



## Local Authority Housing Companies

To: All Contacts

### Key Issues

There has been a rise in the number of Local Authority Housing Companies that have been established and APSE has conducted a survey amongst its members to gain a greater understanding of the type, purpose and the number of homes the companies are proposing to deliver.

### Introduction

The rise in the number of Local Authority Housing Companies has been well publicised. To gain a greater understanding of Local Authority Housing Companies (LHCs) APSE conducted an online survey. There were a total of 70 responses from councils across the UK.

This briefing sets out the findings from the survey and provides case studies to give some context to the models Local Authorities have adopted for their housing company.

### Background

Local authorities have been providing social housing for their communities since the late 1800's. The introduction of the Housing for Working Classes Act in 1890, followed by the introduction of Government subsidies to enable councils to build homes in 1919 after the First World War are early examples of Government supporting local authorities to take a lead role in building homes.

In subsequent years the rate of house building in both the private and public sector has seen peaks and troughs in the number of completions and there is no doubt that the rate of house building is driven in part by the policies of Government and the wider economic environment.

In recent years the build rate of council housing has seen a significant dip in completions with the DCLG reporting that completions in England reached 148,000 in 2016 / 17 which was below the peak of 170,000 in 2007/08. In addition, the Chartered Institute of Housing estimates that 161,669 council houses will be lost between 2012 to 2020 due to properties being sold under Right to Buy and landlords converting to higher Affordable

Rent properties. In the APSE and Town and Country Planning research, [Homes for All](#), the issue in relation to the gap between household projections and the number of homes needing to be built was highlighted. With the report stating that a total of 310,000 homes per year would need to be constructed over the next five years to catch up.

The report also outlined that developer contributions were used as a model to fund social and affordable housing with 75% of councils stating that their social and affordable housing was funded via section 106 planning obligations. However, it is evident that this model is not producing the required number of affordable homes.

The subsequent research, [Building Homes: Creating Communities](#) reported that the development of social and affordable homes in 2015 -2016 fell to a 24 year low with only 32,000 properties being built and outlined that Government figures stated that on 6550 were built for social and affordable housing. Recommendation five of the report calls on Government to develop a framework where affordability is local determined based on income and prices.

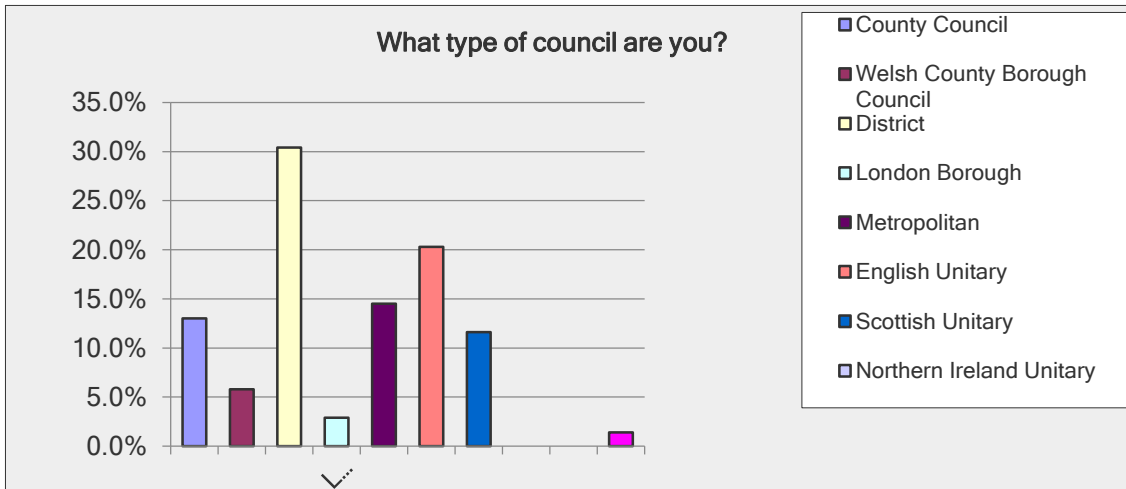
There have been a variety of policies introduced by successive Governments to encourage the building of more homes, but to some extent these policies have resulted in councils taking a limited role in providing new housing stock with greater support being provided to Housing Associations and the private sector. Successive policies have in fact favoured a market response to addressing housing need but as recognised in the Housing White Paper for England in 2017 this approach has failed to address housing need. The political landscape began to change in 2012 with the reform of the Housing Revenue Account (HRA) which was introduced with the aim of encouraging councils to build significant housing numbers, however the numbers of new homes anticipated have still not materialised.

In addition, the Elphicke-House Review and the Lyons Housing Review highlighted the ambition of local authorities to take back the role of building social housing and the growing affordability crisis has seen Government recognising the leadership role that Local Authorities can play in the housing sector and it appears a change in policy emphasis has emerged.

The recently published White Paper, 'Fixing our Broken Housing Market', the 2017 General Election and subsequent announcements from the Secretary of State for Communities have put social housing firmly back on the political agenda. In addition, the growth in confidence in Local Authorities (in England) in using both historic and newer trading powers to set up local authority companies has gained traction as a route to developing new responses to the housing crisis. It is against this backdrop that councils across the country are establishing Local Authority Housing Companies.

### **Local Authority Housing Companies Survey.**

A total of 70 Authorities responded to the APSE survey from a varied range of authorities. Details of the type of council are outlined in the below graph: -



From the responses received over 44% reported that they had a Local Authority Housing Company with a further 24.3% stating that they did not currently have a company but were considering establishing one in the future.

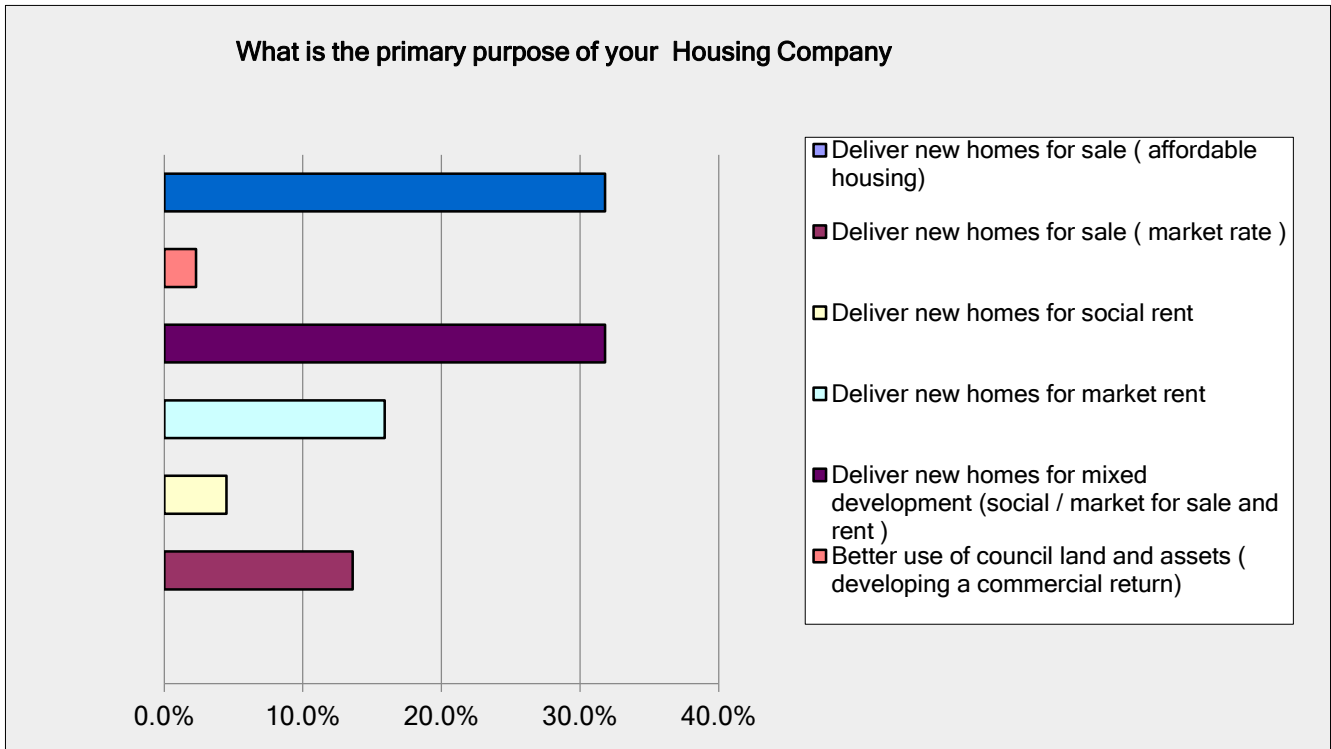
APSE was interested to ascertain what form the housing companies took. The largest proportion of responses (64.1%) reported that they had a wholly owned council company that had been established to build new homes for sale or rent. There were 10.3% of respondents who reported that they had a wholly owned company that will commission the building of new homes and appoint a landlord or estate agent to manage the properties. A total of 7.7% had a housing and regeneration company and 2.6% advised that their authority had a joint venture between the council and a developer.

In addition, just over a fifth of respondents at 20.5% specified that they had a different type of housing company model, these included: -

- A subsidiary of an ALMO.
- District Housing Trust.
- A joint venture with a registered provider or housing association.

These findings were also echoed in the research, '[Building homes, creating communities: Ensuring councils provide innovative solutions to meeting housing need](#),' conducted by the Town and Country Planning Association and APSE that found that 62% of the 126 councils that responded as part of the research, reported that they had or were considering setting up a LHC with the majority stating that they had a preference for a wholly owned model.

The housing landscape is very complex and APSE was keen to understand the primary purpose of the housing company. The graph below outlines the variety of responses received: -



The research shows that the majority of authorities, 31.8% respectively are establishing their companies to deliver homes for mixed development (social, market for sale and rent) and for other than the stated reasons. The reasons specified as other can be categorised in the following key areas: -

- (i) An enabler for wider regeneration projects.
- (ii) Develop affordable housing.
- (iii) Produce a return back to the general fund.
- (iv) Discharge statutory homelessness strategy.
- (v) Speed up the rate of build.

There is a requirement for Councils to secure funding for the LHCs and this funding can be obtained from a variety of sources. Councils were asked how they were funding the new homes, just under half of the respondents, 46.2% stated that funding was being accessed from the Public Works Loan Board, while 19.2% were making use of Council reserves, 5.8% were securing funding from developer contributions/ future income streams. None of the Local Authorities reported accessing funding from the Local Government Pension Fund and 3.8% of respondents stated that they were accessing other types of loans.

In addition, there were 25% of councils advising of other avenues of funding which included: -

- (i) A combination of all of the question responses, excluding Local Government Pension Fund.
- (ii) Land equity.

- (iii) Combination of Housing Revenue Accounts capital funding, Public Works Loan Board and Scottish Government Affordable Housing Programme.

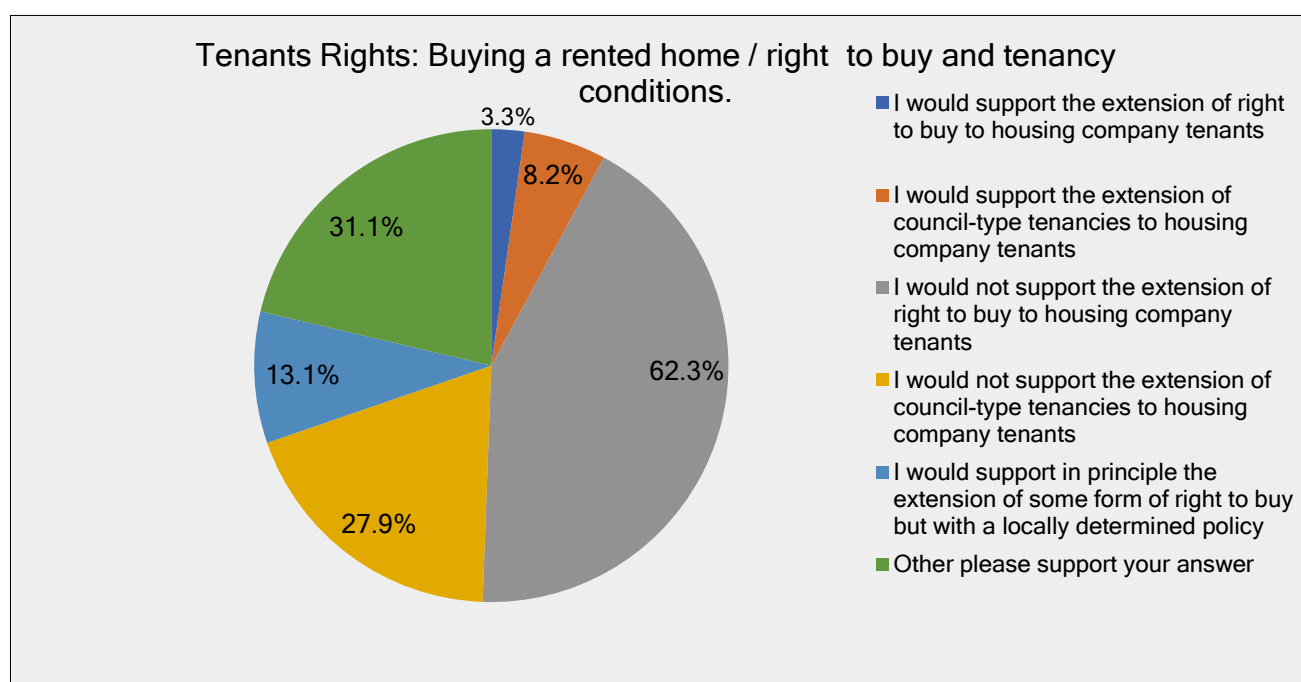
APSE was keen to gain a picture of the number of units that Authorities were expecting to deliver over the next five years. The majority, 51% indicated that they planned to deliver between 200 – 500 properties over this period, 23.5% envisaged delivering less than 200, 15.7% stated they anticipated that they would be delivering more than 500 but less than a 1000, 5.9% would expect to deliver less than 100 and 3.9% reported that they would expect to deliver more than a thousand. Respondents that reported that they the projected delivery of 1000 units in their business plans for the next five years specified that this would be subject to wider housing market conditions.

Recent research published in the Smith Institute report, 'Delivering the renaissance in council-built homes: the rise of local authority housing companies,' echoed these findings and reported the following: -

	Via LHC	VIA HRA/ALMO
1-50	7%	10%
50-100	7%	10%
100-200	29%	20%
200-500	15%	25%
500+	14%	15%
Don't know	25%	20%

The Housing White Paper set out various proposals in relation to tenancy rights in particular the extension of Right to Buy, buying a rented home and tenancy conditions. As part of the APSE survey Councils were asked a view on the proposals.

The graph below outlines the responses received: -



62.3% of respondents do not support the extension of Right to Buy to local housing companies. This echoes APSE's own concerns being that if local housing companies are being used to address housing shortages allowing these new homes to leave the social rented market place, through the extension of Right to Buy this tends to defeat the objectives of the development of new homes. This is not to suggest that a locally determined route to home ownership should not be considered and indeed in places like the London Borough of Barking and Dagenham innovative shared ownership schemes have been put into place. Within the Housing White Paper of 2017 the then Housing Minister, Gavin Barwell, intimated that if LHC were being used as a means to avoid RTB then he would act; This is clearly not the main motive for Local Authority wishing to deliver much needed new homes and would be highly unpopular amongst the majority of Local Authorities who have developed LHCs.

There was a total of 31.1% of respondents that provided a comment in relation to this question and there was a common theme. In the main Councils reported that if the Government policy regarding Right to Buy was extended to housing companies this would have a serious impact on the business plans and financial viability of the company.

## **Case Studies**

The following studies provide an overview of the different model's local government are using to deliver housing of different tenures to meet the housing need in their locality.

The case studies are as follows: -

- ***Derbyshire County Council:*** The authority has a wholly owned company to build and operate new homes for sale or rent.
- ***City of Wolverhampton Council:*** The authority has a wholly owned local authority company to build and operate new homes for sale or rent.
- ***Flintshire County Council:*** The authority has a wholly owned company to build and operate new homes for sale or rent.

## **Derbyshire County Council**

Derbyshire County Council serves a population of around 763,300 people and is an upper tier local authority located in the Peak District.

Derbyshire Developments is the first development company to be established by a county council due to housing responsibility usually being taken by district authorities. It is a private limited company which is wholly owned by the Council.

The council is expecting to deliver 25 homes within the next 12 months and the company's mission is to develop and sell high quality housing on the council's surplus land, working in partnership with commercial developers.

The company has been set up against the backdrop of declining government grants and increasing demand for many services and it presented an opportunity to bring revenue into the council.

There have been 11 sites earmarked with a further 11 under consideration. In addition, there are a significant number of other sites that have been identified as surplus to requirement and could be taken into consideration for future developments

### **City of Wolverhampton Council**

City of Wolverhampton Council serves a population of over 236,582 people, and consists of a former city and metropolitan borough. The economy city is based on engineering and the service sector.

The Council has identified in its Corporate Plan a need to deliver more housing at a quicker pace to meet the need of the projected household need and the need of the existing 11,000 households on the housing register.

The Council had identified a sufficient amount of land to meet the projected housing targets. However, the rate of delivery was not sufficient and resulted in the Council establishing WV Living. The company was set up with commercial funding from the City Council which is the sole shareholder.

The company model was based on an initial three phased development over a five-year period. The first phase of development taking place between 2016 and 2018 is set to deliver circa 370 and further sites have been identified that are projected to deliver circa 800 homes.

The homes will be mixed tenure, with a quarter of the homes set aside as affordable council homes. In addition, there are plans to develop up to 1200 or more new homes over a 5-year period, launch a starter home initiative, the company is also exploring other options for City Centre living and two regeneration projects.

### **Flintshire County Council**

Flintshire Council is one of 22 Welsh authorities serving over 154,400 people and is situated in North East Wales, bordering the English county of Cheshire to the east, Denbighshire to the west and Wrexham County Borough to the south.

The Council has 7,200 retained council properties and established the New Homes Company in April 2014. The company is limited by shares with unlimited powers and the Council is the sole shareholder.

NEW Homes has been established to increase the range of housing options for the 'squeezed middle', provide a competitive offer to landlords to encourage growth in the private sector, utilise income derived from the company assets and help support the affordable offer to tenants and build an asset base to meet local need.

The company has achieved the following: -

30 properties are currently managed and let on behalf of landlords through management agreements that are let at affordable rents.

New build 106 properties – the new build properties are transferred as part of the Section 106 planning obligations as unencumbered asset which are let at affordable rents and are capital assets that the company can borrow against. NEW Homes manages 37 of these properties with 6 to be provided in the next 12 months and a further 18 in the pipeline.

Regeneration – The Walks, Flint was a site that had 240 poor quality maisonettes. The project is funded by a prudential loan from Flintshire County Council. Work commenced on site in May 2016 with a completion date anticipated around April 2018. The site is to deliver 30 Council and 62 affordable rental properties. To date 18 properties have been transferred to NEW Homes.

## **APSE COMMENT**

Council-owned housing companies will not solve the housing crisis by themselves, but they are part of the solution and APSE welcomes the lead role that councils are taking in building social housing as they have a detailed understanding of the housing need in their area, the LHC can improve the income and assets for the authority and building housing addresses other social needs in their area.

Whilst Councils continue to innovate and take a lead role in building social housing there is a need for Government to introduce policies that support low-cost home ownership, affordable social-rented homes and a range of affordable housing products and provide the required investment to support such policies.

Local Authorities currently have a key role in delivering frontline services to their communities are trusted by the public to deliver. Evidence to support the level of trust from the public was demonstrated in a recent survey conducted by Survation on behalf of APSE that assessed the level of public trust in housing safety following the tragedy of Grenfell Tower.

The results of the poll clearly demonstrated that the public would be very supportive of councils being given stronger powers to call landlords to account with 82.1% of respondents supporting, or supporting strongly, stronger powers, with the highest support amongst Conservative voters at 85%. This pattern is followed on the issue of interventions, with 88.3% of Conservative voters believing council powers should be enhanced, and the public at large supporting this with 83.1% wanting to see stronger interventions.

Speaking about the report at a housing fringe at the Labour Party conference, Paul O'Brien, APSE Chief Executive, said *"This poll is a wake up call to Government. The public clearly support a role for local councils in keeping residents safe. With the majority of Inspections carried out by private companies it is time to look again at the fragmented housing market and redefine the role of local councils in ensuring the safety of their communities."*



For full details of the finding, further information can be viewed using the following link:- [Housing Safety inspections](#).

Councils are playing a role in increasing skills through their apprenticeship programmes. However, APSE continues to express concern regarding the availability of expertise, skilled and unskilled workers, equipment and raw materials available in the sector. The scale of the issues in relation to resource and materials are not being adequately addressed. Brexit could also have an impact on the rate of house building in the public and private sector with the potential to free up councils from issues of state aid support which could help improve supply, but conversely the potentially negative impact on skilled workers and material supplies. The Government needs to provide support for the expansion of the construction industry if their targets of building more than 255,000 homes per year is to be achieved.

APSE provides a range of opportunities for Local Authorities to share details of best practice and learning in relation to Local Authority Housing Companies. These include the [Housing, Construction and Building Maintenance Advisory Groups](#), the Policy Seminar on the 17 January 2018 and the Annual Seminars that are held nationally.