

# Local Housing Companies:

Leading the revival of council's building  
again?

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# The Rise of Local Housing Companies

delivering the  
renaissance in  
council-built  
homes:  
the rise of local housing  
companies

By Paul Hackett



*“What are LHC, why set one up, will they make a difference and what might help them?”*

- Context – municipal trading and councils building again
- Local housing companies – shape and form, type and scale, activities and plans
- Reasons and motivations
- Some unknown unknowns
- Top tips
- What next (recommendations)

# Municipal trading is nothing new



- Councils being entrepreneurial has a long history
- Recent Conservative governments have encouraged commercialisation. Since Localism Act (2011) the boundaries between public and private have blurred
- The number of council trading companies has increased rapidly - Half of all councils now have trading companies (Localis claims by 2020 a fifth of all council income will come from trading arms)
- Up until recently mainly B2B (IT, maintenance, waste disposal, energy, airports, commercial property)
- Innovation has played a part, but the main driver is cuts and the pressure to be self financing (by 2020 central govt. funding to councils in England will be £15.7bn less than in 2010 – for many councils TINA)

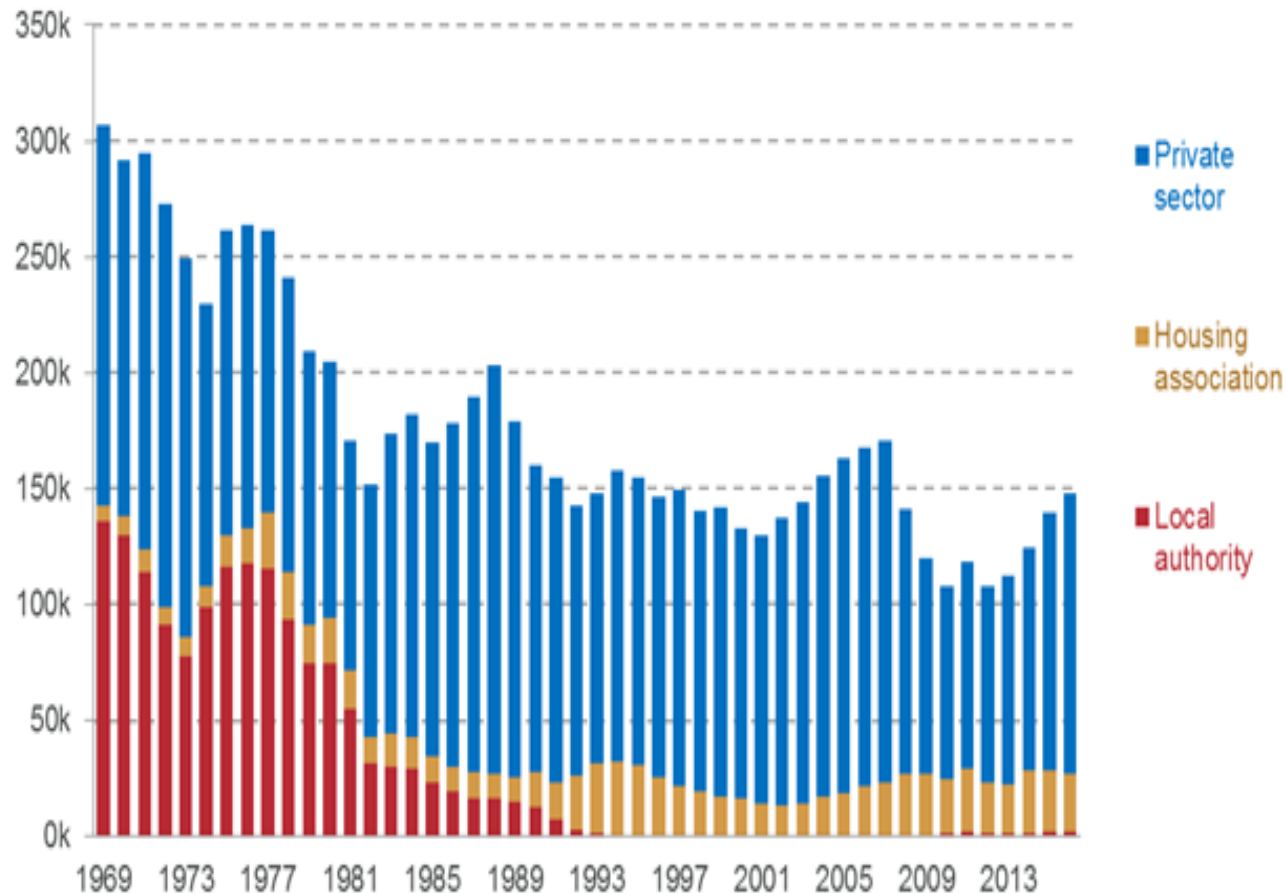
# What about councils building again?



- Plenty of false dawns – much heralded HRA reform (2009) failed to usher in promised rebirth of council house building
- Combination of fiscal austerity and restrictive top–down housing policies (on cuts to social rents, RTB, welfare reforms, curbs on planning gain, borrowing caps etc) killed off council house building
- Councils been left picking up the pieces of the ‘broken housing market’ – trying desperately to meet their duties and housing needs
- Most are fed up with being capped and constrained. They want to “*take back control*” - and, many want to build again

# Back to the future?

House building completions by tenure: England



Source: DCLG live table 209

- Maybe not back to the 60s or 70s, but early 80s?
- Less cheap/suitable land and much less subsidy than in past
- Huge backlog of priority need and falling new supply of social housing for those on low incomes
- Witnessing a growing 'affordability crisis' (more households paying over third income on rent - majority in PRS)

• And rising demand for



# But, the times they are a changing'.....



*Labour  
manifesto  
pledges  
100,000  
council homes  
a year*

*The state must  
get back in the  
business of  
building  
subsidised  
rented homes*



- Housing policy still mostly about market housing and support for FTBs (Help to Buy etc)
- But, seeing a shift in government thinking (post election and post Grenfell tragedy)... ministers now saying they “*want more local authorities to get building*”
- Some new grant funding for social housing and relaxation of shackles (e.g. HRA borrowing and social rents after 2020)
- And, maybe more changes to come: Social Housing GP
- But, still lots uncertainty (and yet another housing minister – 7th since 2010?)

# Councils are building, but mostly not council housing



- Despite the constraints **councils had already started to build again**
- Not through their HRA or development agreements or S106 obligations – but through profit-making **Local Housing Company (LHCs)**
- Been a **‘quiet revolution’** - bottom up and self-financed (and under the Treasury radar)
- And spread across **all types of councils** (from big Mets to small Districts) – majority in the South and East

# What's different about local housing companies?

- Independent, commercial and **not regulated as social landlord** – so outside HRA constraints, no RTB etc
- Providing **mix of tenures**, many with a focus on the PRS at market and intermediate/affordable rent (and some at social rents)
- Shorthold rather than secure tenancies – so can **flip tenancies**
- Some part of **estate renewal** and regen schemes
- Most operating similar **cross-subsidy model** to housing associations

## Our **survey found** they are:

- backed by officers and members (often cross party)
- majority wholly council owned, but variations (JVs and multi-authority)
- most doing mixed tenure, with element of cross-subsidy for social/intermediate as well as specialist housing (temporary accommodation, students, older people)
- capitalised from General Fund, equity investment (sale/lease of council land) and some attract private finance and S106 planning gain
- most borrowing from PWLB and 'on-lending (*at a profit*)



# What is the corporate form?

## Who sits on the LHC board?

- Council officers 46%
- Councillors 34%
- Reps from partner organisations 13%
- Independent adviser/experts 26%

*NB: multiple answers/not either or*

68 councils TCPA/SI May 2017

## Who are the LHC staff?

- Council officers 40%
- Own dedicated staff 19%
- Consultants and contractors 15%
- Others 26%

# How many and at what scale is delivery?

- Estimate **around 150** (from handful five years ago), which expect to **increase to 200 by 2020**
- Our survey suggests average LHC providing initially **circ 100 units a year** (incremental – most LHCs are still in set up mode)
- **Some plan large scale:**
  - Nottingham (1K pa); Newham (3.8K over 6 years)
  - Croydon (500 pa); Southampton (1K pa)
  - Wolverhampton (10K in 10 years); Cornwall (1K pa)
  - North Essex (1,200 pa); Sheffield (2.3K over 15 years)
- Others much **smaller scale** at under 50 units (often District Councils)
- Collectively completions could be expected to **rise to 10-15K** each year by 2022

# Why set up a LHC: Financial motivations

- Generating income for the council: directly through on-lending rental/sale income and through New Homes Bonus, additional council tax receipts
- Savings to the council: e.g. providing lower cost temporary accommodation; cheaper housing maintenance
- Greater borrowing capacity to meet housing needs: escaping HRA debt/borrowing caps
- Securing additional private investment in housing and regeneration (especially LHC JVs)
- Securing better value for council assets than conventional disposal

# Why set up a LHC: Place-shaping motivations

- Intervening and influencing local housing markets –counter underperforming private sector
- Bringing forward development and provide scale for local construction/local suppliers
- Making best use of council land: an alternative to disposal of sites to private developers
- Setting higher standards: the council as an exemplary private landlord: lower rents, better terms and greater security

## Other reasons.....

- Council control and direction (and scrutiny) over housing provision and tenure
- Meeting specific (unmet) housing needs
- Council as innovator: trying different development models and tenure mix
- Exemption from HCA/government regulations and standards
- “Sheltering” assets from RTB and avoiding high value (council house) sales policy

*LHCs offer a financial return for doing something with a social purpose.... Members are fed up with developers and want to hands*

*“While the financial surplus is welcome, the housing market objectives predominate in the council’s thinking.....”*

*“Housing is a core function. It’s not like we’re buying a supermarket.... And unlike the private sector we can take a longer term view”*

*“The fact we have LHCs is a reflection of the poor relations between councils and housing associations”*

*“LHC are a means to an end, enabling councils to achieve housing objectives that are otherwise unachievable”*

*LHCs give us some skin in the game... they offer better value for council assets than conventional disposal”*

*“LHCs can bring to market sites that private developers or large housing associations wouldn’t get out of bed for, like small infill sites”*

*“LHCs are bringing councils seriously into the development space... they’re adaptable and sustainable”*

*“Sacrificing short term profit will be more sustainable for the council in the medium term as landlord of many of the units, and will produce wider economic and social benefits.”*



# Plenty of unknowns...



- Unknowns
  - income generation yes, but how much and **is it sustainable?**
  - what type of house building - **additional or displacing?**
  - How much sub-market/**social rented housing** (more than housing associations?)
  - a complement or substitute for **HRA provision?**
  - Is there the expertise and capability – **overstretched councils?**
- And, some unknown, unknowns
  - Will development be more piecemeal in a **cooling housing market?**
  - **Accountability** and risk of **local resistance** (Haringey)?
  - **new regulations** (HMT ban on on-lending)?  
Will **grant** come back and be available to

# Top tips for Local Housing Companies



- Don't reinvent the wheel – talk to others about their experience
- Listen to Members and share the vision
- Think always about the residents and keep them informed
- Be clear about governance and management structures – “keep it simple”
- Makes sure the capacity and capability is there from the start
- Be thorough and diligent, especially on market appraisals
- Get good external legal and financial advice.
- Don't get distracted by RTB and talk of more “unhelpful” housing reforms

*“The board must be very clear about the respective importance of social purpose and financial... you have to watch for mission creep”*

*“You have to recruit people on the way up and bring in the experience from the private sector”*

*“Over-ambition is the greatest risk”*

*“The LHC structure can be complex because sometimes it has to be”*

*“If members treat their LHC like a council committee, it won’t focus on the big game, it will focus on the design of the door knobs”*

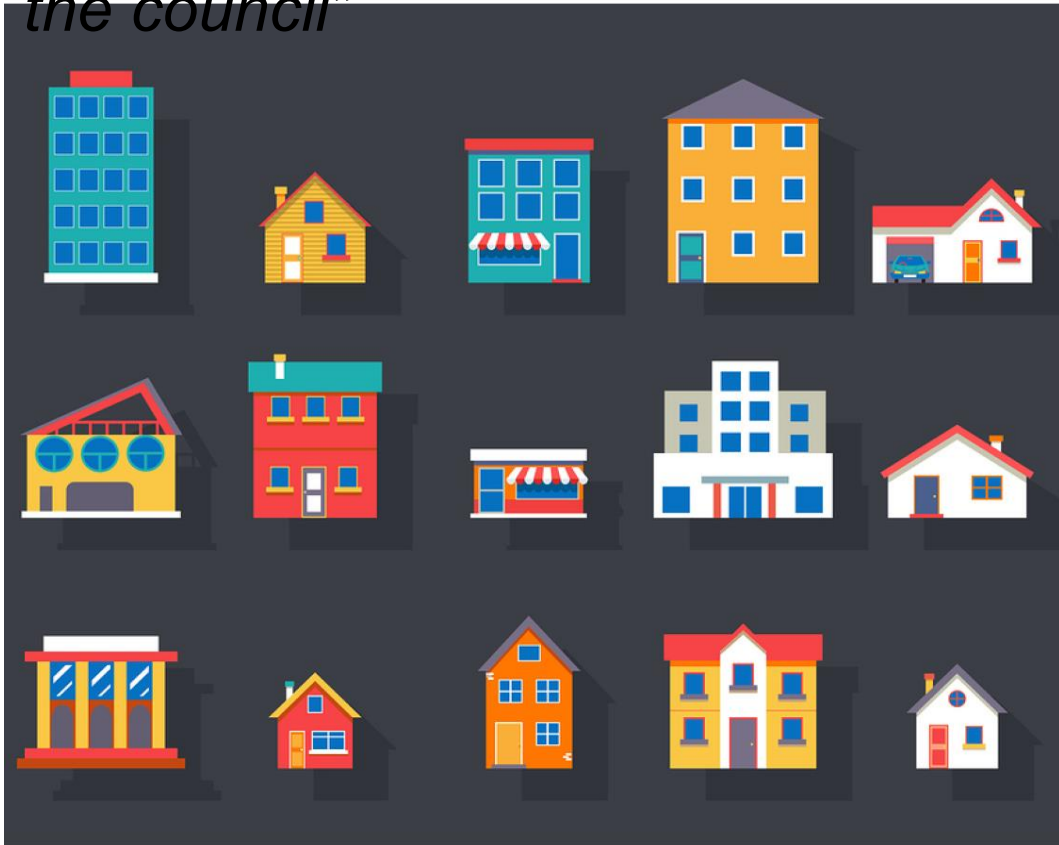


# What next? (recommendations to support LHCs)

- **“Leave us alone!”** We are where we are in-spite of government action – so forget extending RTB, high value sales and let us carry on sweating our assets and (where we can) cross-subsidising affordable homes
- Increase and improving **local PRS** can make a real difference
- And, **let us carry on borrowing** from the PWLB and ‘on-lending’
- **Some capital grant** would be welcome (but not with regulatory strings)
- There’s **other funding** out there for LHCs. Why not let us retain all our RTB receipts and invest them in the LHC
- Please make it **easier for us to transfer land and properties** into the LHC
- And, a **bit of recognition** would be nice and support for **sharing best**



*“What is there not to like ....its a triple dividend: **extra housing**, a **greater stewardship** role in place-shaping and a **financial return** to the council”*



- Still **early days** and seeing more evolution than revolution
- Nevertheless, have to start somewhere and **LHCs have the potential** to make a significant contribution to meeting local housing needs
- Maybe not a game changer, but surely a **positive for housing and a positive for local government.**
- **So, if you haven't got one why not?**



# More details

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