Making the most of our assets: Establishing a housing company

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Context

The Council is taking a pro-active approach by considering all options to increase and influence the supply of new homes, of all tenures in a sustainable way, alongside improving the fabric and public realm of Central Bedfordshire.

However, there remains a shortfall between the demand and supply of new affordable homes:

- in absolute terms as viability issues result in below policy delivery
- in specific tenures, particularly in the provision of affordable rental housing, older people's housing and specialist accessible housing.

Options to do more:

If we wish to intervene in the market to address these shortfalls there are tools and methods we could deploy:

- Use planning policy to encourage and ensure the market supplies the right housing in the right place
- Expand the current HRA programme of purchase of homes and development of sites
- Use the Council's land assets to deliver additional housing

None of these methods alone offer a 'silver bullet'; to have the greatest impact, all have a role to play.

Retaining asset value

Currently surplus Council owned land is disposed of to a developer in return for a capital receipt.

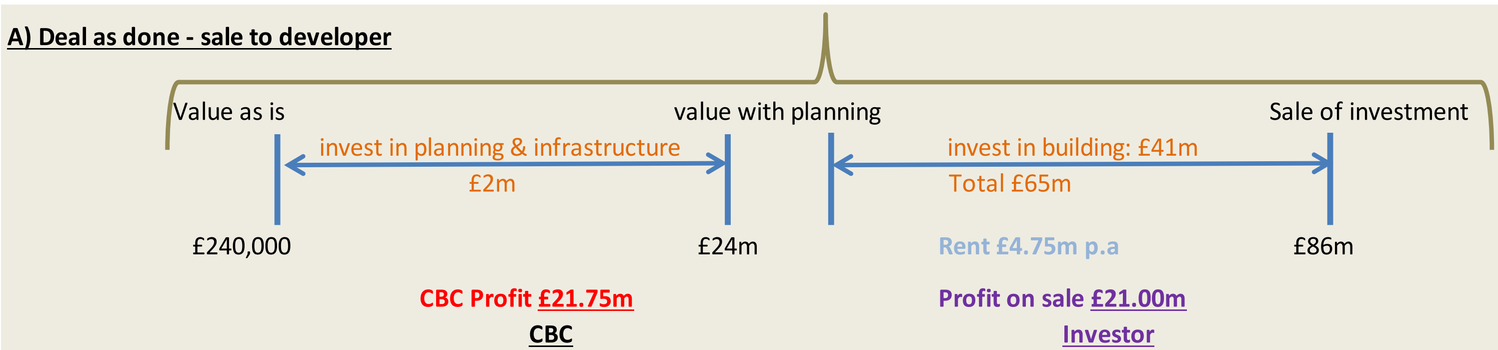
This sees the Council giving up the long-term value in its land and having less influence on the nature/tenure of housing developed over the medium to long term.

Alternatively, by investing in the development of its own land assets and retaining ownership of all or part of the resultant buildings, the Council retains an asset with an increased value, but also has the ability to produce an ongoing revenue income from rents.

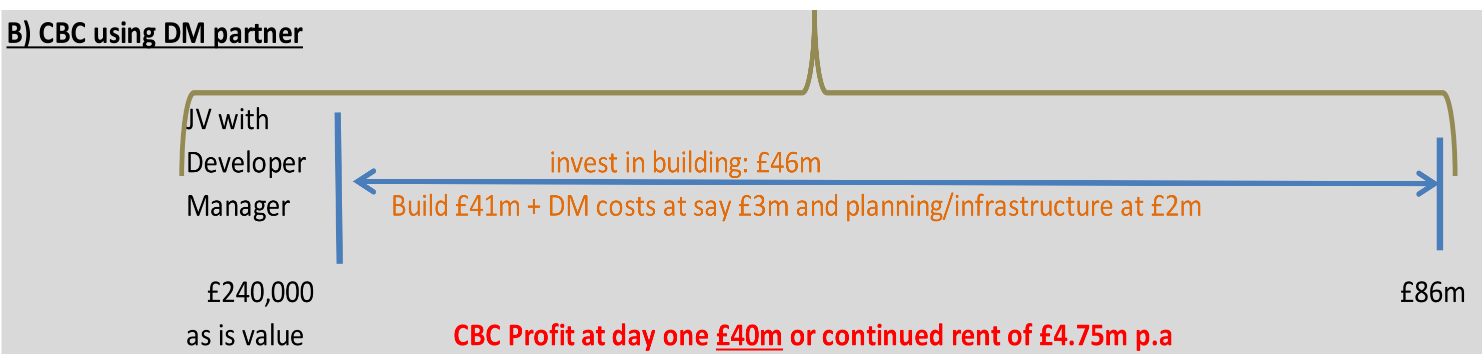
In addition, direct involvement in development presents significant opportunities for the Council to have a greater role in determining the pace and nature of delivery, the product, and to share in the financial returns.

Retaining Asset Value

Traditional land sale (based on 200 houses)



Developing homes on our land (based on 200 houses)



Options for Delivery

If we agree to use the Council's land assets to develop housing supply there are a number of delivery options we could deploy.

If we wish to retain any stock (and hence asset value) we would need to do this within the HRA or establish a company which could be wholly owned or a Joint Venture.

Each option has its own advantages and risks.

Options for delivery: HRA

We could transfer land to the HRA to develop:

- This presents the least risk, as it is what we do now.
- Surplus rental or sale income from new properties developed would be retained within the HRA.
- Finance to deliver the development would have to be found from within the HRA, staying under the debt cap or other Council capital resources e.g. capital receipts or s.106 contributions. This limits scale.
- New homes would be subject to the same policies and rules as the existing HRA stock.
- There is a risk of asset erosion through Right to Buy.

Housing development outside the HRA

In order to operate outside of the constraints of the HRA, to increase the scale and scope of housing delivery, a company structure would need to be established

The Localism Act 2011 gives councils the power to establish wholly owned or Joint Venture companies

Any profits in the form of dividends would be paid to the Council, resulting in income to the General Fund.

Options: Joint Venture

In this model the Council would establish a company with a commercial partner: the Council would put in land, the partner the investment and expertise to develop out the site.

- Allows the authority to draw on the expertise and resources of a Joint Venture partner.
- Could enable the more effective use of limited financial resources and/or property assets without upfront costs.
- The due diligence, procurement and set up of a JV could take 18+ months.
- Any private sector involvement will be for the purpose of maximising its value to shareholders - this may not be the same vison as CBC’s.
- Need to identify, at the outset, the long term relationship and vision – this does not allow flexibility in light of changing circumstances.
- Loss of control of assets – the governance of the JV would not be fully within CBC control, JV’s are usually 50% council : 50% commercial partner.

Options: Wholly owned council company

In this model CBC would set up a wholly owned company which would then commission delivery of homes from builders and retain ownership of elements of the housing stock for rental:

- A company approach offers the opportunity to develop different housing offers and tenures from market sale to affordable rent.
- The company would be wholly owned by CBC; it would control activity and the use of any profits.
- Able to respond to CBC priorities and avoid conflict of strategy with the private sector.
- The use of a company could shield investment from Right-to-Buy and rent capping.
- Set up of a company can be undertaken speedily: within 6 months.
- Decision making can be faster and hence the pace of delivery improved.
- Would require significant financial support (through additional borrowing) in the early years.
- Government may limit the use of borrowing where this is to fund 'non-core' activity.
- Loss of control; governance is a risk if Articles of Association not sufficiently robust.
- Initially, would be entirely funded by CBC via loans and the return to CBC will rise and fall in line with the activities of the company.
- A company of this type would be a major step for CBC and it would require careful support and need to draw on skills from both inside and outside CBC.

How would a company work?

A company would be a private company limited by shares, wholly owned by the Council with the purpose of generating revenue through developing housing for sale and retention for rental.

Sites for development would be transferred to the company by the Council in return for a mix of equity and capital receipt at full market value.

The Council would lend money to the company at a commercial lending rate in order to finance the planning design and construction of new properties. The company would repay the loans through sales of some of the houses.

The balance of homes would be retained by the company as rental properties and profits would be reinvested or paid to the council in the form of dividends.

How would a company work?

Governance:

Appropriate governance arrangements would need to be established that ensure accountability whilst not hindering operational activity.

A company board would need to be established and Directors appointed: best practice would suggest this includes two independent Non-Executive Directors who can bring particular experience to the Board together with the Managing Director of the Company and two Council appointed Directors.

Key documentation which sets out how the company operates would need to be established including Articles of Association, a Shareholder Agreement and Loan agreements.

Key Risks

Establishing a company would involve the council taking out a significant financial burden.

The scale of this depends on the size of sites and pace of delivery but a critical mass is needed to make this a worthwhile venture in terms of overhead and administration and indicative figures suggest initial lending of up to £ 20 million is required for a viable enterprise.

This is an area of business new to the Council and will require particular skills and competencies which are not common in councils.

Changing legislation is a further risk as the Government has indicated that council's borrowing to fund 'non-core' activity is an area of concern.

How many homes and when?

Aggregated Small Sites:

The aggregation of smaller sites in a variety of locations and sizes can be pulled together in a development portfolio that amounts to an estimated 535 homes of which 220* are affordable (40%), and the remainder market housing for sale to help fund the developments.

There is an interplay here with the sites for which additional HRA borrowing capacity has been bid for. If the HRA bids are not successful, the alternative may be to use the housing company option to develop them.

*The numbers of affordable homes could be increased

Summary

The Council can add to its ability to respond to housing demand by mobilising its land assets in a different way that gives greater control over pace and type of delivery whilst retaining an interest and income from its asset base.

This would require establishing a company, either wholly owned or as part of a Joint Venture arrangement and this will mean we have to accept additional risk and new operating practices.