets out four priorities, developed through consultation with Islington residents:
* Increase supply (target is 550 homes by 2022/23) and choice
* Provide well-managed and well-maintained places to live
* Improve health and wellbeing
* Prevent homelessness and provide options
	+ 1. The strategy also outlines a number of additional commitments, covering:
* Lowering the cost of living
* The Council’s approach to asset management (as set out in its 2013 – 2043 Asset Management Strategy)
* Continuously improving the performance in managing council-owned homes through increased resident engagement
* Ensuring high standards of management and housing services
* Improving neighbourhoods and making stronger and sustainable local communities
* Improving the condition and energy efficiency of homes
	+ 1. The Council’s 2018 – 2022 Commitment also contains a range of commitments relating to housing, grouped under the following headlines:
* Increase the supply and choice of genuinely affordable homes
* Ensure effective management of council housing
* Prevent homelessness and support rough sleepers
* Improve housing conditions for private tenants
	+ 1. As also reported to us by Council officers, delivering new social rent homes is an ‘obsession’ for Islington. So called *affordable* products are not considered to be genuinely affordable for those Islington residents who are in housing need.

**Current delivery models**

* + 1. Islington Council currently delivers new housing in-house, and therefore does not have any specialised housing delivery models. The Council formerly had an ALMO (Homes for Islington), but this was brought back in-house in 2012. Islington also has a PFI and a large number (23) of TOMs delivering management services. A local housing company still remains an aspiration, however.
		2. Sites targeted for development are on HRA land and the programme so far has focussed on infill sites and *top hatting* existing blocks.
		3. The development process is managed in house by a team of project managers who use both council and external technical property services. The activity is governed internally by a specialist New Homes Board.
		4. Funding has all been internal and within the HRA and therefore at a zero net cost to the Council.

**Rationale for delivery models**

* + 1. The Council’s decision to deliver housing without any specialised vehicles was taken in late 2007, when the Council decided to deliver a pilot scheme of new-build Council housing in the borough. One of the key drivers behind delivering housing in this way was that the housing would remain fully available to nominations by the Council to house residents; this is not the case with stock developed by an RP, which would have enabled the Council to nominate to only a proportion of those homes.
		2. In addition, it was proposed that the pilot would allow the Council to explore the practicalities of the approach and develop skills and experience to place the Council in a good position for bidding for future grant funding.
		3. However, future use of a LHC remains very much on the agenda and is being actively considered.

**Successes, challenges and learning for NLHP members**

* + 1. Delivery has been in-house since with 30 small schemes successfully completed (200 homes).
		2. The Council has retained full control of nominations for all new properties.
		3. It has demonstrated that a new build programme can be delivered without any specialist delivery vehicle(s).
	1. London Borough of Westminster

**Overview**

* + 1. Westminster City Council has a population of approximately 227,000. It has a higher proportion of working-age residents, and a lower proportion of younger and older residents than the London average. Approximately 60% of Westminster’s residents identify as White British or Other White.
		2. Stretching just over eight square miles, Westminster is one of London’s largest central boroughs and one of only two to have city status. It has some of the most affluent residential areas in the country, but a diverse demographic means also some of the most deprived. It is a densely populated borough, with 1,114 people per hectare; almost double the London average of 561.
		3. Westminster is currently home to 235,000 residents and 115,000 households – by 2030 there are projected to be nearly 25,000 more residents and over 26,000 more households. In Westminster there are approximately 1,600 intermediate homes, compared with over 27,000 social rented homes, but the demand for intermediate housing is nearly as high as for social housing and opportunities for the 3,800 households on the waiting list are very limited.[[10]](#footnote-11)
		4. The average household income in Westminster is £52,199, yet the median house price was £1,054,400 in 2017. That’s nearly two times higher than London as a whole, and almost five times higher than that of the UK. Rental property prices now top the £3,000-a-month mark. Lack of intermediate housing stock means that less than 2% of homes are available for people can’t afford to rent on the open market but are ineligible for social housing – creating a unique problem.
		5. Until recently the council’s stock of approximately 21,000 leasehold and rented homes were managed by City West Homes (an ALMO). Housing services were brought back in house by the council on 1st April 2019, having been managed for 17 years by the ALMO. This followed concerns about its performance and commercial activities.

**Strategic housing objectives**

* + 1. The council’s latest strategic planning objectives and housing policies are outlined in its City Plan 2019–2040, which is described first and foremost, as a *plan for people*.
		2. It sets out to deliver an ambitious strategy to make Westminster one of the best places to live, work and play. Not just in London or the UK, but globally.
		3. The City Plan has 10 key objectives one of which is to increase the stock of high-quality housing and provide variety in terms of size, type and tenure to meet need and promote mixed and inclusive communities, with a clear focus on affordability and family homes.
		4. The number of residential units on development sites will be optimised to meet a target of 1,495 new homes each year. Residential use is the priority across Westminster. All residential uses, floorspace and land will be protected, except where:
* Reconfiguration or redevelopment of supported or affordable housing would better meet need; or
* A converted house is being returned to a family-sized dwelling/s of 150 sq m in size
* Two non-family sized flats are being joined to create a family-sized dwelling of less than 150 sq m
	+ 1. In respect of affordable housing, a key objective is that 35% of all new homes will be affordable across Westminster.
		2. At present, ‘intermediate’ homes make up only around 1.5% of Westminster’s housing stock and the council’s housing market assessments have demonstrated there is a high demand for this tenure. The Council wants to grow and diversify this sector to create a more balanced mix of tenures and improve housing options. This is important to ensure new homes provide genuine choice and meet the variety of needs of different people and families who are vital to the effective functioning of the local economy and delivery of public services in Westminster.

**Current delivery models**

* + 1. Westminster currently delivers housing in-house, and therefore does not have any specialised housing delivery models. Policies in The City Plan are stated as being geared towards encouraging developers to come forward with more housing, optimising housing delivery sites and finding new innovative ways to deliver more homes.
		2. However, a wholly owned company is currently being established to deliver, initially, intermediate and market housing in the City. Westminster may also establish a second wholly owned housing company in order to simplify the VAT accounting and reduce potential VAT leakage whilst at the same time helping the Council to meet its strategic objectives of having the flexibility to either sell, transfer or let residential properties.
		3. The Council has made a commitment to provide at least 1,850 affordable homes by 2023 to ensure that the both vulnerable and low income households as well as middle income households, all have access to the type and quality of accommodation to meet their needs.
		4. Against this background, the objectives for a Wholly Owned Housing Company are to help deliver the Council’s ambition to increase the supply of housing affordable to those living and working in Westminster.  The vehicle will operate on a commercial basis and will offer new tenures and, in particular, intermediate tenures to extend the range of provision available for Westminster residents.

**Learning for NLHP members**

* + 1. None specific.
	1. Common themes
		1. Although the focus of this assignment was to review different LHC structures, generally NLHP members are not using LHCs to build. LHCs are not considered by the member boroughs to give the freedoms they need. Further, once this review had been commissioned the Government announced the lifting of the HRA debt cap thereby immediately reducing even further the potential attraction of utilising a LHC vehicle, at least for those LAs with an HRA that has sufficient capacity to develop.
		2. Overall, we noted that, with some exceptions, the enthusiasm for LHCs is now reducing as the focus turns to in-house delivery.

Section B - Toolkit

1. Introduction
	* 1. This section provides a ‘toolkit’ for the overarching issues that Local Authorities (LA) should consider when exploring options for housing delivery. It consists of guidance on:
* Funding considerations
* Governance considerations
* Delivery route options
* Strategic options appraisals
* Pre-decision business planning
* Practical programme delivery
	+ 1. It should be noted that guidance on funding, legal considerations and governance matters applies primarily to external delivery models, as it has been assumed that, should the decision be taken to deliver development internally, councils will already be more familiar with the associated funding, legal and governance considerations. However, we note that the six NLHP boroughs are primarily focused on direct delivery. Therefore, we have also provided guidance on setting up in-house development teams within this toolkit in recognition that this may become the preferred delivery route in light of the removal of the HRA debt cap. This advice would also apply to the development team within the LHC and so remains relevant for those councils who have resolved to establish a company.
		2. To support local authorities in following this toolkit, a number of checklists have also been developed (Appendix 1), covering:
* Pre-decision business planning
* Setting up systems
* Building and retaining a team
	1. Core Barriers
		1. Before deciding on the best delivery model, the core barriers facing LAs when delivering homes in-house have been set out. These items should be reviewed individually to understand what level of impact they are having and if necessary what mitigation measures need to be implemented to reduce the impact they have. Further information on mitigation measures but also a toolkit for setting up a LHC have been set out in later sections of this report.
* **Right to Buy:** there are limitations on LAs as to how right to buy receipts can be used. Currently receipts must be used within 3 years from the date the funds are generated. If LAs do not have adequate budget elsewhere, resource & land to support schemes there is a high chance that this funding will be lost.
* **The Planning System:** Most LAs have limited resources within their planning teams or specialist planning resource within their delivery teams to support planning activities on housing schemes. This gap becomes emphasised as pressure is put on LAs and development partners to build new schemes and submit more and more schemes for planning approval. It is also exacerbated by the pressure LA planning departments are under to create & finalise their own Local Plans. This generally has led to a backlog within local authority planning departments to review planning applications, provide pre-app, planning committee, quality review panel services and ad-hoc advice.
* **Dedicated housing delivery team:** most LAs have been subjected to year on year budget cuts so are being forced to come up with innovative ways to unlock additional funding and save money. This has resulted in depleted housing delivery teams but also LAs struggling to retain talent as resource moves over to the private sector in search of better job stability & benefits. This has therefore led to a loss in knowledge within organisations, a lack of consistency to drive schemes forward and small delivery teams struggling to deliver the scale of homes which are expected from LAs.
* **Attracting talent:** it tends to be harder for LAs to attract talent to apply for a full-time job with them. This is mainly due to the uncertainty created around roles at LAs caused by budget cuts which usually then result in the need for restructures. Further to this, LAs struggle to be able to offer a competitive job package due to salary bandings attached to job profiles and funding restraints on training & development programmes. It is therefore likely that the desired resource will choose a job within the private sector which can offer these incentivise. This is particularly true of more junior resource which will be influenced more by career development opportunities and salaries. Unfortunately, this therefore means some housing delivery teams can lack specialist expertise which are required to effectively deliver an ambitious housing programme.
* **Governance processes & political stability:** most LAs have complex governance and approval processes accompanied sometimes by unstable political landscapes. Obtaining approval on a decision usually involves sign off from various parties which takes time and can create confusion over the process. In addition, sometimes decisions can be approved by one administration but revoked when a new administration is elected. These complex - sometimes over bureaucratic - processes can detract new talent from joining local authorities due to frustrations and resources feeling demoralised over the lack of progress made towards housing delivery. The more concise and clear governance processes can be, the more positive impact on delivery.
	1. Opportunities & Initiatives
		1. Before proceeding to set up an LHC there are several government initiatives and future opportunities which could help address some of the barriers that LA’s encounter when trying to delivery housing through the HRA. LA should assess whether any of these items would significantly support the delivery of in-house council housing thereby negating the need to set up an LHC.
* **Publicly owned land:** the current government is pushing for more houses to be built on publicly owned land (e.g. Department of Communities & MoD). The initiative aims to bring frontline services (One Public Estate programme) like job centres and local authority benefits services under one roof, freeing up land for 25,000 new homes over the next two years, with the aim of releasing £5bn worth of receipts by 2020 which will support future housing. As part of this programme the government aims to make it easier for industry to see sites coming to the market via an online portal and give LA early sight of disposal plans.
* **Community led schemes:** there is increasing encouragement by the government for local people to play a leading and lasting role with housing development schemes. This creates an opportunity for LAs to work in partnership with resident groups, getting them involved with design, delivery and ongoing management. The very fact that community led housing gets residents involved usually results in further land being unlocked for housing development as residents become invested in these projects. The Community Housing Fund has been set up by Homes England, making available a further £163m funding to bid for up to March 2020. Further advice can be sought through Community Led Housing, London.
* **Right to Buy Receipts:** consultation has recently been published on how LA can use the money raised from Right to Buy receipts to help build more homes. The government is currently considering allowing LAs to keep Right to Buy receipts for longer than the current 3 years to ensure receipts can be used alongside the increased HRA borrowing cap. It is also being considered as to whether a greater proportion of the cost to deliver social rent council homes in areas of high affordability can be funded by the Right to Buy receipts but also greater flexibility over the tenures of replacement stock.
* **Raising HRA borrowing cap:** as previously mentioned in this report,the borrowing cap has been raised in areas of high affordability pressure.
* **Housing & Planning Act 2016:** under this legislation the government has previously considered whether to ask LAs to make payments in respect of their vacant higher value council homes and return some of the funds generated to the government. With uncertainty on whether this policy will be implemented it has made it difficult for LAs to make long term investment decisions. The government has therefore made the decision that LA can instead make their own decisions on whether to dispose of high value housing stock to help fund more affordable homes. With this decision now sat with LAs more confidence & certainty should be installed to plan ambitious housing programmes.
* **Capital Investment Programmes:** government capital funding has historically had a stop, start nature which has made it harder for LA to make long term plans. Understandably, this has had an impact on LA risk appetite and the pace of delivery. Subsequently, peaks and troughs in capital funding have had a knock-on effect with the cost of labour and materials which generally means less value for money especially as LAs rush to hit funding deadlines. The government is therefore currently looking at various ways of providing long term certainty over investment and funding. This is an area which LA should monitor to see what initiatives are rolled out.
1. Funding considerations
	1. Structure of investment in LHCs
		1. LHCs are generally formed as companies limited by shares. When setting up an LHC, the initial investment by councils is generally an equity investment in share capital. The LHC then pays dividends on the share capital when it is viable for it to do so. Councils setting up an LHC in this manner should be mindful that it may be a number of years before the LHC is in a position to begin paying dividends.
		2. In respect of lending, the usual approach is for the council to borrow from the PWLB at favourable rates, both in respect of the share capital investment and to on-lend to the LHC at market rates. This provides an ongoing revenue benefit to the council in addition to the aforementioned dividends. The LHC is able to borrow from sources other than the council, but in such cases the council would not receive any ongoing revenue benefit.
		3. Equity investments by councils into their LHCs have generally ranged from 30% - 50% of the total funding required by the LHC. The more profitable the LHC, the lower the level of equity investment can be. The council must have regard to the State Aid regulations in respect of the level of equity investment it makes; generally, the level of equity investment does not exceed 50% of the total required funding.
		4. The equity investment and lending to the LHC will count as capital expenditure for the council, and thus it would need to include the investment in the LHC within its future budgets in line with the company’s requirements as set out in its business plan. The borrowing would also count against the council’s prudential borrowing limits (see below).
		5. Councils setting up LHCs often provide land to the LHC from the General Fund and HRA (subject to various required consents), but at market value so as not to negate the aforementioned State Aid issue. If the council decides to provide financial assistance to the LHC by way of transferring land at below market value, this may constitute State Aid. Councils have also supported LHCs by providing goods, services and staff; again, to comply with State Aid rules these would need to be provided at market value.

Funding

* + 1. Under the Local Government Act 2003, councils have the power to borrow to support the prudent management of their financial affairs or in connection with any of their functions. This borrowing must be prudent and comply with the Prudential Code.
		2. In order to fund the LHC through borrowing, the council could borrow monies and in turn support the LHC through the provisions of loans and subscription to share capital. This is covered through Section 24 of the Local Government Act 1988. Section 24 also specifically allows the council to provide financial assistance in connection with the provision of privately let accommodation. Should the council choose to exercise its powers under Section 24, it must obtain the consent of the Secretary of State to do so (as per Section 25 of the same Act).
		3. The provisions of Sections 24 and 25 of the Act only apply in relation to the provision of financial support of rented accommodation; in relation to funding made available for market sales, councils may not rely on these sections. In such instances, councils could instead exercise its general power of competence on the basis that it is lawful for an individual to lend and/or invest and that there are no pre-existing limitations which would prevent it from doing so.

Impact on prudential borrowing

* + 1. As set out above, the usual approach adopted by councils is for a loan to be granted to the LHC along with equity investment in the LHC for a capital purpose – in this case for the acquisition or development of properties. Expenditure on the equity investment in the LHC and expenditure on the loan granted to the LHC would therefore constitute capital expenditure.
		2. Expenditure on capital purposes must be funded as part of the annual budget-setting and accounts preparation process. Capital expenditure may be funded from a variety of sources including capital grants and contributions, capital receipts, revenue contributions (direct revenue funding) and borrowing by the council. Any expenditure funded from borrowing will result in an increase to a council’s Capital Funding Requirement.
		3. Councils are required under the Prudential Code to calculate a suite of indicators which will be done each year during budget-setting as part of the Treasury Management Strategy and Capital Programme. The council must have regard to the affordability of capital expenditure funded from borrowing within the prudential indicators. It is for each council to take a view of how much additional capital expenditure funded from borrowing is affordable within its forward-looking revenue budget strategy. In addition to borrowing costs (e.g. interest), the council would be required to make a Minimum Revenue Position (MRP) as set out in the 2008 Capital Finance and Accounting Regulations.
		4. When determining the affordability of the existing capital programme together with any proposed lending to the LHC, the council should ensure that the potential fully borrowed position at current or projected interest rates can be sustained from revenue sources.
		5. The general fund will receive revenue income from the LHC in two forms:
* Interest on the loan
* Dividends on the shareholding
	+ 1. In addition, there will be loan capital repayments over the life of the loan assuming an annuity structure is adopted.
		2. In order to comply with current State Aid requirements lending to the LHC must be at market rates, higher than those obtainable from PWLB or internal borrowing. In addition, there will be dividend payments when affordable by the LHC. The council will need to ensure that this additional income is sufficient to sustain an increased revenue liability resulting from funding of the LHC.
		3. Typically, the loan from the council to the LHC would be structured as an annuity at a premium on the PWLB long-term annuity rate. The PWLB 30-year rate is currently at a historic low of 2.6%; we recommend that for the purpose of prudential financial modelling that a base of 3.5% is used with on-lending at 6.25%.
		4. In order to ensure that the LHC is viable, sensitivity testing will be required to demonstrate that the council is able to meet prudential borrowing requirements under a range of interest and dividend scenarios.
1. Governance Considerations
	1. Introduction
		1. Local housing companies (LHC) or wholly owned companies (WOC) are generally set up by councils as companies limited by shares. At the outset, the council is usually the sole shareholder, meaning that the LHC is wholly-owned by the council. Within this legal structure, there are a range of options for governance arrangements and the governance structure of the company. The most significant of these factors are considered below.
	2. Control vs. Independence
		1. Some councils choose to treat their local housing companies as portals through which the local authority trades. Staffing within the company is lean (part-time consultants or zero staff) and the governance structures are populated by council officers and/or members. This model affords a high degree of control and is effectively an extension of the local authority’s governance and executive management arrangements.
		2. Alternatively, the company can employ its own staff (e.g. Managing Director, Development Director, etc.) and have a board populated by independent non-executive directors. This model offers the additional benefit of external expertise and freedom from what may been seen as some of the constraints of local authority governance and staffing (e.g. local authority terms and conditions, and council culture which may lack the agility and responsiveness of successful property development companies). In this model, accountability can be secured through a range of measures, including:
* A clear and well-structured shareholder agreement which would normally include inter alia approval of the company’s remuneration policy, influence on appointments, (in extremis) no confidence motions
* Council nominee(s) to the LHC board
* Funding terms and conditions
* Council approval of the annual business plan and development programme
	+ 1. One benefit of a council establishing an LHC is to transparently ring-fence the risk of its development activity. This will enable the shareholder to scrutinise the viability of development activity on a scheme-by-scheme basis. As the LHC grows and extends into multiple developments, this structure may be replicated with additional Special Purpose Vehicles (SPVs) for each development or collection of developments. This SPV structure, commonly seen in commercial property development, also assists in the early release of shareholder dividend, rather than allowing distributable reserves to become consumed by subsequent development activity. Such a structure is, however, usually a consideration for later on in the LHC’s life-cycle.
	1. Best practice
		1. The UK is a world leader in best practice in governance. The Nolan principles have permeated the corporate world, with governance standards in both the public and private sectors heavily scrutinised.
		2. While not stringently regulated, governance is commonly tied to best practice codes of governance. Within the housing sector, the most commonly-adopted code of governance is the National Housing Federation Code of Governance (2015); within the private sector, the Financial Reporting Council’s UK Corporate Code of Governance is recommended by the Department of Business, Energy and Industrial Strategy; for smaller start-up companies, the Institute of Directors’ Code for Unlisted Companies is commonly adopted. While it is properly a matter for the board to decide which code it adopts, it would be reasonable for the shareholder agreement to require the board of the LHC to adopt a code of governance and report regularly to the shareholder on its compliance with that code.
1. Delivery route options
	1. Introduction
		1. As can be seen from the varied approaches being taken even by the six NLHP members, local authorities are exploring a range of company structures to support them in delivering housing. These structures tend to fall within a number of broad groups:
* Direct delivery
* Wholly-Owned Companies
* Joint Ventures
* Multi-Authority Companies
* Leaseback vehicles
	+ 1. This section provides a detailed analysis of each of the different models available, including the governance, financial and tax implications of each structure, and the strengths and challenges of each approach.
	1. Direct delivery

**Overview**

* + 1. While housing delivery vehicles have been the most common approach taken, it is possible for a local authority to deliver new housing directly as Councils have the statutory powers to carry out the development of housing that it intends to use to meet housing need in its area.
		2. The two main powers available to the Council to deliver housing directly are Section 9 of the Housing Act 1985 (relating to general housing need) and Part VII of the Housing Act 1996 (relating to temporary homelessness). Developing housing for sale (other than shared ownership units) is less straightforward - but not impossible - for a local authority to justify. This is because, under the Localism Act 2011, trading (or commercial) activity is required to be carried out through a company or a community benefit society.
		3. Where a Council places reliance upon Section 9 of the Housing Act 1985, to develop directly, there is a requirement for that activity to be accounted for within a Housing Revenue Account (HRA). If a Council which does not have a HRA to commence carrying out housing development under this power, it would need to reopen its HRA (once the number of units that it holds exceeds 50). Housing held directly by the Councils in a HRA would be:
* subject to rules on allocation in accordance with the requirements of Part VI of the Housing Act 1996;
* subject to rent regulations (where the accommodation constitutes social housing); and
* subject to the provisions in Part V of the Housing Act 1985 relating to a tenant’s right to buy.
	+ 1. Alternatively, a Council may seek to rely upon the Part VII Housing Act 1996 powers to justify the activity, however a link to temporary homelessness would be required.
		2. Councils are able to use right to buy receipts to fund their own development and this could be a potential funding source for direct delivery.
		3. While directly holding property benefits from lower entry costs, as it does away with the requirements to set up a vehicle, there are a number of concerns which have led to this approach not generally being adopted, particularly for Councils who do not currently have a HRA:
* Likely to require a HRA once more than 50 units are developed
* More difficult to deliver market sale or market rent
* Cannot ring fence development activity and financial returns
* More difficult to spin out / sell in the future
* May be more susceptible to difficulties due to central government policy
* Profit making activities are not permitted
* This structure in itself does not create the ability to lever in additional financing, skills or resources
* Any additional resource / activity has to be paid for from existing council revenue budgets (although some costs may be capitalised).
* Procurement is likely to be more onerous than in other delivery models
	+ 1. Nonetheless, this model has been adopted a number of local authorities, including NLHP members. See Case Study 1 below for an example of a non-NLHP authority that has succeeded with in-house delivery.

**Case Study 1 – LB Southwark**

In 2015 Southwark Council agreed a large-scale, ambitious home building project, committing to build 11,000 brand new council homes across the borough over the next 30 years to help address the huge demand and short supply in London alongside the investment in the current stock.

This includes developing out Council owned surplus sites and looking for ‘hidden homes’ opportunities and buying properties from the affordable housing contributions under S106 agreements.

Structure

* Direct Council delivery

Objectives

* Provide quality homes to an agreed standard, ensure residents are at the heart of everything we do
* Deliver value for money (VfM)
* Inform future investment plans and coordinating resources
* Provide clear picture and route map for understanding and improving the overall performance of the property portfolio
* Move towards planned investment and works programmes and away from current reactive day to day service

Financing

Affordable Housing Fund, section 106 funding, Right to Buy receipts, grant, loans and other forms of cross subsidy through mixed social rent tenure development.

Tenure

Homes are targeted for social rent only.

Program/ timescales

* 1,500 homes by the end of 2018.
* 2500 delivered by 2020
* Long term aim is to deliver total of 11,000 social rent homes by 2043.
	1. Wholly-Owned Companies

**Overview**

* + 1. The majority of council housing delivery vehicles are Wholly Owned Companies (WOCs). Commonly this is a private company limited by shares, with the council as a sole shareholder. They rely on the powers granted under the Local Government Act (2003) which enable the creation of Local Authority Trading Companies, and the general power of competence granted under the Localism Act (2011) which enables local authorities in England to do “anything that individuals generally may do.” It is an intentionally wide power which permits, for example, the Council to:
* Acquire, develop and dispose of land;
* Establish legal entities; and
* Subscribe for shares and/or provide loans.
	+ 1. There are however, limitations on the general power of competence, the most relevant of which, in this context, are that:
* the general power cannot be relied upon to circumvent restrictions which exist in relation to powers that were available to local authorities under legislation in force at the time the Act came in to force (i.e. where there are pre-existing powers which can only be exercised if conditions are satisfied, those conditions must still be satisfied); and
* the general power only confers on a local authority the ability to undertake activities for a commercial purpose where those activities are undertaken through a “company”. “Company” is defined as a company incorporated under the Companies Act 2006 or a society registered under the Co-operative and Community Benefit Society Act 2014. Notably it does not include a limited liability partnership or limited partnership.

**Company structures**

* + 1. WOCs are normally single entities, however some have been formed as groups, often to allow the creation of a subsidiary registered provider (either profit generating or not-for-profit), or for tax benefits. Examples of organisations that have adopted a group structure include NLHP member LB Barnet, LB Lambeth’s Homes for Lambeth (Case Study 2), and South Norfolk Council’s Big Sky Ventures (see Appendix 2). At least one WOC has adopted a structure of having each scheme within its own subsidiary SPV. This ring fences the schemes allowing them to pay dividends earlier than may otherwise be the case and may also assist in any future disposal of a scheme as a separate going concern.
		2. The single company structure is shown in the diagram below:

*\*This assumes that the Council will require an external provider to provide sales and marketing services (to deal with the market sale units) and, if market rental units are to be developed and rented, a housing management provider.*

* + 1. Some Councils choose to have a second charitable entity WOC, to support the commercial WOC. This is of benefit if the WOC is to develop social housing that it did not wish to see disposed of to an existing registered provider. The merit of including a charitable entity, in those circumstances, is that it offers a more tax efficient structure, which is described in more detail below. This structure generally looks like this:



* + 1. This option involves the establishment of two separate entities, one established as a company limited by shares (the commercial WOC), as described above, but in addition establishing a second entity to retain the affordable housing. This entity is usually established on terms which permit the Council to have a level of influence (or indeed a controlling interest), and as a not for profit entity with charitable objects.
		2. A charitable WOC can become a registered provider, the benefit of which is the ability to claim grant. This would only be suitable if the charitable WOC were to be used solely for the development of social rented housing in which case independent regulation by the RSH may be seen as desirable. Registration would, however, mean that the company would be subject to the RSH’s Rent Standard (which would limit social rent levels to the formula set out in the standard) and other regulations under Housing and Planning Act 2016 which would weaken the council’s direct control, such as limits on tenancy agreements, on board appointments and shareholding.
		3. An alternative structure is to have a commercial WOC with an RP subsidiary which may be ‘for-profit.’ The establishment of an RP trading subsidiary is designed to allow the commercial WOC to respond to market opportunities and, if required, facilitate the ‘ring-fencing’ and protection of affordable housing assets developed from any commercial risk. By registering a subsidiary as an RP regulated by the RSH a council will have a vehicle through which to develop affordable housing, creating a strict separation of public and private investment and supporting a robust risk management approach.

**Financial implications - Funding**

* + 1. Many WOCs are funded through borrowing from the council (from General Fund reserves or from PWLB prudential borrowing which generates an on-lending margin). However, some have looked to the private sector, particularly pension / investment funds.
		2. Where the Council is the funder to the WOC the general fund will receive revenue income from it in two forms:
* Interest on the loan
* Dividends on the shareholding
	+ 1. In addition, there will be loan capital repayments over the life of the loan assuming an annuity structure is adopted.
		2. A Council has the power to borrow under the Local Government Act 2003 for the purposes of the prudent management of their financial affairs, or in connection with any of their functions. The borrowing must be prudent and comply with the Prudential Code.
		3. Generally, in order to fund a WOC Councils borrow monies and in turn support their WOC through the provision of loans and subscription to share capital. This is covered by Section 24 of the Local Government Act 1988 (the 1988 Act). Section 24 of the 1988 Act also specifically allows the Council to provide financial assistance in connection with the provision of privately let accommodation.
		4. If the Council exercises its powers under this section, then under Section 25 of the 1988 Act it must also obtain the consent of the Secretary of State to do so. The Secretary of State has set out pre-approved consents in the "General Consents 2010" (July 2011) and the "General Consents 2014" (April 2014). The General Consents 2010 contains Consent C under which the Council can provide financial assistance to the housing company for the purpose of funding rented accommodation.
		5. The provisions of sections 24 and 25 of the 1988 Act only apply in relation to the provision of financial support of rented accommodation in relation to funding made available for market sales, it is not possible to rely on section 24 Local Government Act 1988. Instead the Council could exercise its general power of competence on the basis that it is lawful for an individual to lend and/or invest and that there are no pre-existing limitations which would prevent it from doing so.
		6. While as outlined above a WOC can receive funds in the form of equity investment by their parent Council (through the subscription for shares) and/or loans provided by the Council or third parties. When working with WOCs Councils need to be mindful of state aid rules in its financial interactions with the WOC.

**Financial implications – State Aid**

* + 1. State aid can appear in many guises and can include the provision of loans on favourable terms, grant funding, lenient taxation regimes, sales of assets at an undervalue or the provision of certain types of guarantees. If unlawful state aid is deemed to have been provided, the powers of the EC commission are extensive. Notably, it has the power to stop further transactions and order the repayment of any aid already paid with interest. There are two exemptions which are noteworthy within the context of this report:
* Where financial assistance is provided on terms which are regarded as no more favourable than those that a private lending institution would supply (where there is a market for such lending) the provision of such investment may not be regarded as state aid. This is known as the market economy investor principle. This asserts that a public body is not providing state aid when it is acting like a private investor in the market economy. The test is whether a private investor (who would want to make a financial return) would invest on those (or comparable) terms; and
* where the financial assistance is provided to facilitate the provision of assets which are of social or general economic interest (SGEI), that assistance may constitute permitted state aid. There is no formal definition of SGEI in the EC Treaty but is generally understood to mean services which the market does not provide or does not provide to the extent or at the quality which the state desires and which are in the general interest. Social (or affordable) housing, provided that the assistance is no more than that which is required to make the activity viable (allowing for a reasonable element of developer profit), is capable of benefitting from this exemption.
	+ 1. In order to comply with current State Aid requirements lending to a WOC must be at market rates, higher than those obtainable from PWLB or internal borrowing, and in addition there will be dividend payments when affordable by the WOC. The council will need to ensure that this additional income is sufficient to sustain an increased revenue liability resulting from the funding of the WOC.
		2. Typically, the loan from the Council to the WOC would be structured as an annuity at a premium on the PWLB long-term annuity rate. The PWLB 30-year rate is currently at a historic low of 2.6% and typically Local Authorities we have worked use a base of 3.5% with on lending at 6.25%.

**Tax implications**

* + 1. A commercial WOC will be subject to the tax regime applicable to non-charitable corporate bodies. This means, for example, it will be liable to pay corporation tax on its surpluses and SDLT on land acquisitions;
		2. However, a charitable WOC, has the benefit that they do not:
* pay corporation tax on the income derived from its charitable activities (which, in this case, would be the provision of the social housing); and
* pay SDLT on land acquired for the purpose of furthering its charitable objectives.
	+ 1. Notwithstanding that a WOC develops new homes for rent or sale, its core business will not be VAT generating. Therefore, within a “one company” structure it will not be able to off-set VAT payments it makes for professional fees. To avoid this, some WOCs have created a “design and build” subsidiary, though which it commissions all pre-construction work e.g. Architects fees, a recharging mechanism between the companies may result in the parent being able to claim back the VAT incurred on professional fees.

**Governance options**

* + 1. As the sole shareholder in the WOC, a Council would have complete control of all appointments to the WOC’s board. The management of a company is generally the responsibility of a board of directors. Decisions that are reserved for the Council (in its capacity as the WOC’s shareholder) would be governed by the Companies Act 2006 and the WOC’s articles and may be set out in a shareholder agreement.
		2. Council members or officers who are directors of a WOC would have the following proprietary obligations:
* that the remuneration they receive from the WOC is declared and does not exceed the sum they receive from the local authority;
* to give information to the Council’s members regarding the WOC’s activities (save for confidential information); and
* to cease to be a director immediately upon disqualification as a member or officer
	+ 1. As noted above the relationship between the Council and a WOC will be governed by a range of documents, and may include shareholder agreement, which sets out how the Council as parent controls the WOC, and any matters reserved for shareholder consent. Common matters for shareholder consent include:
* Entering into Joint Ventures / partnerships / development agreements
* Taking on new loans
* Appointment and remuneration of directors
	+ 1. The shareholders representative will usually be either a senior officer (e.g. the Council’s S151 officer) or a Senior Councillor (e.g. the Leader or the Cabinet Member for Housing). The shareholder representative may have delegated authority to act on behalf of the Council as shareholder in relation to WOC shareholder matters.
		2. Where a Council is acting as a funder there will also be loan agreements governing the WOC-Council relationship, which will set out a range of terms that the WOC must fulfil, including:
* Conditions precedent
* Repayment provisions
* Loan covenants
	+ 1. WOC’s have been set up with varying levels of independence, depending on their strategic objectives and operating context. As well as in their governing documents a way that this variety is expressed is in the membership of the Board. Board directors are drawn from one of four constituencies:
* Independents
* Council officers
* Council members
* WOC executive directors
	+ 1. Boards of WOCs vary considerably in size from 2 to 10. In considering how governance is to be organised there are a number of questions for a Council to consider:
* The level of autonomy and independence it is desired for the WOC to have
* The skills and expertise required by the Board
* The likely required pace of decision making
* Whether a strategic or operationally focussed Board is required
* Routes for the Council is ensuring oversight of WOC activity
	+ 1. In addition to the formal governance of the Board, Shareholder and Loan agreements how the WOC is staffed will impact on its operational relationship with the Council. If the WOC is not staffed by Council officers, there may be a need to create a council ‘client function’ to manage the WOC and coordinate operational joint working (e.g. the sale of Council land into the WOC).

**Strengths and challenges**

* + 1. How the WOC model operates will in part be dependent on decisions made in relation to the legal structure, financing and governance options outlined above, however some general strengths and challenges of the WOC model are detailed in the table below.

|  |  |
| --- | --- |
| Strengths | Challenges |
| * Councils have control over the vehicle and can be flexible in shaping the business’ offer over time
* Councils are able to generate financial returns
* Relatively short set-up time
* Can be funded through capital rather than revenue budget
* May provide opportunity to use innovative building approaches (as with Cherwell’s Build!)
 | * Exposure to all risks associated with the vehicle
* Council must resource vehicle and ensure it has the appropriate expertise
* More difficult use right to buy receipts
 |

**Case Study 2 – LB Lambeth**

Established in early 2018, Homes for Lambeth (HfL) is a wholly owned house building and management group of companies with the aim of accelerating housing supply and improving resident welfare within Lambeth Borough. The key driver for setting up HfL was the under supply of housing and over demand in Lambeth borough where the waiting list for housing had grown to 23,000 by 2018.

Structure

* Wholly owned company
* HfL Group: 100% council owned holding company within HfL group of companies: HfL living, HfL build and HfL Homes (RP)

Objectives

* Build and manage more and better homes
* Help reduce the substantial pressures on the council’s housing waiting list
* Improve the lives of those residents currently living in poor quality and overcrowded homes.

Financing

Initial funding to be through council borrowing from the Public Works Loan Board (PWLB) with long term goal of financing through commercial units to provide cross subsidy and direct grant agreements with GLA and other donor providers.

Governance

Independent boards for each sub company and parent company with each Board having an independent chair and one additional non-executive director.

Tenure

HfL will deliver a mix of mix of tenures including market rent, social rent, affordable rent, and discount Market Rent.

Program/ timescales

Over the next 10 years, HfL will aim to deliver six estate regenerations and a number of smaller housing developments, replacing 1394 poor quality homes and designing and building 3,400 homes, representing a net addition of 2000 homes.

**Case Study 3 - LB Newham**

Established in 2014, Red Door Ventures (RDV) is a commercial residential developer wholly owned by Newham Council. The key purpose of RDV is to commercially develop and deliver homes which will be let on affordable rent and market rent terms. The Company will manage the properties and grow a portfolio over time, providing a return to the Council.

Structure

* Wholly owned company
* The London Borough of Newham owns 100% of the issued share capital

Objectives

* Operating a business to let homes for market rent
* Purchase land and develop housing for rent from which the Council would receive a return on its investment as well as re-payment on any loans over a set period.
* Objectives: Profit for a purpose, Scale, Delighted consumers

Financing

Combination of LB Newham funding to the RDV in the form of loans and grants, RDV is also able to access third party private loan finance.

Tenure

Base case plan of 69% market, and 31% affordable split, however RDV have stated their intention to continually review each individual scheme’s financial viability to determine the exact tenure split.

Governance

RDV has an independent Chair and four non-exec board members.

Program/ timescales

By 2020 RDV aims to start 1,826 homes with the objective to grow to 3,000 homes by 2024. Post 2017, RDV aims to have c.1000 homes in construction per annum from 2017 and c.600 homes in management per annum by 2019, increasing by a further c.900 new homes the following year.

**Case Study 4 - LB Croydon**

Established in 2016, Brick by Brick (BXB) is a Croydon Council owned housing delivery company with the aim to accelerate delivery of new homes for Croydon residents through private and affordable properties to buy and rent.

All profits are returned to the council as sole shareholder to be reinvested into services for the benefit of the borough.

Structure

* Wholly owned company

Objectives

* To deliver multi tenure housing for sale and rent.
* To ensure an equitable, transparent and commercially efficient form of development which maximises the amount of affordable housing delivered through the planning process.
* To maintain an exceptionally high quality of design and delivery to ensure development activity is a positive addition to the local environment.
* To deliver new or replacement cultural, community, educational, health, public realm and other development as part of mixed-use schemes.
* To deliver new commercial and/or retail development.
* To dispose of existing property and/or acquire new property.
* To maintain and/or manage property assets.
* To carry out all of the above activities on a commercial basis and in the best interests of the company with a view to maximising dividend to the shareholder

Financing

For the initial set up years Croydon Council will be sole provider of development finance with repayment of interest on this debt and return on equity investment will generate a revenue stream for the council. BXB has agreed with the Council that financing will be arranged on a 75:25 split between borrowing and equity.

Sales activities will be used to offset development expenditure and reduce borrowing in order to minimise the levels of debt interest accrued. BXB will also benefit from grant funding.

Tenure

Maintaining a 50% affordable housing provision across the BXB residential programme as a whole (a mix of shared ownership and affordable rent).

Governance

The Board consists of four Directors, two of whom are council nominees. One director (the Managing Director) also has an executive function and acts as Chief Executive of the company.

Program/ timescales

To date (Feb 2019) BXB has achieved planning consent on 39 schemes (incl. the existing consent for Fairfield Homes) which will enable delivery of more than 1,250 units of housing. Additional 7 schemes being submitted to the planning authority. Hence, BXB is on target to delivery of c.500 completed homes per annum from 2019 onwards.

* 1. Joint Ventures

**Overview**

* + 1. Joint Venture (JV) vehicles enable a Council to share the risk of housing delivery with a partner, while gaining access to a partner’s expertise. JV’s may be with a single partner, or a number of partners. The partner can come from a variety of sectors and may include:
* Registered providers
* Private sector developers
* Build-to-rent companies
* Institutional investors
	+ 1. Recently JVs have become a less common housing delivery route then a WOC as it is seen as less flexible, and as reducing Council control.

**Legal Structures**

* + 1. A joint venture is the term used to describe a collaboration of two or more entities. Collaborations can take the form of contractual collaborations (i.e. the parties set out, in contract, the tasks that each entity agrees to undertake and the arrangements for sharing risk and reward. Collaborations can also be structured using legal entities in which the collaborators participate. Common structures include:
* Limited Company
* Limited Liability Partnership (LLP)
* Limited Partnership (LP)
* Local Asset Backed Vehicle
* Contractual Partnering
	+ 1. JVs are favoured where the collaborators wish to share in the risks of a particular venture or where the collaborators have complementing expertise or roles.
		2. JV vehicles are, however, more difficult (and expensive) to establish than WOC’s. This reflects the fact that the collaborators need to have established some fundamental principles before the joint venture documentation can be signed, such as:
* the rights for participants to exit the vehicle;
* what happens if one of the collaborators defaults on its obligations;
* how disputes are to be resolved; and
* how the collaboration is to be funded (and what happens if there are cost overruns & additional funding is required)
	+ 1. To enter into a JV, which is going to be established as a limited partnership or limited liability partnership, it is advisable for a Council to set up a wholly owned trading company (such as a housing WOC) and for that entity to act as its participant in the JV. This reflects the limitations on the general power of competence, namely that it requires commercial activity to be undertaken in a “company”, and does not include a limited liability partnership or limited partnership, within this definition.

**Financial Implications**

* + 1. JV local housing companies are usually 50:50 partnerships with shared risk and reward, often with additional private finance. They can include contractual agreements for shared services and business plans for trading and sub-contracting with other partners, such as RPs and private developers. In some cases, joint ventures are preferable because the council can pull in expertise and share the risk. In others, the option is chosen because council funding is inadequate or uncertain.
		2. Joint ventures on public land offer an alternative to a WOC and are generally used to achieve a financial return to the council, usually for specific schemes where funding is generated by combining public and private assets, rather than as a structure through which to carry out a range of developments. For example Gateshead’s JV with Home Group and Galliford Try all financing was provided by the developer with the Council just providing land.
		3. If the JV is structured so that the Councils do not have a controlling interest it would enable right to buy receipts to be used to help fund the development of affordable rental homes by the JV.
		4. Although financial returns thorough JVs can be considerable, the lack of overall control and shared return is generally seen as less attractive where the council has the expertise to develop and ability to raise funding through a WOC.

**Governance options**

* + 1. Whether the JV is constituted as a separate legal entity or is purely contractual will have significant impacts on how it is governed and whether it has a formal Board or a project Board, as well as the level of representation each partner to the venture has. Council representation on such Boards will usually be through Council officers.
		2. A joint venture will require contract management from the Council, and a clear client manager on the Council’s side is often critical to ensuring the JV delivers in line with the Council’s strategic objectives.
		3. Joint venture governance structures should be designed to maximise strategic alignment between partners and allow disagreements over competing priorities to be resolved effectively and transparently.

**Strengths and Challenges**

* + 1. How the JV model operates will in part be dependent on decisions made in relation to the legal structure, financing and governance options outlined above, however some general strengths and challenges of the JV model for the Councils are detailed in the table below.

|  |  |
| --- | --- |
| Strengths | Challenges |
| * Can bring in expertise that the Council doesn’t have
* Can provide alternative financing options
* Shares risk with partner
* Can keep the venture off balance sheet
 | * Likely to require a procurement process to select a partner which will add time to the set-up
* Councils have more limited control over JV objectives and approach
* Partner will take a share of profits from the JV
 |

* 1. Multi-Authority Companies

**Overview**

* + 1. A multi-authority company is a housing delivery vehicle set-up by a number of local authorities. Working together with other local authorities, who share similar housing challenges can increase the capacity of the delivery vehicle. However, to catalyse such a partnership there is usually a strong strategic driver, for example in North Essex the plans for new Garden Cities across LA boundaries.
		2. Some local authorities have chosen to set-up multi authority companies in addition to wholly owned companies where there is a strategic reason for collaboration, as in the case of Eastbourne and Lewes’ Aspiration Homes.
		3. Given the current collaboration between individual local authorities within the North London Housing Partnership, it may be felt that this option is potentially well-suited to meeting some or all of the Partnership’s needs – however a precondition would be the need for very close alignment on strategic housing objectives.

**Company Structures**

* + 1. Multi Authority Companies are generally structured as WOCs except that rather than a sole council shareholder, ownership is split between multiple local authorities, alternatively they may be formed as a JV, as described in chapter 9 above.
		2. It is worth noting that any vehicle created solely by local authority partners will be regarded as a controlled company and subject to the proprietary controls mentioned earlier in this report.

**Financial Implications**

* + 1. Financially a multi-authority company is likely to work similarly to a WOC, but financing may come from each of the local authority partners. This has the advantage that if one partner has greater borrowing capacity, they can lend a high proportion into the company, and therefore receive a greater financial return.

**Tax implications**

* + 1. As with a commercial WOC, a multi-authority vehicle will be subject to the tax regime applicable to non-charitable corporate bodies. This means, for example, it will be liable to pay corporation tax on its surpluses and SDLT on land acquisitions.

**Governance options**

* + 1. Governance of multi-authority companies will reflect the ownership of the company, with Directors generally drawn from each member council, although independents could form part of the Board to bring in additional skills and expertise. As with joint ventures it is important to have a clear process for resolving disputes between the partner authorities.

**Strengths and Challenges**

* + 1. How the multi-authority model operates will in part be dependent on decisions made in relation to the legal structure, financing and governance options outlined above, however some general strengths and challenges of the multi-authority model for the Councils are detailed in the table below.

|  |  |
| --- | --- |
| Strengths | Challenges |
| * Risk sharing
* Extends existing collaboration and partnership working
* Possible to undertake site assembly across Council boundaries
 | * The two (or more) organisations need to agree approach and priorities (and Councils typically have a longer decision-making timeframe than other organisations)
* Reduced control and return to each of the Councils
 |

* 1. Leaseback vehicles

**Overview**

* + 1. Sale and Leaseback arrangements are a structure for financing housing development. Under this model the LA will usually provide land with the developer building the scheme. The LA will then lease back and manage the scheme, paying an annual lease rental to the developer, often with handback of the asset at the end of the lease. Leases are long term, usually at least 40 years, and with potential to increase lease charges at several break points. This lease provides a guaranteed income stream to the purchaser.
		2. Such models are usually used to achieve development either where the LA is unable to raise sufficient capital to fund development or in the case of schemes where specialised expertise is required, such as Extra Care. Under this model the LA will usually provide land with the developer building the scheme.
		3. Sale and leaseback agreements which require the purchaser to develop homes will be caught by OJEU procurement regulations, however if the site is already developed there will be no such requirement which may reduce the time taken to complete the transaction.

**Sale and Leaseback Structures**

* + 1. A sale and leaseback is a contractual arrangement and so does not have a formal organisational structure, although some Council have chosen to undertake Sale and Leaseback deals within special purpose vehicles so as to ring-fence the activity. Barking and Dagenham set up Reside to ringfence their sale and leaseback activity.

**Financial Implications**

* + 1. Sale and leaseback arrangements are held off balance sheet, and reduce the Council’s need to borrow. Generally, such arrangements are not seen as advantageous as the council loses control of the asset and is open to a degree of risk regarding the level of lease payments which it may not be possible to recover through rent increases if the house market does not continue to rise.

**Governance options**

* + 1. Sale and leaseback arrangements are generally single contractual agreements, the governance focus will therefore initially by on managing the relationship with the developer / funder while the deal is being structured, and during any development period. While the lease is in operation we would expect there to be limited governance requirements outside of those which form business as usual for an authority.

**Strengths and Challenges**

* + 1. How a sale and leaseback arrangement operates will in part be dependent on decisions made in relation to the structuring of the deal as outlined above, however some general strengths and challenges of the arrangements are detailed in the table below.

|  |  |
| --- | --- |
| Strengths | Challenges |
| * Off-balance sheet
* Ring-fenced housing as not owned by the authority
* Source of funding
* Can draw on developers’ expertise (depending on structure)
 | * Loss of control
* Investor takes profit that would otherwise be the Councils’
* Risk of fixed lease payments if housing market deflation occurs
 |

1. Strategic options appraisals
	1. Introduction
		1. The previous section outlined examples of the range of models that have been adopted by different local authorities. However, in order to determine which model(s) work best for an authority we recommend a well-structured options appraisal methodology. It is important that this process is carried out as otherwise there is a serious risk of wasting both time and money on pursuing an option that does not deliver the desired outcomes.
		2. Our typical recommended methodology for carrying out a strategic options appraisal involves three main elements:
* Understanding the local context
* Developing and appraising the options, and
* Detailed planning on the delivery structure before commencing
	1. Local Context – political and organisational
		1. First, it is important to understand the local context including the political and organisational framework. In particular, consideration needs to be given to the following aspects:
* Does the authority still have an HRA? This will clearly influence the choice of options especial given the recent removal of the debt cap which is discussed elsewhere in this report.
* What is the authority’s financial strength / capacity for borrowing and investment?
* What is the authority’s appetite for risk? Some options will carry higher risks than others.
* Skills; what is the current in-house development and management capability?
* Does the authority have any land available for housing or is all land designated for other use in the local strategic Plan? Prior to looking to set up an LHC, we would recommend that local authorities spend time reviewing what land is available for development within the authority’s ownership, as it is more cost-effective and efficient to deliver on already-owned land than it is to compete in the market with private sector developers. Should the council have land available, consideration should also be given to whether the land could be disposed of to a developer to deliver homes on within a defined timescale. This could potentially be a quicker way of delivering housing than setting up a council-owned vehicle, and a quicker way of delivering returns to the General Fund.
* What is the authority’s existing exposure to other commercial investments / trading companies?
	+ 1. Secondly, it is important to understand the authority’s strategic housing objectives. If these are not clear it will make appraisal of the options more difficult and less robust.
* What volume of housing is the authority aiming to provide?
* What type and mix of tenure is it seeking to see provided?
* Is it looking to provide new build properties or refurbished properties or a mix?
* Is the authority prepared to consider Change of Use to facilitate the creation of new homes?
* What are the authority’s views on design, sustainability and Modern Methods of Construction (MMC)?
	1. Local Context - financial returns
		1. Thirdly, it is important to be clear regarding what financial returns, if any, are expected and the time frame for them to be delivered.
* Is the authority looking for revenue or capital returns from the project? Is it expected to just ‘wash its face’ or support wider council budget pressures?
* There needs to be agreement on what investment hurdles are for each option.
* Is there going to be an internal subsidy from service areas currently in budget deficit?
	1. Local Context – governance, ownership and control
		1. Fourth, it is important to understand the preferences in relation to governance. arrangements for the different options
* Is there a desire for close control of any vehicle or activity through the governance arrangements?
	1. Local Context – housing need
		1. Lastly, it is important to have a detailed understanding of local housing need including:
* Current needs assessment, up to date demographics and assessment of future demand.
* Details of current and future development activity, including any activity undertaken by RPs.
	1. List of strategic priorities for appraisal
		1. From the initial work, a list of strategic priorities for appraisal will need to be compiled. These will need to be owned by both members and officers to be of value. The following list is an **example** list of priorities.
* Must be commercially viable, and as a minimum requirement break even, with no subsidy from the local authority
* Intervene in the commercial housing market to speed up development of new homes
* Mixed tenure (affordable need only be at policy levels); market rent is desirable to provide longer term revenue returns), but volume of all tenures is the main priority
* Must mitigate RtB risk
* Support homelessness / TA pressures
* Must provide an alternative source of supply to existing developers and Registered Providers
	1. Developing and appraising the options
		1. The range of options for consideration will be dependent on the local context, details of which were outlined in the previous section. Depending on the authority, they may include some of the following models plus variants:
* Direct delivery
* Wholly Owned Companies
* Joint ventures
* Multi-Authority Companies
	+ 1. As part of the appraisal process, consideration of the strengths and weaknesses of each of the options and the degree to which they can each meet the agreed strategic housing priorities will need to be made.
		2. The different structures, finance and legal implications, benefits, and challenges of each of the models will affect how they work in an authority’s specific context, and the extent to which they meet their strategic objectives.
		3. Our methodology involves all options being scored using a scale from zero to five in accordance with the rating scale in the table below.
		4. Each model is assessed against the strategic criteria to produce a total score. An illustrative example is provided in the table below.

|  |  |
| --- | --- |
| **Score** | **Ability of model to achieve objective** |
| 0 | Does not address objective |
| 1 | Very Low |
| 2 | Low |
| 3 | Acceptable |
| 4 | High |
| 5 | Very High |

* + 1. Illustrative example of assessment of Direct Delivery option against a set of notional strategic housing priorities

| Strategic Objective | Score | Justification |
| --- | --- | --- |
| * + - 1. Commercially viable vehicle
 | 0 | Developing in the General Fund can only be undertaken for homelessness, further it will be difficult to ring fence, and there will be difficulties with seepage of funding in and out of budgets dedicated to the housing venture.Further some spend on housing delivery and all ongoing management will have to be accounted for in the Council’s revenue budget.The council has limited powers to deliver market rent or market sale units directly and will therefore struggle to cross subsidise affordable housing to make the overall housing delivery programme viable. |
| * + - 1. The activity must be aligned with the Council’s Corporate Strategy of enabling homes to meet the needs of all.
 | 5 | Delivery will be in-house and managed by a Council department in line with the Council’s priorities and objectives. |
| * + - 1. Increase the volume and speed of new housing supply
 | 2 | The Council could bring forward sites with less concern than developers / RPs have for commercial concerns such as land banking, however it may struggle to deliver in volume due to tenure constraints that will make it difficult to cross subsidise delivery. |
| * + - 1. Long term provision of affordable housing
 | 4 | The Council will be limited to delivering primarily affordable housing, although without cross subsidy may struggle to finance this and the HRA business plan eve with the debt cap lifted may limit the volume of delivery. |
| * + - 1. An alternative source of supply to existing developers and registered providers
 | 4 | The Council would be developing and creating a new source of supply, however the restrictions of the HRA may limit the volume it is able to deliver. |
| * + - 1. Rapid intervention in housing delivery
 | 5 | The Council could begin the process of in-house delivery instantly, with minimal set up activity. |
| * + - 1. Delivery of additional affordable housing to support medium to long term alleviation of homelessness
 | 4 | The Council could develop homes that would help alleviate homelessness, however they may be constrained in the volume it can deliver by the restrictions of the HRA. |
| * + - 1. Make a financial return to reduce the Council’s budget pressures
 | 0 | As the Council cannot deliver profit making tenures directly it will likely need to subsidise the delivery of homes, and will not make a financial return. |
| **Total** | **24** |  |

* + 1. The above process of scoring and listing of the justifications will then be repeated for each option being assessed.
	1. Determining the recommended option
		1. Based on the appraisals we recommend producing a matrix that shows which option best suits the authority. See the illustrative example below.

| Strategic Objective | Direct Delivery | WOC | JV | Multi-Authority |
| --- | --- | --- | --- | --- |
| * + - 1. Commercially viable vehicle
 | 0 | 5 | 5 | 4 |
| * + - 1. Activity aligned with the Council’s Corporate Strategy of enabling homes to meet the needs of all.
 | 5 | 4 | 3 | 3 |
| * + - 1. Increase the volume and speed of new housing supply
 | 2 | 5 | 5 | 4 |
| * + - 1. Long term provision of affordable housing
 | 4 | 5 | 5 | 5 |
| * + - 1. An alternative source of supply to existing developers and registered providers
 | 4 | 5 | 2 | 4 |
| * + - 1. Rapid intervention in housing delivery
 | 5 | 4 | 2 | 3 |
| * + - 1. Delivery of additional affordable housing to support medium to long term alleviation of homelessness
 | 4 | 3 | 4 | 3 |
| * + - 1. Make a financial return to reduce the Council’s budget pressures
 | 0 | 5 | 3 | 5 |
| **Total** | **24** | **36** | **29** | **31** |
| **Rank** | **4** | **1** | **3** | **2** |

* + 1. In the example above, the WOC option scores the most overall. On this basis, a WOC would be the preferred option. It might be that further evaluation work is completed on other high ranking options if the scores are close.
	1. Detailed planning on the delivery structure before commencing
		1. Having identified the preferred option, it is essential that detailed planning is carried out before proceeding. Depending on the option, it is likely to include detailed work on:
* Member involvement re adoption of model
* Finance
* Business planning
* Tax
* Establishing a governance structure
* Staffing
* Site identification
* Project planning
	+ 1. The above section outlines the key steps. In practice, this will be tailored to the specific circumstances of the authority.
1. Business planning
	1. Introduction
		1. If the decision is taken to proceed with setting up an LHC, a business plan should be developed, giving consideration to what the main objectives will be for the LHC. In deciding upon objectives, local authorities must decide how to position their LHC between delivering the most affordable housing possible and delivering the maximum possible receipt to the General Fund.
		2. In brief the business plan for a LHC’s should:
* Clearly set out the aims and objectives of the housing company
* Detail the delivery mechanism to achieve these objectives
* Set out a clear and realistic programme with timescales and ownership of milestones
* Identify what resources are required to deliver the objectives and set out how these will be sourced. This includes financial, land and staff resources
* Specifically set out what land opportunities are available for housing delivery
* Set out financial scenarios for the worst, average and best-case scenarios
* Set out risks to delivering the objectives and mitigation actions for them
	+ 1. Once these core elements have been considered, the business plan will underpin the route map the LHC team and stakeholders. Time should be taken to prepare a comprehensive business plan which takes into account timescales, resources and quality, all of which will feed into the ultimate decision of whether the plan is viable.
		2. The following section will explore further; the purpose of a business plan; key content required in a business plan and typical mistakes to avoid.
	1. Purpose of a Business Plan
		1. There is a lot of merit in taking the time to write a good business plan for an LHC. A good business plan will help to:
* Confirm that the thinking and rationale behind the LHC is correct
* Plan out the main business operations and strategy for delivery
* Identify key problems which are likely to be encountered and how to overcome them.
* Set out the objectives and the financial returns which are expected.
* Set out what financing may be required to launch the LHC
* Articulate the business case behind setting up the LHC in the first instance.
	+ 1. Writing a concise and clear business plan will help to focus and develop any ideas & thinking.
		2. The business plan should set out the strategy and action plan over the next one to five years for the LHC. As part of this process concrete objectives should be set and a plan to delivering these targets set out. This exercise will help to draw out what the priorities are and those that are not, thereby aiding effective delivery.
		3. Once the business plan has been written this document will act as the benchmark for performance and what “good looks like”. It is recommended that if employees have already been identified, they are involved in preparing the business plan. This will help to build a committed and passionate team as well as give them an understanding of the rationale behind the LHC objectives.
		4. A good business plan will act as a tool to help secure funding (depending on the financial situation), attract new senior management or business partners. It is advisable that the business plan is tailored depending on the audience it is being presented to though.
		5. Finally, by setting out a business plan and agreeing it with key stakeholders this will help to ensure minimal scope creep in an undesired direction or challenge from key stakeholders for not fulfilling what may have been initially sold to them.
	1. Writing the business plan
		1. Set out in this section are tips and key content which needs to be included in an LHC business plan.
		2. General housekeeping and high-level tips for the business plan that we recommend are:
* Keep it short and concise, taking into account who the audience is and what they need to know.
* Any detailed information should be included in the appendix e.g. financial forecasts & assumptions and market research.
* Make sure the business plan is based on reality and not on over optimistic forecasts. Managing stakeholder expectations is key to avoid disappointment.
* Agree a process for reviewing, approving and rolling out the business plan. If you do not have buy in from key stakeholders, it will be a struggle to make the LHC a success.
* Avoid technical jargon this will make it harder to get buy in from key stakeholders.
* Detail out clearly what the differences are and the advantages to an LHC delivering housing versus a LA.
* For the executive summary, it is recommended this is written last once all areas in the business plan have been made set out, so this section of the document remains clear and concise. Ensure this section can act as a stand-alone document.
	+ 1. The table below sets out the key sections to be included in the business plan and what content to include.

| **Section** | **Key Content** |
| --- | --- |
| Executive Summary | * Introduce the LHC, explaining the purpose of the organisations and overall aim. It is recommended this section is written last once all areas in the business plan have been made clear, so this section remains concise.
* Key summary points from each section of the business plan should be included in the executive summary.
 |
| Introduction | * Introduce the brand explaining at a high level the purpose and overall aim of the LHC.
* Provide at a high-level what services the LHC will be carrying out. Will the LHC build, develop and/or manage homes?
* Detail out the company structure, depending on how complex this is, it is helpful to include a structure chart.
* At a high level set out the ownership structure for the LHC. Will it be wholly owned and controlled by the LA in question? What is the corporate structure for the LHC e.g. Ltd.
* The purpose behind the business plan, the content & scope which will be covered at a high level. For example, set out aims, objectives, planned activities, deliverables, performance management, financial forecasts, investment requirements and risk management for the LHC.
* The process for review and adoption of the business plan. This should include; the role of key stakeholders & boards, the frequency of review & timescales, the timescales for adoption and process for approving versions of the business plan.
* The high-level delivery commitments for the LHC. For example, this may include identification of the type of schemes the LHC will deliver (e.g. S106, Infill, Regeneration, acquisitions), the commitment to develop/deliver new homes, implementation of the necessary governance & operational arrangements, the need to unlock and drawn down funding to aid delivery, the need to enter into contracts with core suppliers & funding bodies and carry out RP registration.
 |
| Background | * This section should set out key strategic and contextual drivers that have and will underpin the LA rationale for forming and mobilising the LHC for housing delivery, development and/or management.
* The strategic context is likely to set out two main drivers for setting up an LHC and the detail behind them; (1) the housing crisis and (2) that existing approaches to house building no longer deliver genuinely affordable homes.
* The current market context and conditions that housing providers operate in such as the cost of building homes, the financial returns, grants available and options for cross subsidising affordable homes.
* Delivery issues which the LA currently face and how the LHC will help to unlock them. This may include funding issues, use of right to buy receipts, cross subsidising affordable homes from private sales, governance & funding arrangements, organisational structure, inability for programme wide management, resource shortage and/or retention & specialism of resource.
* Regulatory framework, the ability for the LHC to explore other opportunities to generate income to help cross subsidise affordable housing. For example, LHC will be able to manage and retain private rented housing.
* Access to finance; this is likely to be a strategic driver, especially if the LHC does not have charitable status, it will be able to access external debt funding to provide new housing.
 |
| Objectives | * Explicitly set out the objectives of the LHC which have already been discussed with key stakeholders. This may include: (1) Building more and better quality homes to help tackle the housing crisis, (2) building more homes which are genuinely affordable, (3) provide high quality services for residents (4) investment of resources efficiently to ensure a sustainable housing programme (5) maximise partnerships with public and private sector organisations (6) acting as a strategic delivery partner for the LA in question (7) engage with local communities and involve them where possible.
 |
| Governance & Organisation Structure | * Information set out as to what type of corporate vehicle the LHC will be established under e.g. Ltd, company limited by guarantee, community interest company (CIC) or charity.
* Subject to the above, information should be provided on senior reporting channels, governance structures and regulatory requirements.
 |
| Housing Delivery Plan | * Provide specific details on how the LHC will deliver on its objectives, explicitly what the development aspirations are of the LHC. This can be set out in the long and short term e.g. infill housing schemes, S106, acquisitions vs regeneration schemes.
* For the different types of schemes (e.g. S106) if detail is known at this stage, set out scheme names, units expected, tenure mix, start of site & completion timescales, estimated costs, current status of the schemes and locations.
* Overarching programme delivery figures for the time period of the business plan should be clearly set out e.g. Yr 1 – Yr 3 to illustrate the delivery route to these numbers.
 |
| Operational Design | * Detail out what internal and interim resource is required to achieve an operational LHC and delivery of the housing programme & the associated objectives.
* This will need to include central business support functions such as HR, Finance and Legal resources along with housing delivery focused resource.
* Set out what level and number of resources required and the associated cost. This resource is likely to be a long-term commitment.
 |
| Financial Plan | * Funding principals; how the LHC will generate funds to deliver its programme of affordable homes (e.g. cross-subsidising from private sales, grant funding agreements, debt etc.)
* Financial principles; how the scheme viability will be assessed, how the LHC will operate commercially whilst taking into account socio economic & political objectives and how value for money principles will be embedded in the organisation
* Financial planning; how the LHC will manage finances (e.g. the role of the boards, non-executive and executive directors), how & when funding will be used and how & when financial performance will be monitored.
* Budgets required at a high level e.g. professional fees, staff & interims, build costs etc. should be set out for the period that the business plan addresses e.g. 2019/20, 2020/21, 2021/22.
* Investment requirements; based on the housing programme, the overall costs, grant available, timescales for delivery the funding requirements to bridge any gaps should be set out.
* High level cashflow for the LHC should be set out to show income and expenditure for the period of the business plan. This should at the end of the period show financial sustainability.
* An exit strategy; should the LHC not be successful or the LA decide to take the assets back in house, then it is important to set out the exit strategy for this doing this, causing the least damage.
 |
| Key Performance Indicators (KPI) | * The high level KPIs for the LHC. Detailed information against each KPI can be provided in the appendix.
* Who is responsible for monitoring the KPIs and driving performance forward?
* What frequency will the KPI’s be reviewed by the board?
* What parties and individuals will be reported to on the LHC performance against the KPIs?
 |
| Risks & SWOT Analysis | * To illustrate a clear understanding of the LHC business plan and the external factors which may need to be dealt with, set out the strengths, weaknesses, opportunities and threats to the business.
* Details on the risks to the LHC should be identified and measures for mitigating the risks.
* This exercise should be informed by the Development Strategy e.g. insight on the organisations risk appetite.
 |
| Appendices | * Include cashflow forecast for the next three to five years to show how commercially viable the LHC is. As a minimum the organisation should be aiming for financial sustainability. Details on the inputs, outputs and assumptions (e.g. interest on borrowing) made should be included.
* Provide further information on KPI’s, how they will be measured, how they link to the business plan objectives and the monitoring period.
* If the document does need to be jargon heavy, the inclusion of a glossary is recommended so everyone can navigate it.
* Market research which supports the rationale behind the LHC, market and strategic context of the business plan.
 |

* 1. Common LHC Business Plan Mistakes
		1. **Financial position:** To have a comprehensive view on whether a business plan is viable, it is important to have an understanding on the headroom for borrowing, cashflow profiles and peak debt, without this background research the business plan could be set up to fail. The more upfront research done on this the more effective the business plan will be.
		2. **Development Strategy:** A Development Strategy should be worked up alongside the business plan in order to define how it is intended to deliver the programme of works. If this upfront strategic work is yet to be done it will be much harder to define the business plan and sell it to key stakeholders. The development strategy should cover:
* What sites you will target for development
* Core development and procurement principles
* Risk appetite
* Approach to partnerships
* Funding requirements
* Design targets
	+ 1. **Proactive planning:** As soon as the financial position has been confirmed and the Development Strategy in a good draft format, the Business Plan for the LHC should be prepared. Preparing this document should not be delayed, the longer the production of this document is delayed the higher the chance of confusion with key stakeholders, scope creep with business and careless management of finances.
		2. **Cashflows & forecasts:** Understanding cash flow is critical and not just focusing on profit. Time should be taken to develop realistic cashflows for the LHC to confirm it can be viable.
		3. **Concise objectives:** it is important that the aims and objectives set out in the business plan are SMART. Vague goals should be excluded as they will detract from meaningful delivery.
		4. **One size fits all:** One size does not fit all in terms of a business plan. Resource should be adequately allocated to develop the business plan properly and advise sought when necessary. Feedback from key stakeholders should be obtained to fine tune the business plan.
		5. **Diluted priorities:** The priorities for the business should be no longer than three to four bullet points. Too many priorities will mean that the business plan is no longer strategically focused.
		6. **Growth projections:** Over optimistic growth plans illustrating a “hockey stick” shape projections for housing delivery. During the first few years it will take time to mobilise. Setting out unrealistic delivery plans will frustrate key senior stakeholders and demoralise staff members. Managing stakeholders’ expectations is essential.
1. Practical programme delivery
	1. Set-up of systems
		1. Before going live with an LHC, core internal systems need to be set up with appropriate infrastructure in place to support them. These systems will need to focus on central internal functions to enable day to day operations but also systems for actually delivery of homes.
		2. Key areas which will affect housing delivery if not implemented properly are set out below.

**Programme management**

* + 1. The role of a Programme Manager or PMO should not be overlooked; if a full programme of works is to be delivered via the LHC, a Programme Manager resource should be secured.
		2. This role’s primary purpose will be to maintain a single ‘version of the truth’ regarding the latest programme status. This role will be integral in monitoring programme cashflow and delivery against milestones. It is recommended that this role is the single point of contact with any funding bodies and for external reporting activities.

**Project management**

* + 1. Schemes should have adequate controls in place to enable monitoring of the budget, programme and quality requirements.
		2. To support this project management principles should be implemented and proactively managed. This includes risk & issues management, change management, cashflow management, regular reporting, and project plan management.
		3. In addition, at the beginning of a scheme, core project management documents should be prepared and signed off by key identified stakeholders (e.g. the sponsor), and these documents should be maintained appropriately; these documents may include a Project Brief, Project Initiation Document and a Project Execution Plan.

**Governance and approval process**

* + 1. A clear governance and approval process will need to be set out which details spend thresholds, a clear route map for approval of spend for projects, and political decisions.
		2. It is important to ensure that not too many people are involved as this will slow down the process and cause confusion. A good way forward is to create a simple gateway process at key milestone stages within a project. The process should be kept simple to ensure that the team remains motivated and empowered to deliver.
		3. It is also recommended that for the overall programme delivery and for individual projects, a RACI matrix is agreed with key stakeholders. It is important that all members involved have a clear understanding of their role to ensure that no confusion is caused, that there is ownership of schemes, and a single accountable person identified for each scheme.

**Stakeholder engagement**

* + 1. Without proper stakeholder engagement (internal and external), there are likely to be delays to schemes. It is therefore recommended that from the outset, a programme-level Stakeholder Engagement Plan is agreed and set out at project level.
		2. It is important to embrace resident participation; proactive engagement may be time-consuming but is much more effective than excluding them from the process altogether. In some scenarios, resident-led schemes could be considered. This is an effective way of generating more land for development.
		3. Attention should also be given to internal stakeholders such as legal specialists, the project sponsor, finance staff, councillors and planning staff. Some of these departments will have strong views on approaches, and it is best to get their buy-in early on to avoid wasting time and budget.

**The procurement strategy**

* + 1. It is recommended that a procurement expert either is brought into the delivery team full time or an SLA is set up for this service. With a variety of legislation to navigate when procuring services, it is important that the correct process is followed to reduce wasting time or the risk of having to re-tender opportunities.
		2. Advice can also be sought from a procurement expert on which frameworks are the best to use from a quality & time perspective, and then how best to prepare a tender pack to ensure a fair and competitive tendering process, considering the value of the works.
		3. It is important to thoroughly assess what procurement approach should be adopted depending on the scheme requirements, e.g. a Dynamic Purchasing System may be useful if there is likely to be a high turnover of consultants or designers.
		4. Frameworks can be useful if the value of the contract will exceed OJEU and they can also help reduce procurement timescales. However, it is important to carry out thorough research on them to properly understand timescales, barriers and who sits on them.
		5. If your schemes are under the OJEU threshold and frameworks do not appeal, it is recommended that the project team prepare a list of recommended consultants (based on track record) which you can invite to tender. Key disciplines to cover for suppliers are; Architects, Employers Agents, Clerk of Works, Planners and Cost Consultants.
		6. It is recommended, for any size of contract, that before the tender documents are released contractors and consultants are contacted and made aware of the opportunity to ensure a competitive tendering process. If preferred this can be done via a formal Expression of Interest process.

**Legal services**

* + 1. Councils should ensure that they have an identified ‘go-to’ legal resource with enough capacity to support the programme. If internal resources are at full capacity, an SLA should be set up with a trusted legal firm which understands the LHC’s objectives and housing development more widely.

**Planning services**

* + 1. Once it has been confirmed that the land is suitable for development from a legal perspective and initial financial viability assessments work, it is important to start early conversations with planners to understand what their appetite is for the scheme.
		2. Procurement of a planning consultant that specialises in housing is key, but this planner will also need to work closely with the architect to ensure optimal density is achieved. It is important to strike a balance between design, planning and financial viability.

**Project financial viability**

* + 1. Ultimately, the project financial viability is the core element that will underpin whether a scheme will go forward. Financial viability assessments should run in tandem with legal due diligence. Several scenarios should be run, and the financial viability assessment will need to be updated as designs progressed, grants secured, tenures are amended and rent levels agreed.
		2. To help run financial viabilities accurately it is recommended that a specialist tool is purchased to assist with them and that all staff are trained in using the tool. This will also bring a level of consistency for viability assessments.
	1. Taking a Project Forward

**Strong Clients**

* + 1. It is important to ensure that the client Project Managers in charge of housing projects are strong and able to clearly articulate to all members of the project team and stakeholders the project brief and main objectives. In particular, they should have strong stakeholder engagement skills to manage expectations.
		2. Without this direction it is likely that all parties will not pull together to drive forward the same agenda.

**Project Timescales**

* + 1. Project timescales should be accurately set out and need to take into account that it does take time to put the project teams in place but also to carry out resident engagement activities and sort out legal matters concerning land. Ensure that all key parties have been consulted on the programme and have confirmed that they can meet the timescales. This will give everyone a sense of ownership for the tasks responsible to them.

**Design Stages**

* + 1. The designs stages of a housing scheme are arguably an area where the most errors can take place. To reduce the mistakes made it is vital to ensure a clear design brief has been defined and red line boundary plans are available for the site in question. To formulate the brief, it is essential that the Project Manager engages with key stakeholders such as planners, housing management, residents and councillors.
		2. It is common for housing management to be left out of these discussions. They are arguably the most important due to the long-term involvement with the product once the scheme has finished. Housing management will have the best insight on life cycle costings, design errors which will call issues with maintenance and insight on what finishes are durable & cost effective.
		3. The design brief will set the direction when taking schemes through design stages and should be referred to when considering variations. To complement the design brief, design standards for all your schemes should be created and put in place before any schemes commence. It is recommended that specialist expertise is sought when preparing this document. These designs standards will help to ensure best practice and a base quality level across all schemes. It is recommended that a standard is agreed for each tenure and unit type, this will help save time and the design standards can be refined as lessons are learnt.

**Consultation**

* + 1. The earlier that consultation can start, the better. Consultation events with the local community and local council members is a good way to flush out any political issues before too much time and money has been committed. These relationships need to be managed through-out the development process.
		2. Your Stakeholder Engagement Plan should identify the frequency and the medium for these interactions. Proactive consultation will ensure schemes are not derailed by local residents and councillors. Ensure information being relayed is presented in a clear and concise manner at a level that everyone can understand.
		3. In addition to consultation with residents and councillors do not forget other parties such as housing management, LA planning and waste management providers.

**Tendering Build Contracts**

* + 1. Based on the value of the scheme time should be taken to consider what kind of contractors would be interested and good at building the scheme. There is a big difference between sites of over or under 50 homes. Do not waste time chasing organisations who may not be interested. Questions to consider are; what schemes do they usually deliver; what value are these schemes; how big is their supply chain; would the contract value be of interest to them?
		2. Once small list of suitable contractors has been identified, early engagement with them is advisable. Site visits can sometimes be helpful to ensure they price up the opportunity correctly and do actually submit a tender. If you do not end up with enough tender returns to make the process competitive, do not be afraid to re-tender the opportunity, it is important to make sure you get value for money and the right firm for the job.
		3. Finally, before going through the tender process make sure you have done your own research and works (designs & surveys). The more uncertainty attached to the job the higher the risk for the contractor. You are therefore likely end up with high provisional sums and potentially unrealistic construction costs.
		4. If resource permits, work closely with a procurement expert and Quantity Surveyor/Employers Agent to make sure this progress is compliant and all key information included to ensure value for money in the tender returns.

**Strong Employer’s Requirements**

* + 1. Before any schemes commence, a comprehensive set of ERs should be in place and signed off by key stakeholders. he ERs should not be loosely worded, if they are this will give the contractor an opportunity to make short cuts and mis-interpret them.
		2. A weak set of ERs is likely to result in more spend due to the need for variations. The more concise and clearer these are, the better, time should be spent to ensure they are adequate. It is recommended that your ERs are reviewed by legal, planning, designers and the end user before finalising them. You may want to look at procuring a specialist to define them in the first place.

**Reporting and funding**

* + 1. It is recommended that before a project is mobilised you have complete clarity on the reporting requirements attached with any funding and the areas that need to be reported on.
		2. Monthly status updates should reflect this information. However, in the first instance consider if you really need to apply for the funding for the scheme. If funding is required, it is important to consider if you can deliver to the timescales and meet the audit requirements? If you are not confident, it is recommended you do not apply for the funding as you risk reputational damage with core bodies such as Homes England and the GLA.
	1. Building and retaining a team

**In-house development teams**

* + 1. While the local government sector is experiencing growth in the number of LHCs being set up to deliver councils’ development ambitions, the removal of the HRA debt cap could lead LAs to give consideration instead to creating an in-house development teams. This section provides guidance on building and retaining a team.
		2. Project team resources are key for delivery. Making sure you have the right skill-sets, level of resource and team dynamics is essential. Key questions to consider are:
* Who is going to deliver the development schemes?
* Do you need to recruit staff members?
* Does the team have the right skills? If not, what skills are missing?
* Do you need external support to undertake a review of the development team structure?
* Do you need additional internal support?
* Have you got a list of trusted suppliers you can lean on?
* What can you do to attract talent to your team and retain it?

**Development team review**

* + 1. When setting up a new development team, it can be helpful to have an independent person carry out a review of your programme and objectives to make a recommendation on what structure, level of resource and numbers will be required to achieve this.
		2. This review can be useful for already-established teams; an independent expert will be able to identify where key skills and resources are missing.
		3. This review can also be used as a method of understanding what barriers and blockers members of staff encounter in the work environment which impact on their ability to operate efficiently and effectively (e.g. lack of line management, training needs, technology requirements, etc.). Once these have been identified, mitigation can be implemented.

**“Home-grown” staff**

* + 1. Development professionals are not always easy to recruit externally; a LA or LHC looking to establish or strengthen an existing development team may wish to look at employing graduates or other young professionals to ‘grow your own’ resource. For effective delivery and team cohesion, a development team should be made up of individuals with a variety of levels of experience and seniority.
		2. Developing your own resource can also result in long-term benefits, if a junior member of staff feels that their employer is actively investing in them, they may be more likely to remain within the organisation in the long-term.

**Team structure**

* + 1. Getting the right team structure is very important for effective delivery. A development team should consist of a variety of seniority levels and a blend of resource dedicated to delivery, strategy and technical expertise; the team should also be of a suitable size to match the programme delivery targets.
		2. Depending on the size of the council’s development programme & tenure mix, the LA or LHC may also want to consider establishing complementary additional teams such as a new business & partnerships, or a sales team.

**Attracting & retaining talent**

* + 1. In order to attract the best talent, LA or LHC will need to be able to compete with private sector organisations, either in terms of financial incentives or career development opportunities.
		2. Initiatives to consider to make job offers more appealing could include public practice market supplements, training opportunities, professional membership support, project opportunities and flexible working options.
	1. Team skills and competencies requirements
		1. For a development team to be successful, it will need to contain a range of both general skills and core team competencies. These are detailed below.

**General skills requirements**

* + 1. It is important to have diversity of thought within a team, but also team members with varying skills which complement each other. We would expect a development team’s membership to possess a range of skills including:
* Strong written and communication skills
* Strong numeracy skills (this is of particular importance for those responsible for development appraisals and managing cashflows)
* Leadership skills
* Understanding of the political environment and managing the political agenda
* Negotiation skills (particularly important for dealing with contractors and politicians)
* Stakeholder engagement and relationship management skills, and the ability to secure buy-in from key groups
* Organisational skills and a target-driven mindset to ensure that actual delivery runs to programme
* Teamworking ability, both in terms of working as a cohesive team and working harmoniously with external consultants and contractors
* Start-to-finish mentality to ensure that projects are seen through to completion

**Team competencies**

* + 1. Key competencies which we would expect a development team’s membership to possess include:
* **Contractor management:** understanding of the contractor procurement routes, core contract content and how the contract needs to be administered.
* **Planning & policy:** understanding of planning and policy within the LA area of operation and more widely, specifically the requirements applicable to the scheme and how to ensure compliance.
* **Design:** not essential, but desirable to have someone in the team with an understanding of core design principles for housing, and requirements for the borough to ensure that architects are briefed accurately and value for money from consultants achieved.
* **Project management:** a clear understanding of how to manage schemes successfully, including risk, programme and financial management, and stakeholder engagement.
* **Contract management:** able to manage project team contracts to ensure value for money from the client project team.
* **Programme management:** a development team should have at least one identified individual to undertake programme management activities, data analysis and to hold a ‘single version of the truth’ for the development programme(s).
* **Procurement:** all team members should have a good understanding of procurement rules, timescales and the various options for consultant & contractor procurement.
* **Strategic direction:** a senior-level individual in the team should possess the necessary skills to set out the strategic direction of the programme and consider how best to deliver it, in order to drive the direction and focus of the entire team.
* **Development appraisals:** all team members should have a good understanding of how to appraise schemes (e.g. funding options, scheme expenditure and income)
1. Checklists
2. **Business planning checklist**

|  |  |
| --- | --- |
| 1. *Do you really need to build houses directly?*
 | *Choose an item.* |
| 1. *Do you have clarity on the housing company objectives?*
 | *Choose an item.* |
| 1. *Do you have clarity of the delivery mechanism?*
 | *Choose an item.* |
| 1. *Do you have clarity on the delivery programme?*
 | *Choose an item.* |
| 1. *Do you have clarity on your resource requirements?*
 | *Choose an item.* |
| 1. *Have you profiled out different financial scenarios for the housing programme?*
 | *Choose an item.* |
| 1. *Have you reviewed the programmes overall viability?*
 | *Choose an item.* |
| 1. *Have you documented your development strategy?*
 | *Choose an item.* |
| 1. *Can you assemble a list of sites that are genuinely deliverable over the timescale you are committing to?*
 | *Choose an item.* |
| 1. *Do you have a business plan with clear goals and targets?*
 | *Choose an item.* |

1. **Systems set-up checklists**

Governance and Approvals

|  |  |
| --- | --- |
| 1. *Is there a governance & approvals process in place?*
 | *Choose an item.* |
| 1. *Has this been trialled & tested and feedback taken onboard?*
 | *Choose an item.* |
| 1. *Are all templates easily available for use?*
 | *Choose an item.* |
| 1. *Have members of staff been trained in the process and is this guidance easily accessible?*
 | *Choose an item.* |
| 1. *Has a programme sponsor been identified?*
 | *Choose an item.* |

Project Management

|  |  |
| --- | --- |
| 1. *Are there robust project management processes in place?*
 | *Choose an item.* |
| 1. *Are these clear, pragmatic and relevant to housing schemes?*
 | *Choose an item.* |
| 1. *Have delivery project managers been consulted and trained on the processes?*
 | *Choose an item.* |
| 1. *Are best practice templates & guidance easily available for use?*
 | *Choose an item.* |

Programme Management

|  |  |
| --- | --- |
| 1. *Has a programme manager been appointed or a PMO set up to support the programme?*
 | *Choose an item.* |
| 1. *Has a programme and project reporting template been agreed?*
 | *Choose an item.* |
| 1. *Has a cashflow template been created at Programme level?*
 | *Choose an item.* |
| 1. *Are all templates and guidance for using the key documents easily accessible to staff?*
 | *Choose an item.* |
| 1. *Have key staff been trained on how to complete the monthly status update reports?*
 | *Choose an item.* |
| 1. *Is the Programme Manager aware of reporting requirements with funders?*
 | *Choose an item.* |

Procurement Strategy

|  |  |
| --- | --- |
| 1. *Have you got template procurement documents to support consultant and contractor tendering process?*
 | *Choose an item.* |
| 1. *Are all templates easily accessible?*
 | *Choose an item.* |
| 1. *Has a process for the different routes of procurement been set out and is this easily accessible?*
 | *Choose an item.* |
| 1. *Have staff undergone training on the templates and processes for procurement?*
 | *Choose an item.* |
| 1. *Are team members aware of the legal requirements for a compliant procurement process?*
 | *Choose an item.* |
| 1. *Has a list of recommended consultants/contractors for small, medium and large-scale schemes been prepared?*
 | *Choose an item.* |

Stakeholder Engagement

|  |  |
| --- | --- |
| 1. *Have you got an agreed Programme Stakeholder Engagement management plan?*
 | *Choose an item.* |
| 1. *Is there is a specific project stakeholder engagement plan in place?*
 | *Choose an item.* |
| 1. *Have initial introductions & meetings been set up with residents, councillors, planners and legal services?*
 | *Choose an item.* |

Planning Services

|  |  |
| --- | --- |
| 1. *Have you engaged with and/or secured a planning expert early on in the development process for the scheme?*
 | *Choose an item.* |
| 1. *Is the scheme planner and architect communicating and do they understand the scheme objectives?*
 | *Choose an item.* |
| 1. *Have early discussions with the local planning authority department happened to test their appetite for the scheme?*
 | *Choose an item.* |

Legal Services

|  |  |
| --- | --- |
| 1. *Have you secured a point of contact in the legal team or has an SLA been put in place with a legal firm?*
 | *Choose an item.* |
| 1. *Have you run local searches for all identified development sites?*
 | *Choose an item.* |
| 1. *Have you got Report on Titles for all identified development sites?*
 | *Choose an item.* |
| 1. *Do you have a clear understanding of the wayleaves and easements which need to be agreed?*
 | *Choose an item.* |

Project Financial Viability

|  |  |
| --- | --- |
| 1. *Do you have access to a financial viability tool to support site appraisals?*
 | *Choose an item.* |
| 1. *Have core members of the team been trained in using the tool?*
 | *Choose an item.* |
| 1. *Are guidance notes for the tool readily available?*
 | *Choose an item.* |
| 1. *Do key stakeholders understand the core financial viability principles?*
 | *Choose an item.* |
| 1. *Before confirming that schemes are to be included into the programme, have initial financial viabilities been run?*
 | *Choose an item.* |

1. **Building and retaining a team checklist**

|  |  |
| --- | --- |
| 1. *Who is going to deliver the schemes?*
 | *Choose an item.* |
| 1. *Do you need to recruit staff members?*
 | *Choose an item.* |
| 1. *Does the team have the right skills?*
 | *Choose an item.* |
| 1. *If not, what skills are missing?*
 | *Choose an item.* |
| 1. *Do you need external support to undertake a review of the development team structure & a skills audit?*
 | *Choose an item.* |
| 1. *Do you need additional internal support?*
 | *Choose an item.* |
| 1. *What technical support is needed?*
 | *Choose an item.* |
| 1. *Have you got a list of trusted suppliers you can lean on?*
 | *Choose an item.* |
| 1. *What can you do to attract talent to your team?*
 | *Choose an item.* |

Additional case studies

We have developed a number of case studies, which demonstrate how different models of housing delivery vehicles have been implemented by different local authorities.

Wholly Owned Company: Lafford Homes

Lafford Homes is the WOC set up in 2016, by North Kesteven District Council (NKDC), a rural district in Lincolnshire. While NKDC had a track record of developing through its HRA, it set up the WOC to overcome the limitations in delivery created by the HRA debt cap.

Lafford Homes operates a board of 3; the Council’s Corporate Director, the lead finance housing officer, and an independent with housing and construction experience. The WOC currently has 27 homes on site which will be for market rent. The WOC is being funded by Council on-lending of PWLB borrowing.

1.
2.
3. 

Wholly Owned Company: Derbyshire Developments Limited

Derbyshire Development Limited was set-up by Derbyshire County Council (DCC) in 2016. As a County Council DCC was not stock-owning, and had no HRA. However, DCC recognised that it was still well placed to develop council-owned sites, to generate income that would otherwise have gone to private developers. The primary objective of the WOC is to generate profit for DCC.

In terms of delivery the WOC will generally buy in the expertise it needs (for example around planning, development, construction) from external consultants. It is currently working on two schemes, which will deliver 70 units in the next year for private sale. And has identified a further 10 sites for future development.

The Board of is made up of 5 directors, and includes:

* an independent Chair
* the Managing Director of the WOC
* the Cabinet Member for Economic Development and Regeneration,
* a further Councillor
* the Council’s Director of Property.

The WOC is funded through borrowing from the Council.



Wholly Owned Company: Build!

Cherwell Community Build (trading as Build!) was set up by Cherwell District Council, a non-stock holding authority in 2014. The focus of Build! is on non-traditional housing such as self-build and modular, alongside homes refurbished and bought back into use with support from the HCA.

The Build! rental model is affordable rent (set at up to 80% of market) with fixed term tenancies. In their innovative model some of their rental opportunities have also had an element of self-finish which requires time and skill investment by the Tenant who in turn gets more security in their tenancy.

Build! Are also developing shared ownership and supported homes. They have already developed 140 units, and have a pipeline of a further 120 homes. As with their rental product they are supporting self-build in their home ownership options.

Wholly Owned Company: Big Sky Ventures

Big Sky Ventures was set up by South Norfolk Council (a non-HRA holding Council), in 2013. It has a group structure with three subsidiaries; Build Insight Ventures, Big Sky Property Management, and Big Sky Developments. The company delivers homes for market sale and market rent, as well as commercial property. They are currently constructing two schemes which will deliver 107 properties (with 20 retained for rent). The council anticipates a £2.5m profit on the sales of the development and return from its rented homes of £120K a year.

South Norfolk Council have said they were motivated to set up a housing company because there was a “consistent pattern of under-delivery” of housing against planning permissions granted. Last year only 459 homes were completed despite there being over 7,000 planning permissions in place.



Wholly Owned Company: Broadway Living

Broadway Living (BL) was established by LB Ealing in 2014, as a delivery vehicle for housing & regeneration. It is currently a single entity, although it is open to creating JV with RPs or private developers where this will help it to achieve its strategic objectives. The company was set up to support the Council’s development and regeneration programme, and to deliver a financial return to the Council.

BL receives a mix of debt and equity financing from the Council, which borrows from PWLB to invest/on-lend into BL. The Board is made up of two Council Officers, and delivery of housing to date has been delivered by Council Officers, although BL is also working with Build to Rent providers who operate in the Borough and aims to deliver 1,000 homes by 2026.

BL will deliver a range of tenures with market rent, discount market rent, private sale, shared ownership properties all forming part of its pipeline. It has a mixed model of housing management while the 42 homes currently in management are managed by an agent on behalf of BL, in some developments they will be managed by the Council, and in others by a developer partner.



Joint Venture: Sheffield Housing Company

Sheffield Housing Company (SHC) was established in 2011, as a partnership between Sheffield City Council (SCC), Keepmoat and Great Places Housing Group, it is a Private Limited Company: 50% owned by SCC, 45% Keepmoat and 5% Great Places (through KGP Ltd).

The objectives of the JV were to introduce private home ownership in mono-tenure social housing areas, encourage private sector housing, and to secure financial returns to the Council. The JV was financed through cash equity from Keepmoat to match SCC land equity, plus deposits from Great Places, then sales revenue recycled into SHC.

SHC is governed by a board of six, with three SCC representatives, two from Keepmoat and one from Great Places.

Keepmoat acts as the developer for the JV and SHC has delivered c.270 homes the majority have been sold with 70 for affordable rent. It aims to deliver 2,300 homes by 2026. The majority of homes are for private sale. Great Places Housing Group is responsible for estate, leasehold and affordable rent management.



Joint Venture: Gateshead Council

A JV was established in 2012, between Gateshead Council and Evolution Gateshead, a consortium of Home Group and Galliford Try, following a three-year procurement process. It is a Liability Limited partnership based on a 50:50 partnership between the Council (which provides land) and Evolution Gateshead (which provides financing).

The council provides land, while the developer provides development finance, the sale of the homes repays the development finance, while overage agreements ensure that the Council get a 50% share of any ‘super profit’.

The objective of the JV is to catalyse regeneration in Gateshead, and to deliver affordable homes. The JV will deliver homes for private sale, affordable rent, social rent, shared ownership. The objective of the partnership is to build 2,300 homes across 19 sites. 115 of these homes have already been completed. The sites allocated are developed in multiple phases, with groups of three or four sites bundled together to create balanced development packages, in which sites with positive land values will cross-subsidise those sites with negative values and so ensure development across the entire bundle.

Galliford Try act as the developer for the homes while Home Group manage the social, affordable rent and shared ownership properties developed.



Sale and Leaseback: Barking and Dagenham Reside

LB Barking and Dagenham Reside entered into a sale and leaseback arrangement with institutional investors Explore Investments structured by Long Harbour. The deal saw 477 homes delivered by Laing O’Rourke between 2012 and 2014.

All properties were at affordable rents at levels that were 50%-80% of local borough market rental rates. At the end of the financing period the homes will revert to Council ownership. The homes are held within a special purpose vehicle – Barking and Dagenham Reside, which also has a number of other schemes.

Multi-Authority: North Essex Garden Communities

North Essex Garden Communities (NE-GC) was set up in 2017 to take forward proposals for three new garden cities across North Essex. It is a company limited by shares, which is owned equally by the four councils. NE-GC will act as a holding company, supervising three local delivery vehicles (LDVs) which may be joint owned with private partners.

The company plans to raise both public and private sector finance, to support the development of the garden cities. NE-GC has a board of four, with an executive councillor representative from each authority.

The garden cities could deliver up to 45,000 new homes in Essex, but is still at the early planning stages, development is expected to start on the first city in 2021.

Multi-Authority: Aspiration Homes

Aspiration Homes is a Limited Liability Partnership set up by Eastbourne Borough Council and Lewes District Council in 2017. Both organisations also have their own WOC; Eastbourne Housing Investment Company, and Lewes Housing Investment Company. The main tenure to be delivered by Aspiration Homes is affordable housing, and it will use two routes to deliver these:

* Properties from the Councils’ WOC development programme
* Direct acquisitions by Aspiration Homes

The joint venture has the advantage of being able to make use of right-to-buy receipts when developing affordable housing, which the two Council’s WOCs cannot.

Aspiration Homes is governed by a Joint Housing Investment Board, and sites delivery is overseen by Council officers on behalf of the partnership.



Direct Delivery: Bristol City Council 

Bristol City Council began its new house-building programme in 2014 with the aim of building 250 new homes in the first five years. 34 units were constructed in the first phase. The properties are a mix of social rent and private sale (to provide cross-subsidy), and delivery has been co-ordinated by a single housing delivery team within the Council, monitored by a Housing Delivery Board. The properties are also managed by the housing team.

The Council aims to meet housing need and make better use of existing council land through these developments. Financing is secured through HRA business plan borrowing.

Direct Delivery: Portsmouth City Council

Portsmouth City Council has developed eight schemes (a total of 59 homes) since 2011, with a pipeline of a further six schemes (179 homes). These schemes are a mix of general needs and supported housing, with a mix of bedroom sizes. The approach to delivery varies from scheme to scheme, with the Council alternating between using their own directly-employed architects and development staff, and utilising local architects and construction firms. The completed schemes are managed by the Council.

The Council’s development objectives are to deliver affordable housing, reduce council housing waiting lists and generate a rental income stream. Financing for the developments is secured through HRA debt financing and the inclusion of commercial units on some schemes to provide cross-subsidy.

1. https://ere.barnet.gov.uk/jsna-home/demography.html [↑](#footnote-ref-2)
2. From Opendoor’s financial Statements: http://www.opendoorhomes.org/wp-content/uploads/2017/07/Opendoor-Homes-Financial-Statements-2016-17.pdf [↑](#footnote-ref-3)
3. http://barnet.moderngov.co.uk/documents/s29547/Establishment%20of%20a%20new%20wholly%20owned%20council%20housing%20company%20WOC.pdf [↑](#footnote-ref-4)
4. https://www3.camden.gov.uk/Camden\_20Profile\_20\_latest\_.pdf [↑](#footnote-ref-5)
5. https://www3.camden.gov.uk/2025/wp-content/uploads/2018/07/Our-Camden-Plan.pdf [↑](#footnote-ref-6)
6. ONS [↑](#footnote-ref-7)
7. Enfield Local Plan Consultation Document [↑](#footnote-ref-8)
8. Enfield’s Housing Strategy 2012-2027 [↑](#footnote-ref-9)
9. https://www.haringey.gov.uk/social-care-and-health/health/joint-strategic-needs-assessment/figures-about-haringey [↑](#footnote-ref-10)
10. Westminster Housing Strategy Draft for public consultation, Westminster City Council, June 2015 [↑](#footnote-ref-11)