delivering the renaissance in council-built homes:

the rise of local housing companies

By Paul Hackett

THE SMITH INSTITUTE

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Contents

Foreword 3

Preface 4

Executive Summary 6

The rise of Local Housing Companies 10

Background 10
Entrepreneurial councils 12
Councils building homes 12
Local Housing Companies - backstory 14
Local Housing Companies – where and how many? 15
Motivations 17
Types and forms 19
Multi-authority LHCs 21
Social and affordable housing 22
Right to Buy 23
Private rented sector 23
Market sale 25
Temporary and specialist housing 26
Structures and governance 26
Staffing 28
Relationships 28
Resident engagement 29
Funding LHCs 30
On-lending 31
Private finance 32
Housing market risk 32
Political risk 33
Financial risk 34

Findings and recommendations 38

Notes 44

Foreword

Under our Decent Affordable Homes strategy, we are helping to deliver lasting solutions to the housing crisis: not just solving the problem for today. Ensuring that we do not need to repeat the remedies tomorrow, is the approach that we believe will have most impact. Therefore, as a funder, we nurture ideas that could change the housing system, believing that with the right support, ideas for protecting and creating decent affordable homes will flourish. With this in mind, we funded the Smith Institute to investigate the role, performance and opportunities for Local Housing Companies (LHCs) to deliver affordable homes.

LHCs have been quietly growing in numbers over recent years. Yet LHC's contribution to the housing crisis, and specifically their capability to deliver affordable homes, has not been studied or understood. Therefore, it is very encouraging that The Smith Institute has revealed that there is determination and will from local authorities to use LHCs for the purpose of delivering affordable homes to meet local needs. Most importantly, LHCs have already increased the numbers of affordable homes across England, and this research shows that they could have much more capability.

Using LHCs, local authorities have the freedom to act with flexibility and make decisions based on their own local needs and circumstances. The model of financing and governing means that local authorities can use LHCs as a way of creating a range of new homes and also to help regenerate areas. There is also the opportunity to design creative solutions to their problems, to innovate and be proactive.

A key outcome of this work that we would like to see, is for more local authorities to give serious consideration to how LHCs could help them deliver more affordable homes. In terms of making systemic change happen and helping to realise the full potential of LHCs, there now needs to be recognition from central government that LHCs can be an effective vehicle to enabling more local authorities to get on with the job of building and improving housing in their localities. Encouragement and endorsement to raise awareness would give confidence to local authorities not yet exploring LHCs.

LHCs are well suited to the localism agenda, and we hope this report reassures local authorities, especially those that have yet to explore LHCs, that this is a worthwhile and effective way to deliver affordable homes. We also hope that the report leads to greater sharing of best practice and this has already been started through the inclusion of useful and varied case studies.

The recent announcement from the Secretary of State for the Department of Communities and Local Government that a green paper will soon look at social housing in England, gives opportunity for the potential of LHCs to be fully considered as one the solutions to delivering better quality, affordable homes in this sector.

Finally, we would like to thank the professionalism and approachability of the team at The Smith Institute. We have confidence as a funder that this is high quality research report, which will have strong impact on and be a useful source of information for its intended audience. We are also pleased that The Smith Institute has worked with the Town and Country Planning Association (TCPA) and together they have carried out some joint research. The Smith Institute's findings about LHCs have been fed into a forthcoming report by TCPA, which will be launched later in the coming months and will also have further recommendations for local authorities on models to increase the supply of decent affordable homes.

Gary Hartin
Programme Manager
The Nationwide Foundation

Preface

This report attempts to capture the rapid rise in local housing companies (LHCs), which has occurred among councils of all types throughout England. This growth in council owned companies providing a mix of housing tenures has been acknowledged by the local government and housing communities, but largely over-looked by Whitehall and Westminster. Indeed, as we mention, there is still no official register or chronicle of LHCs. Yet, councillors and council officers are busy establishing and running housing companies, many in district councils as well as the major cities. On the current trend, up to half of all councils in England may have a LHC by 2020, most building on council land.

Our primary focus for the research has been on understanding the motivations and significance of LHCs and how they are driving the 'renaissance' of councils building again. We have examined the trends, types, forms, roles, achievements and challenges facing LHCs. Most importantly we have tried to evaluate the extent to which they might develop as alternative providers of affordable homes. Are LHCs just a "nice to have" for local government, or will they meet local housing needs and collectively contribute towards solving the affordable housing crisis?

The evidence we have gathered suggests that LHCs are in fact important new housing providers and that there is the potential to do more. In that regard, we hope that the information and insights are useful to politicians, officers and advisers, and to anyone else who is involved in promoting, establishing or running a LHC. As the report shows, the rapid rise of LHCs has happened because of the energy and determination of councillors and officers. It has been their willingness to innovate that has made the difference. Hopefully, they will ensure that LHCs are here for the long term and can deliver the housing that local residents need.

By way of desk research, interviews, polling, seminars and roundtable discussions the study has attempted to: assess the emergence of LHCs and identify the main drivers and costs and benefits; highlight the opportunities and barriers to growth; and consider possible changes to the policy and operating environment in support of LHCs.

There is hardly any data or analysis on the rise of LHCs in England. As mentioned, there is very little official information on where LHCs are based and what they are doing. Hopefully this report will help fill that knowledge gap. Whilst the study includes desk research and reference to relevant work by academics and housing and local government experts, the evidence and observations are mostly derived from profiles of new and emerging LHCs and from the experience and views of practitioners, advisors, commentators and other stakeholders. By capturing their views, and particularly those on the "front line", we hope to provide a balanced and objective understanding of the potential of LHCs to deliver much needed affordable homes.

Over the course of nine months the project included:

- Interviews with 31 practitioners, councillors and professional advisers
- Online survey on LHCs in May 2017 of local councils in England
- London seminar with the GLA and Deputy Mayor for Housing July 5
- Roundtable discussions with councils and stakeholders with the TCPA in:
    - London and the South East June 13
    - Manchester June 20
    - York July 11
    - Exeter July 18

The Smith Institute would like to thank all those who contributed to the research, especially the local government officers, elected members, LHC staff and the advisers and experts who were interviewed or participated in the seminars and roundtable discussions. We would especially like to thank Martin Wheatley, a Smith Institute research fellow, for the interviews he conducted and the advice he gave; the TCPA staff for their help in organising the regional seminars and on-line survey; to London Assembly Member Tom Copley, who hosted the London LHC discussion at the GLA; and to the Nationwide Foundation for funding the research.

Executive summary

Executive summary

Local housing companies (LHCs) are independent arms-length commercial organisations wholly or partly owned by councils. They can develop, buy and manage properties within and outside of a local authority area. 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.

Over the past few years the number of companies has increased among councils across the whole of England. This study of LHCs shows that the vast majority are engaged in the provision of affordable housing, as well as market housing for rent and sale.

Although the number of LHCs has risen dramatically, there have been few studies on their evolution or impact on meeting local housing needs. There is no official register or database of LHCs and few case studies. This report is an attempt to fill that information gap and better understand the extent to which LHCs are developing as alternative providers of affordable homes.

The research, including an on-line poll of councils, roundtable meetings and interviews with practitioners and experts, has attempted to document the emergence of LHCs, in all their shapes and forms.

Main findings

- Our findings suggest that LHCs offer councils a "triple dividend" in the form of much needed extra housing, a greater stewardship role in place-shaping and a financial return to the council.
- There are now probably as many as 150 LHCs in England, most formed in the past few years. On the current trend, this could increase to 200 by 2020 – covering just over half of all councils in England.
- LHCs have been established by all kinds of councils, across the size spectrum, including, in some cases, with participation by counties. The largest concentrations are in London and the South East.
- Most LHCs have modest ambitions to build (averaging around 50 units a year), although there are larger housing companies in urban areas with major build programmes.
- Collectively LHCs could increase completions over time from 2,000 homes a year to 10,000-15,000 homes each year by 2022, with perhaps a quarter of the total in London.
- We estimate that around 30%-40% of new LHC homes are likely to be 'affordable', with a minority at the equivalent of social rented levels.
- Councils are attracted to LHCs because they want more control and influence, and greater freedoms and flexibilities (especially over rents, borrowing and the Right to Buy).
- LHCs can generate income and cross-subsidise new private affordable and sub-market housing at social rents.

Other key findings

Background

- The housing crisis is worsening with many areas suffering from acute shortages of affordable homes, especially for those on low-to-medium incomes. Councils, many of whom are frustrated with the performance of private developers and housebuilders, have responded by delivering homes (and kick-starting schemes) through their LHC.
- LHCs have cross-party support and are widely viewed as an example of 'entrepreneurial councils' taking the initiative and innovating to meet local housing needs.
- Government broadly welcomes "councils building again" and the establishment of LHCs, but has no specific policies or funding to support them.
- Many LHCs have been established by stock holding councils as a reaction to government constraints on the Housing Revenue Account (e.g. borrowing caps, rent controls and the RTB), as well as to cuts in housing budgets. Others have been motivated by the desire to intervene in the housing market, often because of a frustration with the pace, scale and cost of delivery by the private sector and housing associations.

The form and function of LHCs

- LHCs provide a mix of housing tenures, with the focus on renting (at equivalent affordable rent and market rent levels) and to a lesser extent at social rented levels. Some LHCs provide homes for sale and to meet specialist housing needs (e.g. for temporary accommodation and homes for older people) and several are involved in estate renewal and regeneration schemes.
- The majority of LHCs are wholly owned by the council, which typically provides loan finance and land. Most are governed by a mix of Members and officers and partly staffed by the council and external consultants.

- A few LHCs are multi-council and some are subsidiaries of a council-owned regeneration or property company. Some of the larger LHCs have attracted private finance and established 'revolving investment' funds.
- Councils have been careful in setting up their LHC, taking outside legal and financial advice. With some exceptions, there appears to be little antipathy towards LHCs or evidence of "reckless" lending. There are some concerns over a council's multiple roles – as owner/co-owner, funder and planning authority.

LHC finances

- Most councils expect their LHC to generate a profit, which can be re-invested into the housing company. Besides income from rents and sales, LHCs attract funds from the New Homes Bonus, additional council tax, and planning gain.
- Councils are also generating income from 'on-lending' to the LHC (borrowing long term at below market rates from the Public Works Loan Board and on-lending at a market-rate premium).
- Councils claim that LHCs are there for the long term and are more resilient to market and financial risk than private developers and that the LHC can 'flip tenures' and defer dividend payments if needs be.

Recommendations

To support additional housing delivery through LHCs, the report recommends:

- DCLG and local government, perhaps through the LGA, should consider establishing a high-level commission or task force to consider how best to maximise the potential of LHCs as alternative providers of affordable housing.
- The government should give unambiguous support to LHCs and remove the caveat that "we want to see" LHCs offering tenants the RTB. It appears that LHCs are not subject to the RTB or Right to Acquire, but the prospect that they might be is confusing and undermines investor confidence in LHCs.
- Councils should be able to retain all their RTB receipts and be able to choose whether to invest them via their LHC or HRA as they wish.
- The government should revise upwards the regulations which restrict the number of HRA-properties that a council can transfer to its LHC.
- The government should move ahead with its promised CPO reforms and examine the potential benefits to LHCs.
- Local government, perhaps through the LGA, should offer a centre of excellence or learning hub on LHCs.
- Both central government and local government could do more to raise awareness of LHCs, particularly among other agencies which can support housing growth (e.g. LEPs, HCA, NHS Estates, National Infrastructure Commission).
- DCLG should monitor the growth of LHCs and seek to keep an open register or database on the homes they are providing.
- Combined authorities and the GLA should consider the case for supporting wholly owned or joint venture LHCs as well as multi-authority LHCs.

The rise of Local Housing Companies

The rise of Local Housing Companies

Background

The background to the housing crisis in England has been well documented. The Housing White Paper, 'Fixing our broken housing market' (2017), provides the most up to date, and damning critique, of "decades of failure". The White Paper states that the problem is threefold: "not enough local authorities planning for the homes they need; house building that is simply too slow; and a construction industry that is too reliant on a small number of big players". According to the Prime Minister, Theresa May, in her foreword to the White Paper: "whether buying or renting, the fact is that housing is increasingly unaffordable – particularly for ordinary working class people who are struggling to get by."

The government plans to "fix the broken market" by ensuring, among other things, that: "the public sector plays its part, by encouraging and making possible more building by councils". Local government welcomed this commitment, although the LGA pointed out that the White Paper "lacks substantive measures to support councils in enabling housing growth, and to build the genuinely affordable homes for those at the sharp end of the housing crisis."[1]

'Affordable' Housing: Definitions and Terms

Affordable housing describes housing for sale or rent to those whose needs are not met by the market (generally households on low-to-middle incomes). There is, however, no all-encompassing statutory definition of affordable housing in England. The most commonly used definition is the glossary (annex 2) in the National Planning Policy Framework.

For the purposes of this report, the respective terms have the following meanings:

- Social rents offered by councils and private registered providers is generally between 40%-65% of market rent or lower. It is subject to regulation.
- Affordable Rent is offered by councils and private registered providers of social housing (mainly housing associations). It is let to those eligible for social housing and rents are limited to a maximum of 80% of local market rent
- Intermediate housing are homes for sale or rent provided at a level above social rent and below market rates, subject to the criteria in the definition of affordable housing. Unlike Affordable Rent it is not confined to those eligible for social housing. It can include shared ownership/equity loans and other low-cost homes for sale and rent
- London Living Rent is a form of intermediate rent with rents two thirds of the median market rent

Any of these forms of affordable housing can be provided by non-registered providers. So LHCs can offer housing at Affordable Rent or social rent levels without being regulated. However, most government capital grant programmes for developers require recipients to be regulated. Unlike Affordable Rent and social housing, LHC rents are not subject to rent controls and other conditions (including over tenancies) by central government.

For the sake of simplicity, in this report affordable rent and social rented housing provided by LHCs refers to rent levels rather than the regulated rent/tenure.

Population increase and household growth is placing a strain on most councils. In many areas the market is failing to deliver the number and type of affordable homes needed. In London and the South East there is a particular unmet need for housing at affordable and social rented levels. Other parts of the country also report a gap in housing provision for low to medium income households.

Councils are under pressure to help speed up delivery and support more private-sector led development. However, many are frustrated with the pace, cost and type of housing mix associated with private sector development. As a consequence, some councils have been exploring the options around direct delivery on their own land (especially for new private affordable rent).

The ability of councils to build is predictably shaped by local housing market conditions and the local/national economic and political climate, as well as the resources and capacity and capability of the council itself. It is also shaped by nearly a decade of welfare reforms, reductions in grant funding for social rented homes and other budget cuts, not least for housing services and planning.[2]

Nationally, the gap between housing supply and housing demand has continued for decades. The consequence is a worsening affordability crisis, with house prices in many high demand areas exceeding average earnings by a factor of 7 or more. Rents have also increased, although social rents remain well below private rents in many places. In most areas, there is a particular under-supply of affordable homes, especially of one- to two-bedroom homes for the elderly, young people and those on low incomes.

Despite low interest rates and government support for first time buyers,[3] the level of homeownership has fallen over the past. 'Generation rent' has meanwhile increased, with private renting at its highest since the start of the 1970s at 20% of total households in England.[4] In many parts of England private rents have outstripped increases in earnings; while homelessness and the number of families in temporary accommodation is on the rise. There are however marked geographical differences, with low demand housing areas suffering from under-investment and high-demand areas lacking available land and suitable sites.

The affordability crisis is now spreading well beyond London and the South East to other areas. The problem is exacerbated by a widening generational housing divide (with much of the housing wealth held by older people whose homes have become relatively much more affordable). Many young people without inherited housing wealth don't have savings for a deposit to buy and can't afford private rents.

Government efforts to boost supply since the financial crash have been disappointing: completions in England reached 148,000 in 2016/17, slightly up on 2015/16 but well below the peak of 170,000 in 2007/08.[5] The private sector continues to account for 82% of all completions, housing associations around17% and councils just 1.4%. Leaving aside the backlog, the shortfall between completions and projected annual average household growth is currently around 60,000 homes a year. To meet current projected demand and compensate for decades of under-delivery, the annual completion rate, in theory at least, would need to be over 250,000 a year for a sustained period!

Although the government predicts an increase in supply of private homes, the likelihood is that the affordability crisis will continue. Any downturn in the economy may though lead to a fall in prices and rents. It could also result in an increase in housing benefit, which at £25bn already accounts for 90% of all government housing expenditure. An even higher national housing benefit bill may encourage government to further cap benefit payments, which in turn would impact on the financial viability of all types of affordable housing.

The tragedy of the Grenfell fire has also drawn attention to the safety and quality of social housing, notably for high-rise tower blocks. As Professor Duncan Bowie commented: "Central Government and local authorities are going to have to spend a lot more money than they had budgeted for, and we may see a shift in policy from the current focus of building new homes for investors to building homes that people can afford – both for new households and for those who need to be rehoused from towers."[6]

Without additional HRA borrowing and a significant increase in social housing grant the level of new social rented housing delivered directly by councils is unlikely to exceed current levels (around 2,000 homes a year, which is not enough to replace ageing council housing stock lost through demolition or Right to Buy sales).[7] The CIH estimates that that between 2012 and 2020, some 244,000 social rented homes (161,669 council homes) could be lost due to landlords converting them into higher Affordable Rent properties or selling them under RTB.[8]

There are also a variety of special factors which will determine the context for councils building and the establishment of LHCs. Among the most important are:

- Low incomes and growing in-work poverty, which means Affordable Rent (regulated or unregulated) housing is often unaffordable for many low-income households
- Benefit cuts and rent caps, which undermine the financial viability of sub-market homes and deter private investment in the private rented sector (PRS)
- Land availability and cost
- Budget revenue cuts, borrowing caps and absence of capital grant, especially for sub-market housing
- National policy constraints, such as the Right to Buy, rent cuts,[9] HRA borrowing caps and constraints on planning gain
- Cost of maintaining existing stock (Decent Homes)
- Local Plan (up to date and adopted) and housing assessments/viability tests
- Opposition to development and specifically to the loss of social rented homes

Affordable housing

According to DCLG statistics the number of additional affordable homes (from all categories) fell from a peak of around 70,000 in the mid-1990s to 32,000 in 2015/16. However, the most recent data from the Homes and Communities Agency (HCA) suggests that for HCA-backed programmes (covering around 40,000 starts, excluding London) there has been an increase in 'affordable housing' starts and completions. Around 71% of HCA housing starts (29,000) in 2016-17 were for affordable homes, an increase on the past two years but less than in 2013/14. The vast majority were for Affordable Rent under the Affordable Homes Programme (76%), with 21% for affordable home ownership. The biggest drop has been for new social rented homes, which according to DCLG, fell from 39,560 in 2010/11 to 6,550 in 2015/16. Social rented now accounts for just 3% of new supply. Around a third of all affordable homes (and many social rented) are delivered through Section 106 planning obligations, although the level seems to have fallen sharply from its peak in the 2000s.

Entrepreneurial councils

The notion of local authorities setting up trading companies is nothing new. Local authorities have a long history of commercial activity. More recently the Local Government Act (2003) and the Localism Act (2011) allow councils to establish trading companies (or subsidiaries), into which a council can transfer businesses and assets and return a profit. These companies often form part of council owned holding companies, which may lead on joint ventures, land deals, development agreements etc. Some take the form of special purpose local delivery vehicles, usually involving the private sector.

Councils have in fact been setting up trading companies across a range of business sectors, from airports and energy supply companies to conference centres and care homes. Some of these companies are holding companies with subsidiaries in housing related areas. For example, the award-winning Norse Group, a £322m holding company owned by Norfolk County Council, provides property consultancy alongside waste and environmental services and residential care homes in locations around England. Others are on a smaller scale, such as the crematorium company run by Wealden District Council or the in-house housing repairs and maintenance company run by Harlow Council. Telford and Wrekin Borough Council have a solar farm which sells energy to the National Grid and Cornwall Council has a LHC, a construction company, a development company and an airport.

Local Delivery Vehicles

Councils have established special purpose local delivery vehicles (LDVs) to support regeneration and growth. These include Urban Regeneration Companies, City Development Companies and more recently Mayoral Development Corporations in London and scope for them in the new combined authorities. Several local authorities have also established joint venture Local Asset Backed Vehicles (LABV) whereby developers raise private finance against the value of council land and other assets.[10] In addition, government has set up statutory delivery vehicles in specific areas, such as Urban Development Corporations. Most LDVs involve a combination of council land for development, private finance and some support from national agencies. The precise structures vary to meet local circumstances (with some operating across local authority boundaries), but the overall emphasis is on promoting public-private partnerships, unlocking sites and enabling development.

Local government has a long tradition and plentiful experience of providing housing for local people. For most of the post-war period councils were the nation's major supplier of new homes. However, in recent times their role has been largely limited to planning, housing services and (for stock retaining councils) maintaining and managing council housing. Several councils, particularly in the major cities, have been involved in new build, some through partnership agreements, land deals and joint ventures with housing associations and developers. Many of these arrangements have been co-ordinated or supported by council backed local delivery vehicles or arm's length management organisation (ALMOs), as well as public agencies, such as the Homes and Community Agency (HCA).

A few councils have also successfully set up their own property companies (such as the Northumberland County Council). Some have dipped into the commercial property market, using a mix of public and private finance to invest in industrial parks, shopping centres and hotels. The most well-known example is Spelthorne Borough Council, which recently bought an office park for a reported £360m on the back of some 50 Public Works Loan Board loans.[11]

However, before the emergence of LHCs, most of the commercial and trading companies established by local authorities were not directly concerned with affordable housing on any scale, although many regeneration and economic development vehicles do so indirectly.

Councils building homes

For most of the past 30 years councils have taken a "back seat" enabling role in the provision of new affordable homes. Government policy was deliberately designed to stop or at least curb local authorities building new subsidised council-owned homes. As a result, the number of new council homes fell sharply from around a quarter of a million a year in the mid-1960s to around 2,000 today.

Councils collectively still own some 1.6m homes and their asset base could, in theory, support very substantial new development. Despite this central government has shown little interest in promoting the case for councils building again, especially traditional council housing. Priority in policy and funding has been consistently given to private development, with the focus on home ownership and first-time buyers. Social housing was viewed as the "housing of last resort" and generally stigmatised and associated by some politicians with "welfare dependency".

Indeed, the last governments have cut capital grant funding for new social housing, supported a more generous Right to Buy regime and imposed new limits on housing benefit. As documented in this report, stockholding councils have faced an array of restrictive regulations on how, where and what they could build.

The vast majority of grant-funding for affordable rented housing was given to housing associations, mostly for Affordable Rent.

Housing associations were encouraged to build affordable homes for rent and sale, usually with co-funding from the banks and capital markets. Councils meanwhile continued to hold statutory housing responsibilities (including nominations/allocation policies, duties to house etc), but supported new build by housing associations through planning permission and S106 planning obligations.[12] For most stock owning councils, resources were spent on maintaining existing homes and estate renewal.

The notion of councils building again did not gain noticeable traction until council housing became 'self-financing' under the reform of the Housing Revenue Account (HRA),[13] which took effect in 2012. Councils at that time were being encouraged to build under the new system, and professional bodies, like CIPFA and the CIH, claimed HRA investment offered "significant advantages".[14]

However, the level of council house building failed to take-off. The HRA completion rate dipped to below 1,000 units in 2013 and to no more than 2,000 by 2016, well below expectations.[15] There were noteworthy exceptions to this national trend,[16] but overall the Coalition government at the time seemed intent on restricting, rather than encouraging, council house building.

Similarly, hopes of a surge in building by ALMOs[17] also fell victim to government policy reforms, not least the extended RTB and rent cuts.[18] According to the National Federation of ALMOs, ALMOs built only 903 new social or affordable homes in 2015 (some with HRA funding). Initial plans to double that figure have since been scaled back owing to the statutory reduction in rents.[19] There are also fewer ALMOs covering a smaller number of tenants than a decade ago. However, there is evidence that some of the larger ALMOs, like Nottingham City Homes, are planning major build programmes.[20]

Evidence gathered by the CIH and CIPFA[21] showed that the Coalition government's policy decisions left stock retaining councils with few opportunities to build new homes at any scale. The rent reductions and other factors, such as welfare reforms, reduced cashflows and deterred lending. As the CIH/CIPFA report put it: "Overall the financial uncertainty already appears to have affected the ability to build homes. For some this may lead to seeking alternative approaches such as the creation of housing companies that operate outside the HRA."[22]

The government's attitude towards local authorities building new homes seemed to change in 2015 with the Elphicke-House Review into the local authority role in housing supply. The Review, sponsored and endorsed by government, concluded that: "Councils have a primary role in setting out a vision for the development of their areas. They can be active in creating housing opportunity. Councils can be proactive in identifying housing need, growth and opportunity. They can work closely with businesses and other partners to share ideas and experience – and actively use their own assets and knowledge to unlock housing opportunities and deliver more homes, to build strong and sustainable communities". The report also recommended that councils look to their General Fund to deliver housing rather than their HRA, where borrowing is capped.[23]

A year later the Labour-backed Lyons Housing Review echoed the recommendations of the Elphicke-House Review, concluding that: "Councils' ambition to return to a more active role in building new homes is clearly demonstrated by the creation of a series of local authority-led housing companies."[24] A House of Lords Economic Affairs Committee report and the LGA Housing Commission also made similar recommendations.[25]

The Housing White Paper, published prior to the 2017 general election, followed up these reports with a positive narrative about councils building again, concluding that: "There are a number of good examples of Local Development Corporations, local housing companies and/or joint venture models building mixed sites, which include new market housing for sale or private rent, as well as affordable housing. We welcome innovations like these, and want more local authorities to get building. To that end we will seek to address the issues that hold them back."

At the 2017 election the Conservative Party seemed to have abandoned its antipathy towards supporting public housing and promised new 'Council Housing Deals' with ambitious, pro-development, local authorities to help them build more social housing. Ministers said they would "work with them to improve their capability and capacity to develop more good homes, as well as providing them with significant low-cost capital funding." Labour took an even more ambitious position, promising: "by the end of the next Parliament we will be building at least 100,000 council and housing association homes a year for genuinely affordable rent or sale."

The current rate of council house building falls far short of expectations, but the trend is upwards, particularly in the major cities. According to Professor Morphet's new research for the RTPI on local authorities building new homes, where councils have been engaging in direct provision "housing completions are increasing each year…… with some starting at a below 50 dwellings while others, after a period of five years or more, are now achieving over 1,000 per year."[26] It was also reported that some councils, like Luton Borough Council, are providing new council housing with funding from Big Society Capital (as part of a deal with the hedge fund Cheyne Capital).[27] Others are investing in new mixed tenure developments with funds from local authority pension funds.[28]

A survey by the New Local Government Network showed that increasing the quantity and quality of social and affordable housing are a top priority for councils. Three quarters of those polled said capital investment by the council in affordable housing can help, contrasting with 36% who said reducing the costs of social care and 42% for reducing the costs of public transport.[29] It was also mentioned to us that the because most stock retaining councils have completed their Decent Homes Standard programme[30] there is freed up space for them to think more about how they could deliver extra housing.

Local Housing Companies - backstory

Although the idea of housing companies has been around for some 30 years or so,[31] the first substantive mention of LHCs in the form we know them can be traced back to the 2007 Housing Green Paper, which set out new proposals for LHCs to deliver shared ownership homes and homes for first time buyers with the support of the then government agency, English Partnerships. Their focus was to be on development on council land. Each of the LHCs was encouraged to act as the master developer within a designated area, working in partnership with other investors and contractors. The council would contribute land and assist with planning consent, while English Partnership put together packages of financial and technical assistance.

The Labour government at the time estimated that the first fourteen LHCs would have the potential to deliver at 35,000 new homes, with at least 17,500 affordable homes. This aspiration was never met as the entire LHC programme was compromised by the financial crisis and effectively abandoned by the new government in 2010.[32] Nevertheless, the HCA judged the pilots successful in: "helping councils think creatively about using their assets and highlighted the importance of developing commercially viable vehicles with the flexibility to respond to specific local needs."

Interestingly, despite the political talk about councils building again, neither of the main political parties have had much to say since about LHCs per se, although Labour promises to "give councils new powers to build the homes local communities need." Perhaps understandably, in the period since the election "fixing the broken housing market" has been overtaken by other pressing concerns, notably Brexit.

Discussions about the delivery of policy have meanwhile shifted much more to the local and city-region level. In particular, the new combined authorities and metro mayors have been calling on government to do more to support councils building, although there has been less interest in multi-council LHCs as delivery vehicles (see later section).

Local Housing Companies – timeline

- Local Government Act (2003) – enables councils to set up trading companies (e.g. for social care, transport, energy, building maintenance)
- Housing Green Paper 'Homes for the Future' (2007) – proposed LHC pilots to unlock and bring forward sites for new affordable homes
- Localism Act (2011) – gives councils general powers of competence to carry out 'commercial purpose' and establish companies
- Elphicke-House Review 'From statutory provider to Housing Delivery Enabler: Review into the local authority role in housing supply' (2015) – recommends that councils should consider setting up LHCs
- Housing White Paper 'Fixing our Broken Housing Market' (2017) – welcomes LHC and calls for "more local authorities to get building"'
- General Election (2017) – cross party support for council house building and LHCs to deliver more affordable homes for sale and private rent, although disagreement over Right to Buy

Local authorities have welcomed the cross-party consensus in support of councils doing more, albeit tempered by uncertainty over cuts in revenue budgets, borrowing caps, RTB and concern over the disappearance of grant for general needs social rented homes.

"The space for LHCs has come from the mix of a housing crisis, devolution and completion of Decent Homes"

- Housing commentator

Our research suggests that councils would like to see a more pro-local government national housing and growth policy framework. However, most seem to accept that the "new normal" is very much about using what powers and resources that they have. Hope of a substantial increase in funding, at least for social rented level housing, seems forlorn for the time being.

Most councils are still struggling financially and although meeting housing needs is a priority, for many it is arguably a second order priority compared with the crisis in social care. However, with further spending cuts in the pipeline and serious questions being asked about the sustainability of local government finance, some councils have suggested that housing is perhaps more deliverable in a "protected" LHC, rather than subject to the constraints of the HRA.

Combined Authorities and the GLA
Combined authorities and metro mayors are arguably now a leading force for increasing housing delivery, especially affordable housing. The powers and resources being devolved will help metro mayors meet some of their ambitions.[33] Strategic level planning, more joined-up policy making, consolidating funding streams and new funding tools offer an alternative route to tackling the housing crisis. The devo deals also create the opportunity for combined authorities to set out strategic level planning frameworks with shared objectives, something lacking since the abolition of the regional spatial strategies. However, LHCs do not yet appear to be high up the combined authority agenda.

The London Mayor, Sadiq Khan, is supportive of LHCs, although City Hall is looking mostly to London's housing associations (G15) to deliver the 50,000 "genuinely affordable homes" (over four years) announced in July 2017.[34] We were told that the GLA believes the LHC should be "bottom up" and shaped by local circumstances, and that priority must be given to bringing more land/sites forward for development, whatever the delivery structure.

As discussed in later sections, the motivations for LHC are varied and include the attraction of elected members to the idea that the council can act commercially for a social purpose. For officers, the business case for the council providing housing via a LHC is much stronger than under the HRA. Many councils told us that the LHC model was preferable precisely because the homes provided by LHCs sit outside the HRA and are not subject to borrowing caps and the legislation and regulations governing registered providers.

"LHCs are essentially like social or ethical businesses, offering a financial return for doing something with a social purpose"
- Council leader

This is not to say that LHCs don't have their critics. We were told by some council officers and professional advisers that elected members tend to over-sell the benefits of direct delivery. Housing experts also questioned the extent to which LHCs are delivering "truly affordable" housing, and how far they are adding to supply. It was also said that the LHCs are too inward looking and should seek to work with the local LEPs in bidding for housing and growth funds.[35]

Some commentators we spoke to were also cynical about the commitment of councils to building at any scale. It was said that there's a risk of LHCs becoming something of a "fashion accessory". Campaigning groups in places where LHCs were involved in controversial schemes suggested that LHCs were not necessarily the best value for money and were prone to "financial recklessness", and were taking part in "social cleansing".

However, our research suggested that there was no widespread criticism of LHCs. As detailed in later sections, where there has been strong opposition it is usually centred on a particular scheme. In most instances, the LHCs are relatively low profile.

Local Housing Companies – where and how many?
There is no official register of LHCs or any formal or informal catalogue held by DCLG. Therefore, calculating the exact number of LHCs is mostly down to surveys and guesswork. According to a survey by Inside Housing in 2016 around a third of councils in England had established or were planning a LHC.[36] Professor Janice Morphet's latest research suggests that the figure could now be higher given that "over 180 local authorities are active in over 27 different types of housing provision."[37]

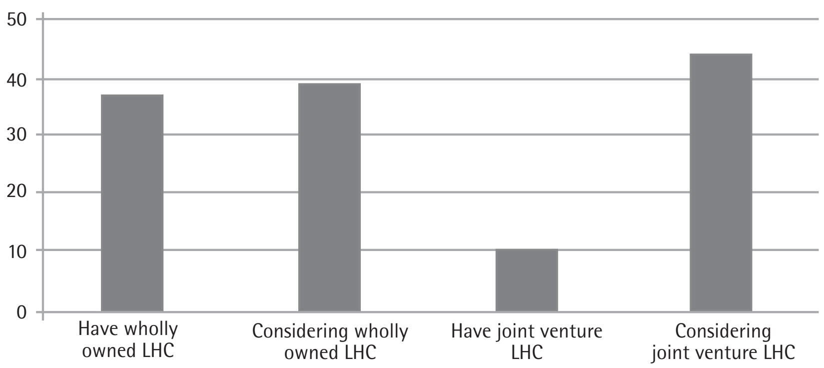
Our survey of LHCs implies that around 36% of councils have a wholly-owned LHC, which crudely adds up to 128 LHCs; and a further 11% have a joint venture LHC – equivalent to 38 LHCs. In total, this implies that the total number of LHCs may be as high as 166 in England. Given the self-selecting nature of such surveys the number is probably more likely lower, perhaps at around 150. On the current trend (based on our on-line survey of 74 councils) we believe the figure could easily rise to 200 by 2020.

Perhaps just as revealing is the available survey evidence on the appetite for having an LHC. According to an online survey of 126 councils by the TCPA/APSE in February 2017, 62% of respondents said they had or wanted a LHC, with over half stating they preferred a wholly owned LHC.[38]

These findings roughly equate with our on-line survey (below), although our survey suggests that a larger number of councils without a LHC would prefer a joint venture LHC. This of course could be because those councils that wanted a wholly owned LHC had already established one.

The survey also doesn't discriminate between large or small councils, which could bias the results towards one particular form. That said, the survey results overall do clearly show a strong interest in LHCs.

Do you have or are you considering a wholly owned or joint venture LHC?



Source: Smith Institute/TCPA Survey, percentage of 74 councils

The surveys of LHCs don't provide an accurate picture of the geographical spread. However, a review of responses to our survey suggests that the largest concentrations are in London and the South East, with noticeably fewer LHCs in the North West, North East, South West and Yorkshire & Humber. The Inside Housing LHC survey supports this view, showing that 48% of those who had or are planning a LHC are in London and the South East. Our desk research shows that around 18 London boroughs (slightly over half) have a LHC or something similar. There also appears to be a growing number in the Eastern region.

"Establishing LHCs is now 'tried and tested' by other local authorities and relatively straightforward"

- Legal adviser

The preponderance of LHCs in the South East among district councils in small towns and rural areas demonstrates not just the versatility of LHCs, but their cross-party appeal (especially to stock holding authorities). It was mentioned at one of the roundtable discussions that LHCs have an added appeal to rural councils because they can make full use of rural exception sites.[39]

"As tends to happen with useful innovations in local government, the idea of setting up LHCs has diffused through the sector"

- LHC board member

How many additional new affordable homes will LHCs actually deliver? Answering this question is complicated by the extent to which LHC-build might displace HRA-delivery and provision by other providers, notably housing associations. It is also difficult to calculate the total or tenure type because so many developments are in their early stages.

The business plans of many LHCs suggest a gradual scaling up of delivery, although much will also depend on market conditions and stability of government policy. According to one adviser we spoke to, in some cases the LHC "doesn't really get airborne at all as the council loses interest, for others it is very incremental".

Start levels certainly appear fairly small for most LHCs, but the fact that there are so many housing companies suggests the total figure may be higher than some commentators envisage. It is of course hard to evaluate this as some LHCs, like those in Barking & Dagenham and Croydon are running at a fast pace, while other in rural areas may be planning for just a few properties.

Our survey results suggest that LHCs are seeking to deliver at some scale, with nearly half (44%) of respondents saying they expect to supply 100-500 homes over the next five years and 14% saying over 500 homes. This compares with similar figures for direct delivery via the HRA/ALMO, although it is unclear how many will be affordable homes.

How many homes do you expect your LHC to deliver over the next 5 years?

	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%

Source: Smith Institute/TCPA Survey, percentage of 74 councils

Extrapolating our survey results suggests that the average LHC output over the next five years could be in the region of 50 units a year, which nationally amounts to around 25,000. This of course disguises the wide differences between the different LHCs and is probably a slight over exaggeration.

Some housing experts we consulted also suggested a ballpark figure of around 20,000-25,000 LHC properties a year within five years. This entails a tenfold increase over time, which accords with the LHC output trends we have seen so far.

"Growth takes time, and not without reason, as councils will want to be cautious about becoming over-stretched early on"

- Housing adviser

Our lower estimate is that there are around 150 LHCs, suggesting that they are collectively likely to be building around 7,500 homes per annum averaged over the period. If, as seems likely, development is skewed towards later years then we might expect councils to be delivering 10,000-15,000 units a year by 2022 depending of the projection of development growth and on the economic cycle. We think perhaps a quarter of that forecast output would be in London and quarter in the South East.

"If local authorities delivered 20,000 to 30,000 homes a year, it would make a difference"

- Atam Verdi, director of Aspinall Verdi, a Leeds based regeneration and property development consultant

The estimates of what type of tenure LHC may provide is even more difficult to forecast. As discussed in later sections, most LHCs plan to provide a mix of housing, including homes for private market rent and sale. It seems from our survey work that 30%-40% of the planned output will be affordable housing (over 3,000 units a year by 2022, rising further perhaps after that). How many will be social rented is unclear. On current trends, the level of social rented could be around 10% of the total – over 1,000 a year in five years' time. At the upper end, this would match the current build of council homes under the HRA.

Motivations

Our research suggests three broad categories of drivers for establishing a LHC: financial, place shaping and non-commercial. Within these, motivations vary depending on local circumstances. Sevenoaks District Council, for example, established a wholly-owned property investment company (Quercus 7) to help become financially self-sufficient. South Norfolk Council similarly views expanding its property investments as part of the council's journey towards becoming fully self-financing (see below). Both Stoke (the city centre) and Sheffield (council estates) see the LHC as "going where private developers won't" with the hope, over time, of changing private developers' perceptions of development potential in such areas.

"LHCs are bringing councils seriously into the development space, with local politicians in control as they like to be"

- Housing expert

Most councils, though, see their LHCs as a means of providing more homes and getting "seriously into the development space". As described in later sections of the report, the focus is mostly on the private rented sector (PRS), but by no mean exclusively.

South Norfolk Council's Big Sky Property Management is responsible for managing the council's investment property portfolio and Big Sky Property Management Limited's residential property, including houses for market sale and market rent. Through these companies the council seeks to maximise "its financial return on its commercial investments by minimising voids, negotiating the most favourable rental terms and supporting and advising tenants and their businesses to enable them to develop and grow, providing services and jobs within South Norfolk and the wider area". The first sites in Poringland and Long Stratton are currently delivering 102 residential dwellings and 3,170sq metres of commercial units. The council claims a £2.5m profit on the sales of the development and return from its rented homes of £120K a year.

Our on-line survey (below) shows that the vast majority of council's want a financial return as well as meeting other housing and place-making objectives. This 'triple dividend' takes on different forms in different places, with significant proportions motivated by the need to provide housing for specific groups and different types. Different reasons were prioritised in different places, with most council officers claiming a mix of motivations. One councillor stated that the LHC gave the council a "strong dose of civic pride"; another that it represented "much sought after freedom".

Although councils are naturally attracted in the current fiscal climate by the idea of generating extra income, a lot of elected members claim this is not the primary or only reason for establishing a LHC.[40] Councillors often stressed how they wanted to re-invest any surpluses back into housing or for other services, and how the LHC formed part of their broader housing 'stewardship' role. Mention was also made of potential savings from the LHC providing temporary accommodation.

"Establishing a housing company can contribute to on-going revenue income over the longer term as opposed to benefitting

from the one-off receipt from selling surplus land and assets. The financial case becomes clear"

- East of England, LGA

Motivations for setting up LHC

Financial return to council	71%
More affordable housing	64%
More social rented housing	50%
More market housing	40%
Meeting needs of specific groups (students/elderly/homeless)	39%
Encouraging new types of housing (modular)	36%

Source: Smith Institute/TCPA Survey, 74 councils - NB multiple answers/not either or

Location naturally shapes the purposes of the LHC. For those in low housing demand areas the motivation is often about place-making and supporting regeneration. The council may be keen to show leadership to private developers, thereby demonstrating and supporting the viability of development. In areas of high housing demand the motivation is often based on providing a mix of affordable housing, optimising the use of council land. Other LHCs are concentrating on estate renewal and creating more mixed tenure communities. Several LHC's seek to meet specific housing needs, such as supporting student housing, community build or housing for elderly people.

"While the financial surplus is welcome, the housing market objectives predominate in the council's thinking"

- Council officer

Many stock retaining councils view the LHC as an addition to their HRA. Other see it as an alternative to delivery through joint ventures or directly funded from the General Fund.[41] As mentioned, councils are frustrated by the restrictions on their HRA and claim they can "get things done" through their LHC. It was said that councils could innovate only outside of the HRA and HCA regulations.

"There is also an obvious commercial benefit to having flexibility over rent-setting and freedom from other aspects of the secure tenancy regime, most notably avoiding RTB"[42]

- Mark Baigent, adviser

Several councils told us that they are frustrated with the slow pace of development in their area. Mid-Devon District Council for example told us that while permissions had nearly doubled over the past four years, the number of sites under construction had fallen and completions had stayed flat. In some cases, LHCs are buying up plots in order to speed up development.

"Members are fed up with developers and want to be hands on"

- Housing expert

Other councils, especially in London, have been eager to move away from the conventional approach of selling their land and then negotiating (and often re-negotiating) the quality and pace of development. Professional housing advisers told us that for many councils, development through the LHC was "a way of turning a land asset into an income stream." The sentiment of elected members was that developers (and housing associations) were not delivering, despite the array of government incentives. Recent reforms to the planning system (notably constraints on planning obligations and the market viability test) have merely heightened this sentiment. Some members also commented that land owners were making excessive profits from planning consents and that more should be done to help councils capture a greater share of the uplift.

"We have access to low cost borrowing and can take a longer-term return than the private sector"

- Council officer

Newham Council's housing company, Red Door Ventures, is one of the largest LHCs. It was established as a commercial residential developer with a major build programme, in part to make up for the lack of development by other providers. The council says it wants "to increase the amount of housing as supply from housing associations declines and for us to manage the risks. But most importantly it's for us to secure the rewards."

Red Door Ventures is wholly owned by the London Borough of Newham, and established in 2014. Its focus is on developing high-quality residential homes in the PRS to be held long term (at market rent or below with a third of the homes set at affordable rent subsidised by the council). The company aims to build 3,158 homes over the next six years (mostly on council owned land) and acquire a further 518 existing properties. It is projected that 39% of these properties will be family units of three bedrooms. The council lends to the LHC in return for equity in the development and sub-contracts a range of delivery functions, such as maintenance. The company says it will look to go into partnership with developers only if they want to provide properties for tenants and not just build and leave unoccupied to accumulate wealth. The council believes the company will generate £18m of extra Council Tax (up to 2028) and £17.5m of Community Infrastructure Levy funds, and return a dividend once it gets profitable in 5-10 years' time. The board includes a council member and staff have been recruited from the private sector.

There are a mix of motivations behind the rise of LHCs. The main ones are:

Financial motivations

- Generating income for the council: directly through on-lending, property investment and rental/sale income and through additional New Homes Bonus,[43] Community Infrastructure Levy, additional council tax receipts
- Savings to the council: e.g. providing lower cost temporary accommodation and LHCs providing cheaper housing maintenance and other services
- Greater borrowing capacity to meet housing needs: escaping HRA debt/borrowing caps
- Securing additional private investment in housing and regeneration
- Securing better value for council assets than conventional disposal
- Safe haven for RTB receipts
- Receptacle for commuted sums from S106 agreements
- Public procurement advantages

Place-shaping motivations

- Intervening and influencing local housing markets: to achieve, support and encourage development
- Bringing forward development: unimplemented consents and provide scale for local construction/local suppliers
- Making best use of council land: alternative to disposal of sites to private developers
- Setting higher standards: the council as an exemplary private landlord, improving design and eco-homes

Non-commercial motivations

- Council control and direction over housing provision and tenure: increasing supply and tenure mix, especially for affordable homes, with council as master developer
- Meeting specific housing needs: low income residents, elderly, students, homeless, key workers
- Acting 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
- Greater accountability and scrutiny than other housing providers

Many LHCs have only just been established and some might not evolve in the way the council may have planned. According to one housing expert we spoke to: "there are cases where aspirations are modest but the council has chosen to imply publicly that their LHC is more significant than it actually is". However, as mentioned, the size and purposes of LHCs varies considerably – although most appear to be building at an incremental pace.

Types and forms

All the LHCs are bespoke and shaped to varying degrees by local housing conditions as well as the council's resources and ambitions. In broad terms, they are either wholly council owned or joint venture LHCs. Both sit outside the council's HRA and are 'on- balance sheet.' However, within those boundaries LHCs come in various shapes and sizes, with a variety of business models and funding arrangements.

As our on-line survey shows, the majority of LHCs are wholly owned. This makes sense given the general preference we found among councillors and council officers for greater control over the scale and type of housing provision, as well as flexibility over lending and investment.

"Housing is a core council function. It's not like we're buying a supermarket"

- Council leader

Joint venture LHCs are usually 50:50 partnership 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 housing associations and construction companies. 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.[44]

Our research suggests that joint ventures on public land offer an alternative to a LHC. In our on-line survey of 80 councils, 60% said they were motivated to establish a joint venture because it offered a financial return to the council and 62% said they were an effective route to delivering affordable homes. A leading housing adviser told us that "joint ventures are most suitable for schemes in which funding is generated by combining public and private assets."

There is no one prescriptive LHC type, although there are lots of similarities in the legal and financial structures and governance arrangements (see later sections). The vast majority of LHCs we reviewed are involved with private affordable rented and some sub-market housing. Many are also developing or acquiring for market rent and (to a lesser extent) homes for sale. Most are building on council land and funded directly by the council (see funding LHC section).

As mentioned, some councils have established a LHC to deliver specific types of housing, such as homes for students and the elderly. The London Borough of Enfield and Reading Borough Council, for example, have set up LHCs to provide temporary accommodation.[45] Mansfield Homes, a LHC wholly owned by Mansfield District Council, provides homes for sale and rent, but also supports a local firm making off-site eco building materials.[46] Other councils, such as Wealden, have LHCs providing homes for 'downsizers'.

"LHCs are a means to an end, enabling councils to achieve housing objectives that are otherwise unachievable"

- Councillor

Some local authority owned companies, like Be First in Barking and Dagenham (see below), have a wider local growth remit encompassing regeneration and transport. Often these place-shaping companies include stand-alone arrangements and joint ventures with the private sector to deliver specific projects. Be First, for example, also has a separate subsidiary company to form joint ventures.

Be First in Barking and Dagenham encompasses all aspects of place-shaping, including regeneration, infrastructure and affordable housing. It is wholly owned by the council, managed by a board of regeneration experts from the private and public sector and accountable to members through a Shareholder Executive Board. Under its Management Agreement with the council the company plans to bring forward Council Tax, Business Rate and New Homes Bonus receipts and generate a £16m return in dividends over the next 10 years. Though the council will continue to make final decisions on planning applications and to approve strategic plans and policies, the company will offer a range of strategic services, pre-planning services and project delivery as well as setting up joint ventures and other special purpose companies to deliver housing and regeneration. The company is expected to start trading in October 2017 and is seeking to attract well qualified staff. It aims to increase house building from 500-600 units pa to 2,000 a year by 2018/19.

For some councils, the LHC is additional or supplementary to existing activities. Brighton & Hove City Council, for example, have recently established a wholly owned LHC as part of its £106m 50:50 partnership with Hyde Housing Association (for 1,000 new homes, half at sub-market 'Living Wage Rent'). The Council states that a LHC not only offers flexibility to increase the supply of "genuinely" affordable homes, but also allows it to stimulate improvements in the PRS (see below).

Brighton and Hove City Council is establishing a wholly owned LHC to "meet housing needs, including delivery of homes let at Local Housing Allowance rates to households to whom the council owes a statutory duty to accommodate." The LHC would use its position of influence and financial strength to acquire a number of street properties off-plan, at a discount to full market value. The company would also manage new models of temporary accommodation and provide new models of low cost (modular/system-built) housing. Any surplus income will be recycled back into further developments. The financial structure (in particular, the balance of equity and loan investment from the council) has yet to be settled. Officers are proposing officer-only board membership, with a Member advisory board. It is envisaged that staffing would be by council officers, plus bought in professional advice.

The Cambridge Housing Company meanwhile is designed to add to the delivery of the council's HRA. Other councils see LHCs as a complement to estate renewal programmes. Harrow council, for example, has a large in-house estates regeneration programme (covering over 2,000 homes, of which 600 are council build-to-rent). It acts as the master developer alongside its own LHC (Concillium Group), which provides private rented homes and manages a letting agency (Smart Letting).[47] The London Borough of Sutton's trading company (Encompass LATC) also has a lettings agency, alongside a housing advice service. Some, like Cherwell District Council, have established an LHC specifically to support community build (see below).

Cherwell Community Build (Cherwell District Council) is a new not-for-profit LHC which seeks to diversify district housing by offering choices not usually provided by traditional developers. Among its objectives will be unlocking brownfield sites, offering varied affordable ownership and regenerating long-term empty properties. It is also proposed that the company will encourage community involvement, through local forums, to give residents a chance to make their views known directly. The voluntary board members will help to set the company's strategic direction. The council has also set up two wholly council owned LHCs (Green Hill Village Development Company and Graven Hill Village Holdings) to develop a large site for up to 1,900 homes on MoD land near Bicester. The 10-year development is distinctive in that it is devoted primarily to custom and self-build (although it also includes 35% affordable housing). Residents will be offered a range of products, including a tailored finished option where they design their own homes and the construction is undertaken by a registered developer.

Multi-authority LHCs

Most LHCs are with a single authority. However, there are examples of multi-authority LHCs, such as the North Essex Garden Communities LHC, which involves Essex County Council and three district councils (Braintree, Colchester and Tendering). According to the 'North Essex Garden Communities Peer Review' (by Lord Kerslake, January 2017) the project is a superb example of councils working together, offering "opportunities to put new thinking to the test about sustainable communities and how new communities are developed".

As detailed below, the wholly council owned NEGC is the lead developer and master planner of an ambitious building programme for three new garden communities. The participating councils wanted sole ownership of the company (rather than a joint venture) in order to maintain complete control over delivery. We were told that past experience of trying to engage potential private partners in similar activity at scale and over the longer term had proved difficult. It was also reported that maintaining strong relationships across county and tier boundaries through the company can also help combat resident opposition to development.

"Councils tend to work harder if they have skin in the game"

- Housing adviser

Essex County Council is also directly providing new homes on existing public-sector land and using its own in-house planning and environmental consultancy service. The council argues that there was little point in establishing a LHC, stating that "we have the powers to buy and sell land and at the present time are not seeking to branch out into the private rented sector." Nevertheless, the council claims the NEGC makes sense because of the scale of development, which was much bigger and demands private finance.

North Essex Garden Communities Ltd, set up in 2017, is owned by Essex County Council and Braintree, Colchester and Tendering district councils. It seeks to enable the delivery of 45,000 homes over 30 years in three major sites (Tendring/Colchester, Marks Tey/Colchester and West Braintree – mostly private land identified as new communities in the local plans). NEGC acts as a holding, supervising three local delivery vehicles (LDVs) which in turn will develop the sites until they are de-risked and "spade ready" for private/social developers. The participating councils state that the delivery of the housing and supporting physical and social infrastructure would be impossible if they relied on the planning process alone and conventional private sector-led development. The company will raise both public and private finance, which the LDVs will use to acquire land. Development profit (from selling sites/properties) and surpluses from on-lending will be returned to the participating councils. NEGC directors are executive councillors appointed by the participating councils, while the boards of the LDVs will be a mix of council officers, independents and (perhaps) local landowners (who may be paid in instalments as the development process proceeds). The intention is for the company to provide a financial return to the council owners. Development is expected to start in 2021.

Other multi-council LHCs, such as Barley Homes in West Suffolk, were established primarily "for the purpose of deriving profit through developing housing, including homes for sale, private rent, private affordable rent and shared ownership" (see below). The wholly owned company is held up as an example of collaboration and sharing learning. According to Jonathan Geall, former Service Manager for Housing Development and Partnerships at West Suffolk Councils, the "benefits of joint working were clear to us, including making it easier to assemble key sites characterised by a mix of land-holdings in all our ownerships. Added to this, the districts can bring housing expertise, duties and powers to the table, while the County has greater land holdings in many areas."[48] The councillors were keen to maintain joint control of the LHC and were not attracted to involving local housing associations.

Barley Homes (Group), established in 2015, is 50% owned by Suffolk County Council and 25% by Forest Heath District Council and 25% St Edmundsbury Borough Council. The company was backed by councillors as a means of compensating for reductions in government grant, mainly by generating revenue and capital income from surplus land owned by Suffolk County Council. The partner councils put in equity (35% of initial investment) and loan capital. The LHC then buys land from the councils and finances development. The councils secure a return from market sales/rents on affordable properties. All developments will be plan-compliant on affordable housing (at 35%). The board is officer only, although there is scope for independent non-executives. Staffing of the company is entirely by means of council officers, whose time is charged to the company (alongside consultants). The company aims to develop up to a 100 mixed tenure sites, including student accommodation and extra care housing.

Councils of course don't need a LHC to collaborate. Cambridge City Council, South Cambridgeshire District Council and Cambridgeshire County Council, for example, have a shared housing development team (H DA), which is helping deliver 250 homes a year – mostly on rural exception sites. Interestingly, the H DA provides development services (and some funding) for the LHCs of the two district councils (Cambridge Housing Company and Ermine Street Housing, the trading name for South Cambridgeshire District Council). The two housing companies have distinctly different strategic objectives: Ermine Street Housing acquires properties on the open market financed by loans from the council, and lets out the properties at market rent. The income generated is reinvested in council services. Cambridge Housing Company's main focus is on developing sub-market housing (on council owned sites) beyond what can be delivered through the HRA.

Social and affordable housing

One of the principal reported motivations for setting up an LHC is to provide more private affordable and sub-market rented housing, mainly on council owned land.[49] Oxford City Council, for example, has a new LHC to develop affordable housing with a range of tenures, including providing 40% of the homes as social rented at some sites. The council initially wanted to develop affordable homes under its HRA, but was discouraged by the enforced rent cuts and other housing policy reforms.

Oxford City Housing Limited is a wholly owned company of Oxford City Council, established in 2016. The company plans to provide 541 new homes over the next five years, including the acquisition of 354 homes at one site, Barton Park, and a few high value void properties each year from the council's HRA. The council claims the company will help address the City's housing crisis as well as generate revenue and make a return from on-lending. The company will also make a contribution to council overheads and buy-in management and maintenance from the council's housing directorate. The first phase of delivery is on council-owned sites (plus the acquisition of S106 units from Barton Park). The council will lend development finance into the company and align the company's work with other regeneration partnership vehicles, such as 'Oxwed' (a joint venture with Nuffield College). The Board comprises council officers, with a Member panel providing oversight. Staffing is by council officers.

Several councils in the South East have established LHCs primarily for local residents who earn above the typical income range required for social housing, but who struggle to find local affordable properties to rent. Guildford Borough Council's LHC, for example, buys homes and develops properties to let at intermediate and market rents (see below).

North Downs Housing Ltd, was established as a wholly owned LHC by Guildford Borough Council in 2016. It aims to directly deliver more homes across a range of tenures (in line with the Council's Corporate Plan 'Our Borough'), but with a focus on "essential worker accommodation to both rent and buy" (as well as contributing to the regeneration of the Slyfield area and town centre). Operating under its parent company, Guildford Holdings Ltd, the LHC is funded by the council through a mixture of share equity and debt financing. It currently has six properties under offer and intends to 'trickle transfer' another five properties, (i.e. properties that are not occupied by tenants with the RTB) out of the HRA into the LHC. The company seeks to wash its face financially and make a small return to the General Fund. The Board includes the Mayor of Guildford and an independent advisor. Staffing is by council officers.

The typical urban LHC seeks to provide both market and intermediate rented homes. In London, for example, many of the LHCs want to address the affordability gap and, as a landlord, raise standards in the PRS (which are widely considered by councils to be inadequate). Others, like the London Borough of Tower Hamlets have one LHC tasked to provide market rented homes and another to provide homes at social rent levels (see below).

Seahorse Homes is wholly owned by Tower Hamlets Council to acquire and develop homes for market rent and sale. The company works on a commercial basis alongside a community benefit society (Mulberry Housing Society), a charity offering a mix of social and affordable homes (pitched at just below LHA rates). Both organisations complement the council's HRA activities. Seahorse is expected to return a dividend to the council from long term profit-making activities; the Community Benefit Society is subsidised by grant of land and retained RTB receipts.[50] It is proposed that the two organisations are established with access to funding of £30m each (at commercial and charitable rates, with council owned land transferred to Seahorse), with the initial intention of each vehicle acquiring or developing 100 properties. The company has three directors (council officers), with oversight by the council's cabinet.

Some councils told us that they would like to provide more social rented homes at well below market rents, either through the HRA or LHC (or both). A few councils have been doing this by setting up charitable subsidiaries, such as Seahorse Homes and Westminster Community Homes which provides affordable housing at social housing rent levels using S106 money. However, in places where development land is scarce financing sub-market housing without any grant is difficult. As we were told "the numbers don't easily add up in places where you want to build". Nevertheless, there are plenty of example of LHCs that adopt a cross-subsidy model to provide homes at both Affordable Rent and social rented levels.

It does appear that in many schemes the number of sub-market units at 65% and below of market rents is often a residual from the tenure mix of a scheme as a whole. However, there are examples where councils are maximising the number of social rented homes, such as Meridian Home Start in Greenwich – which is a Community Benefit Society rather than a housing company (see below).

Meridian Home Start, is an independent Community Benefit Society, supported by the Royal Borough of Greenwich. It offers homes for local people at discounted rents (65% market rent), with priority given to working families who would otherwise find it hard to buy or rent on the open market or their home is overcrowded. Some 200 homes are planned on three sites – the first of 700. The Society is free from the restrictions on borrowing imposed by the government and is able to maximise the opportunity to utilise RTB. The council states that Home Start, along with the council's New Build programme, represent a "significant opportunity" to increase the supply of affordable homes in the borough.

Right to Buy

Right to Buy (or more specifically the rules around the receipts of RTB which make it difficult to replace homes which are sold) has been a thorn in the side of many stock owning councils. Many have argued consistently that it is a costly disincentive to councils building again.[51] The LGA claims that around 80,000 council homes could be lost if the government goes ahead with its plans to extend the RTB (i.e. forcing the sales of higher value properties to fund housing associations' RTB). We were told that even if circumstances changed and councils were able to retain 100% of RTB receipts, many would still struggle to replace RTB homes under their HRA. It was said, therefore, that greater flexibility was required, with RTB receipts helping fund the delivery of LHC replacement homes.[52]

"Councils should have greater flexibilities in how they use RTB receipts, for instance passing it to housing vehicles"

- LGA Housing Commission 2016

Some councils clearly see LHCs as a way of protecting homes from the RTB and forced high-value sales of council homes, although this is perhaps less of a motivator now following the government's decision to delay the national roll-out of the RTB and sell-off of high value council homes.[53] The fact that the current government would arguably struggle to secure Parliament's support for controversial legislation on RTB is also a factor (although a new government may have more freedom to act).

"Sheltering assets from RTB is a factor, but usually a secondary one"

- Professional adviser

The prevailing opinion of the experts and advisers we spoke to was that the RTB did not apply to homes supplied by a LHC, even if the funding is derived from a councils General Fund. If a LHC does not grant secure tenancies then tenants would not have the statutory RTB. Furthermore, we were told that provided the local authority is not de facto the landlord then any new housing would be outside the HRA and therefore not subject to the RTB.

Private rented sector

Councils have traditionally been cautious about entering the PRS market because of the regulations governing the HRA and state subsidies. However, LHCs are free to invest in the PRS and offer assured shorthold tenancies.[54] As a landlord, the LHC therefore has much greater flexibility and can control rents and even convert housing tenure if it so wishes.

Many of the LHCs we studied are seeking to provide market rented homes. This is in part to meet housing demand and secure the desired tenure mix, but also to ensure commercial viability and service the borrowing. Furthermore, in a similar way to housing associations, many LHCs see private homes for market rent and sale as the key component to achieving cross-subsidy for private affordable and social rented properties.

Ambitions are high in some councils. Newham's LHC, Red Door Ventures, for example, is leading one of the largest PRS building programme in the country. According to Homes for Lambeth, a wholly-owned LHC, by selling and renting homes at market rates the company will be able to reinvest the 15-20% development surplus that private developers normally make back. The company claims it can use any surpluses to support the conversion of tenures. Cllr Matthew Bennett, the Cabinet member for planning, regeneration and jobs at Lambeth council remarked: "We can make money from the PRS , and if necessary, flip those homes over to social rented."[55]

Involvement in the PRS though is not reserved for the big, urban councils. Our research shows that the LHCs in some of the small, district councils are primarily focused on providing a mix of affordable and market rented homes.

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

- Housing expert

Councils claim that they can offer a much better deal for tenants than most private landlords. Harrow Council, for example, told us that their build to rent programme (for some 600 homes) offers tenants no fees, long lease options and professional local management. The London Borough of Ealing's wholly owned 'Broadway Living' company advertises itself as a "developer of quality, desirable" homes for rent, private sale and shared ownership.

Many of the councils we spoke to also pointed to poor management and insecure tenancies in their local areas. We were told that LHCs can offer better assured and flexible tenancies on affordable rent terms. The new wholly owned LHC in Waltham Forest Council, for example, claims that its tenancy offer (of up to five years and available via council nomination) gives "more freedom to tenants than under the typical 6-12 months tenancies which are currently available elsewhere".

"We want our LHC to be the landlord of first choice"

- Council leader

Some councils, such as Birmingham City, have established dedicated LHCs to develop market rental housing. The council claims that its LHC, Inreach, has exceeded expectations and shows that local authorities can deliver private rental housing without a joint venture and reliance on the capital markets (see below). According to Birmingham City Council's cabinet member for housing and homes, Cllr Peter Griffiths, "using the expertise we have built up over the years through the Birmingham Municipal Housing Trust – the council's social and affordable housing builders - we are now in the position to use these skills to support the housing needs in the growing private rented sector."[56]

Inreach Birmingham Ltd is wholly owned company established in 2014 alongside the in-house Birmingham Municipal Housing Trust, which has experience and expertise in development. The council sells land to Inreach, which borrows from the council to develop it; the rental income services the borrowing and provides a return to the council. The company plans to delivery 300 apartments and houses for market rent (at a cost of some £36m). The aim is to model build for rent as a business proposition, with the intention of encouraging other developers to follow. The company also seeks to raise standards across the PRS. The council wants to expand the company and plans to sell 200 void council properties to Inreach per year for the next four years. Inreach will then rent these out at market rent to finance new builds for social or private affordable rent. Inreach has a single director (a council officer) and is staffed by council officers.

"The LHC model is adaptable and can work in a variety of different housing market situations"

- Council officer, head of housing

LHCs are also emerging in low housing demand areas. Wolverhampton City Council's LHC, for example, has been set up to support the city's regeneration and housing programme (see below).

WV Living, the wholly owned LHC of Wolverhampton City Council, was established in 2016. Wolverhampton currently has sufficient land identified to meet projected housing targets but the council is eager to increase the rate of delivery. In phase one the company plans to build around 400 homes by 2018 (25% affordable). There is a further pipeline of 1,200 properties. The company will seek to generate a commercial return through on-lending and land sales, although this is stated as secondary to the housing market focus. The council has provided both equity and loan finance. Administration is by council staff under a service level agreement. Practical delivery (project management, construction, sales etc) is contracted out. The council said the rationale for doing this is to drive the pace of the market and to create a commercial entity that will generate a return for the local authority.

Stoke-on-Trent City Council has recently established a LHC with a remit to develop affordable and "premium" properties in the PRS as part of its city-wide housing and regeneration strategy (see below). The company is seen as stepping into a market that the private sector and housing associations are reluctant to develop alone. The council claim the LHC "provides an opportunity to realise value from publicly owned sites and in parallel support the city council's housing growth agenda via development of a private rented product which could bring in an income stream for future reinvestment."[57] In addition to building homes for private rent, the LHC will seek to address the gap in the private market by buying new properties for letting in the PRS.

Fortior Homes is a wholly owned LHC of Stoke-on-Trent Council with a brief to help revive the city centre, providing "city living" high-end market rented homes for city workers. It is seeking to develop inside the city's Housing Zones, with the intention in phase one of delivering 500 market rented homes (mostly developed on council land). In addition to land transfers, the council has committed up to £250m to the company's capital programme, which includes an option for diversifying into market sale. The company aims to develop a portfolio of schemes, which it says offers the opportunity to mix and match the purely financial and place-shaping goals in different schemes. Councillors are represented on the board, which reports to a 'Monitoring Group' that plays a shareholder role. Staffing is entirely by council officers and there is an established structure for managing resident relationships. The council undertook extensive professional advice prior to establishing the company.

The desire by councils to intervene in housing markets where there are concentrations of public housing was a motivating factor in establishing LHCs in places where the market is weak. However, as mentioned, this may be problematic for those councils which want to convert existing HRA properties owing to tight legal restrictions on the transfer of council properties, rather than simply land.[58]

"Councils could be borrowing more for their LHCs to supply private rented homes"

- Housing market expert

We heard that some councils are exploring the possibility of transferring high-value stock to their LHC. According to the Association of Retained Council Housing (ARCH): "If stock retained councils are forced to sell "high-value" council housing to pay the so called RTB levy, the option of selling high-value voids to a council-owned local housing company seems to be gathering momentum among some stock retained councils."[59]

Market sale

Most of the LHCs are seeking to provide a mix of tenures, adapted to local housing needs. A minority (notably joint venture LHCs in higher demand areas) give priority to building and selling properties on the private market for first time buyers. Bristol City Council, for example, is reported to be setting up a LHC which builds homes mainly for sale on the open market, with any surplus re-invested in new council housing.[60]

Similarly, the new Colchester LHC plans to sell 70% of its planned new homes at market value in order to subsidise the remaining 30% social housing. Thurrock's, LHC, Gloriana, also offers a mix of homes for sale and for shared ownership. The leader of the council, Cllr John Kent, stated that: "Gloriana is not about social housing… what it's about is trying to kick-start home building in Thurrock."[61]

"We're not going to give profits away, but we are worried about the risks of building homes for sale"

- Councillor, housing lead

Basildon Council's Sempra Homes, meanwhile, are providing shared ownership properties for key workers and local residents (under the government's 'Help to Buy') – see below.

Sempra Homes, the LHC of Basildon Borough Council, was established in 2014 to deliver a variety of tenures. The company aims to match the council's HRA build of around 100 properties a year and make a financial return (in part from on-lending). A focus is on housing for key workers and shared ownership (for which it was granted £1.7m by the HCA). Sempra acquired a mix of HRA land and a non-HRA property portfolio and seeks to mix the sites commercially. The company claims that its approach of designing all units as tenure-neutral keeps options open in terms of tenure mix. Two council officers are the directors, with others attending Board meetings as required. The council's chief executive holds the council's shareholder interest. Staffing is principally by council officer whose time is charged to the company. Construction contractors and professional advice is brought in as needed. The council claim the LHC has cross-party support and the backing of local residents.

Some of the initial joint venture LHCs, such as Sheffield Housing (see below) were specifically designed to secure more private housing and shared ownership). As mentioned, the feedback from many of the LHCs in the core cities was that the council had become deeply frustrated over the consistent failure of private developers to secure the investment they wanted in run down areas. "The numbers always fell short", was a common retort.

Sheffield Housing Company was set up in 2011 as a partnership between Sheffield Council, Keepmoat (construction and market sale) and Great Places Housing Group (estate management of leasehold properties). The council's principal purpose in setting up the company was strategic place-shaping. During the decade 2000-2010 the council had repeatedly tried and failed to secure private investment in the renewal of social housing estates, including diversifying tenure. The company was set up:

- directly to achieve regeneration goals by building and selling properties for market sale in hitherto mono-tenure social housing areas on sites which had previously been cleared of non-viable council housing
- indirectly to encourage private sector involvement by proving the concept and supporting higher land valuations. This remains the council's principal motivation. However, since inception, and reflecting the council's financial position, the council now has a stronger interest in securing early financial returns from projects. It has also appointed a dedicated cross-disciplinary team

The company aims to build 2,300 new homes over 15 years. Four years into the plan it has built 293 new homes,193 bought outright and 70 affordable rent. The next phase includes 811 new homes in five neighbourhoods (sites are developed in different areas simultaneously – enabling cross-subsidy. The company claims it builds to higher standards than other developers and has created 70 new jobs.

Temporary and specialist housing

We heard of a few examples of LHCs providing homes for temporary accommodation. The London Borough of Enfield, for example, set up a LHC (Housing Gateway) to provide temporary accommodation in 2014. The council claim the company has saved over £1.5m and improved the livelihoods of hundreds of homeless people.[62] Bournemouth Council, meanwhile, established a wholly owned LHC, Seascape Homes and Property Ltd, to buy up properties (including some from the council's development company) for use as family homes or houses in multiple occupation.

The London Borough of Brent, which has one of the highest numbers of households in temporary accommodation in England, has established a wholly owned LHC (Investing 4 Brent) to acquire PRS properties which will be let at Local Housing Allowance levels and provide an alternative to local Bed & Breakfast establishments. According to the company's business plan, in order to be self-financing: "the directors of the company will have limited discretion to let properties at private affordable rents, higher than LHA rates, where it is affordable for the tenant household and provides additional funding stability for the company. The total mix of properties that may be let at greater than LHA rates is 25% of the portfolio, which may be flexed by prior agreement with the shareholders representative."[63] The intention is that Investing 4 Brent will purchase and manage around 300 properties, some from outside the Brent and Greater London area.

As part of the mix, several LHCs in university towns and cities told us they aimed to provide affordable student housing. Exeter City Council, for example, are establishing a LHC, in part to meet the growth in demand for student accommodation.

Some LHCs focus on homes for older people. Wealden District Council's new LHC, for example, seeks to build new homes for first time buyers and downsizers to help them stay in their local area (see below).

Sussex Weald Homes Ltd is wholly owned by Wealden District Council. The company claims it is not seeking to compete directly with large developers, but to bridge the gap in the market for "generation rent" and "generation stuck" (in particular, bungalows and smaller unit accommodation for younger and older people, and more affordable provision for retirement housing). Most of the homes are for sale. The council supplies land, including HRA land from obsolete retirement homes. The LHC will work alongside the council's HRA and is expected to be self-financing. Properties will be developed on existing council-owned land, although as the council has little land in its portfolio the intention is also to purchase land from the market/ and off-plan. The company is capitalised via equity and loan finance from the council, as well as external loans. The board comprises three members and two officers, as well as a scrutiny committee and Cabinet advisory group. Staff are sourced from the council and from external advisers/consultants.

Structures and governance

The most common LHC structure is a private company limited by shares in which the sole shareholder is the council. An adaptation of this is where the council is a joint shareholder in a joint venture company, usually with a private developer. Another potential structure is a Limited Liability Partnership, although we were told that there are vires issues about using this form (under the Localism Act 2011). For the most part establishing a LHC is fairly straight forward, although not always cheap (we were told that one London LHC cost over £1m to set up). There is also a risk of "mission creep", which was mentioned by several council housing officers, and discussed later in the report.

"Commitment of sufficient senior officer capacity (and of course strong relations with elected members) is vital"

- Council leader

There has been some debate about LHCs applying to be 'registered providers' of social housing. The advice we received was that this option was not well suited for LHCs as the company would be subject to the HCA's Rent Standard[64] and other regulations (e.g. 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.[65]

However, a few councils have gone down this route, such as Wokingham Borough Council which recently set up Loddon Homes Limited as a for-profit registered provider of social rented and affordable homes accredited by the HCA (the company, effectively a housing association, purchases housing from its parent company, Wokingham Housing Limited – a wholly owned LHC established in 2011).

"The company structures can be complex because sometimes they have to be"

- Professional housing adviser

We were told by one professional adviser that the structures for LHCs are far from linear or logical, and that decision-making is frequently "a mix of politics and pragmatism." Another adviser said that delivery was often slower and more uneven than it should be because councils failed to bring in the necessary technical skills and financial expertise. However, some of the LHCs have built up considerable experience and expertise, such as the Northumberland Council's Arch Group (see below).

The Arch Group (Northumberland Development Company) established by Northumberland County Council was formed in 2012 as wholly council-owned property company. Its subsidiary company 'Arch Homes' (formerly 'Arch Housing') now has a £115m portfolio of commercial and residential property - the profits from which are reinvested to support economic and social development across Northumberland. Arch Homes is Northumberland's largest private residential landlord and a major property investor in the region. The group's activities include direct acquisition and joint ventures in the PRS. The development team comprises experienced project managers delivering a complex range of developments. The council seeks to make Arch one of the largest property investors in the North East.

We found that most councils received helpful advice from external legal and financial advisers on the pros and cons of different structures and governance arrangements. A good example is the 'How to set up a Local Housing Company: A practical guide' (2017), by Mark Baigent, who has experience of establishing LHCs. APSE runs seminars on setting up LHCs, as do the LGA, which has an East of England Housing Company Network to share best practice and develop joint approaches to procurement of advice and technical services. However, there is little co-ordinated advice or centre of excellence on LHCs.

"There's often a priori decisions to set up a LHC, the purposes of which are worked out later"

- Professional legal adviser

We estimate that around half the LHC boards comprise council officers (only) with elected members taking on a strategic/ shareholder role; and the other half with elected members on the board. Most have a shareholder executive board or a member advisory board, which includes elected members. Some also have an investment panel. For the joint venture LHCs there is partner representation at board level and usually an advisor committee or forum.

The governance arrangements are often shaped by the degree to which councillors want to be actively involved in the company. While officer told us that fewer members probably meant faster decision making (especially in councils where there is no overall control), councillors said that at the very least there needs to be a prior process of decision-making in the council to determine the strategy and funding.

"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"

- Council leader

Our survey (below) showed that a quarter of LHCs have independent advisers and experts on their Boards (usually with development and financial experience). Views on the merits of appointing such non-executive directors to the board were mixed. It was said, for instance, that the expertise that non-executive provide could be easily bought in.

Who sits on the LHC board?

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

Source: Smith Institute/TCPA Survey, 68 councils - NB multiple answers/not either or

"You have to have strong governance, otherwise there's a danger that members see the LHC as a place to put pet projects"

- Strategic housing manager

The LHCs usually have service level agreements to govern the arrangements between the council and the company. It was noted that these agreements needed to be carefully designed to allow the LHC to operate commercially and independently. Professional advisers also told us that it was important for the LHC to be clear about the model for construction contracts, particularly regarding where the risk sits (with the council/LHC or with the construction company?).

"The board must be very clear about the respective importance of social purpose and financial return"

- LHC board member

Staffing

While staffing was not in general a major concern of the LHCs we spoke to, it was a challenge for some non-stock owning councils and for some London boroughs. Barking and Dagenham council, for example, said they were finding it difficult to recruit enough high-quality staff into regeneration and planning services with the pay and benefits packages that any council can offer. In their LHC consultation the council stated that: "we need to have the flexibility to develop attractive employment packages that will attract the right people to come and work in Barking & Dagenham, and this will only come if we set up a separate regeneration organisation".

Who are the LHC staff

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

Source: Smith Institute/TCPA Survey, 68 councils - NB multiple answers/not either or

Concerns have also been raised by Parliament as to whether councils have the necessary specialist skills and experience to becoming property investors. The Public Accounts Committee, for example, concluded in 2016 that: "the Department for Communities and Local Government appears complacent about the risks to local authority finances, council tax payers and local service users resulting from local authorities increasingly acting as property developers and commercial landlords with the primary aim of generating income."[66]

The DCLG responded to the PAC concerns, stating that the risks from acting as property developers and commercial landlords are: "no less risky than managing social care demand pressures." The LGA concurs, stressing that councils invest on a case-by-case basis and must demonstrate that their investment plans are prudent and affordable, including those funding LHCs.[67]

The majority of LHCs start off by seconding council officers, although our on-line survey shows that nearly a fifth appoint dedicated staff. Others claimed that they had successfully recruited experienced staff from the private sector or from housing associations. One LHC adviser suggested that creating a company from scratch with its own unique brand was "a big plus" in attracting people with the right skills.

"We have looked to recruit people on the way up and others with more experience in the private sector, whose expertise is invaluable"

- Council officer

Where the LHC needed specialist skills they tended to be contracted in. Our survey suggests around 15% of LHC staff are made up of consultants and contractors. Indeed, most of the well-known financial consulting and specialist law firms have been engaged by councils to help advise on the set up of LHCs. It was said by some LHC officers that external advice was also important to progressing the LHC to delivery mode.

Relationships

The importance of collaborative working and trust was mentioned by many of the people we interviewed. LHC advisors, for example, stressed the value of building up trust between the councillors, officers and the LHC early on, arguably made easier by the fact that many of the LHC staff usually come from the sponsoring council. It was reported that the LHC needs to give special care and attention to understanding and nurturing the relationship between the LHC and the planning department, not least to ensure due diligence over planning consents and compatibility with the local plan.

One of the arguments put to us about the benefits of a wholly owned LHC was that relationship building might be more difficult to achieve if a third party was involved. Whilst we did hear complaints from councils about the private sector and housing associations (notably that housing associations were not doing enough to meet housing needs) there was little evidence to suggest that joint venture LHC or indeed most councils had failing working relationship with their external partners.

"There's no need to dilute the potential commercial return by involving either private or housing association partners"

- Council officer

Havering Council's LHC, Mercury Land Holding, which provides private rental homes for young people and families, is developing homes in Romford with Swan housing association. Maidstone Property Holdings, the council's LHC, delivers affordable housing with local housing associations via the S106 agreements attached to its housing developments. Many other LHCs are in joint ventures (and agreements) with housing associations. Nevertheless, it would be fair to say that in some places relations between the council and housing associations (most notably in London) were less friendly than they were.[68]

"The fact that LHCs are being so widely established is, in strong part, a reflection of the poor relationships between councils and housing associations"

- Professional adviser

It was said that sometimes councillors did not always appreciate the "commercial-mindedness" of their LHC, especially regarding the viability of cross-subsidy to sub-market homes. However, our research suggests that concerns over understanding the commercial-mindedness of LHCs and how far it conflicts with the social and community objectives of local councils is somewhat overstated.

It was said in several of the interviews that it was critical to get the legal structures and governance arrangements fully compliant from the start and that as much attention needed to be given to getting the system right to manage relationships inside the council as it is with external stakeholders. It was also noted that so far none of the LHCs had faced a legal challenge.

"The focus on building excellent relations at member, senior officer, and working level, is vital to success"

- LHC executive

Nevertheless, tensions may surface over planning applications, with the prospect of a LHC appealing its own authority. There are also possible governance risks to be dealt with if members or officers of the LHC (in any capacity) are also involved with the planning committee or planning department. For some councils, the decision not to appoint elected members to the board of the LHC was explicitly taken to avoid any such potential conflicts of interest over the council's shareholder role.

As mentioned, councils have adopted various ways of ensuring they have sufficient influence and scrutiny over their LHC, although how effective they are will depend on a variety of local factors, including the quality of personal relationships. However, the over-arching message from our research is that political commitment from elected members is key and that LHC officers acknowledge the importance of keeping members "up to speed and fully on board."

Resident engagement

Securing the trust and confidence of residents in respect of new development is a top priority for all councils, with or without a LHC. Many of the interviewees we spoke to stressed the importance of aligning expectations between elected members and the LHC and local residents. Over-selling the LHC and what it can achieve in the short term was a concern raised by some council officers.

We were told that branding the companies as "something different, but part of the council", was important to the marketing and PR of LHCs. However, it would be presumptive to claim that overall local residents support or oppose their LHC, or indeed make a distinction between the LHC and the council itself.

"There is less NIMBY opposition with the LHC than on many market schemes, where developers are perceived by residents as simply ramming through their pet schemes regardless of local opinion"

- Cabinet housing lead, district council

Most interviewees agreed that it was beneficial all-round that LHCs were not "politicised" along party lines. This was generally viewed as a plus in terms of public relations and resident engagement. However, as discussed below, having a LHC does not extract the council from all political risk surrounding new developments.

Our research suggests that few councils consulted in any significant way on proposals for their LHC. This is perhaps not all that surprising given the technical nature of LHC set plans. Information on individual LHCs is available on-line and in the form of council minutes and press releases, but there is not much evidence that council's embarked on major consultation exercises on the form and roles of a LHC (i.e. beyond the usual consultation via the planning process). Those that did, such as Cornwall Housing (see below), claim early engagement offers lasting benefits.

Cornwall Housing was one of the first wholly owned LHC. Established in 2012, it manages all of Cornwall Council's council homes (10,500). The company's focus is on housing management and maintenance and other housing services, including housing advice. Under the council's Strategic Housing Framework, the company is planning to build more social rented homes. The company forms part of a suite of initiatives, including direct delivery of 1,000 exemplar homes for sale and rent under the Cornwall Land Initiative (a partnership with Galliford Try which provides new homes on council land). The LHC stresses the value of tenant involvement and believes tenants should have a role in shaping and influencing decisions affecting the future of their homes and communities. The LHC has elected tenants and council members on it board.

The degree to which LHCs maintain or improve resident relationships is hard to establish at this early stage in the evolution of such companies. A lot depends on the history of past relationships, local politics, branding and the schemes LHCs are involved in. From a cursory review of local media reports there does not seem any general antipathy or widespread political hostility towards LHCs in principle.

However, campaign organisations in support of traditional council housing said they were concerned that the LHC model fails to sufficiently protect council assets being sold or transferred at a later date to the private sector or housing associations. It was also mentioned that council-backed estate regeneration schemes involving LHCs can lead to a significant net loss of social rented homes. We heard of complaints along these lines in some London boroughs, such as Croydon and Haringey.

"There are too many politicians who think rebuilding for market tenure will solve the housing crisis"

- Community activist

Funding LHCs

There is no dedicated capital or revenue funding from central government for LHCs. The government could though if it so wished fund LHCs directly or via the HCA. This would not affect the LHCs status as a private housing provider. However, some councils argued that being free of government funding is a positive in that any capital grant would come with the "obvious Treasury strings attached."

As our survey (below) shows, most LHCs are initially funded directly by the council: mostly through the General Fund, the PWLB and equity investment. Commercial borrowing and land sales play a much smaller part, as it seems does developer contributions. Many of the LHCs involve the transfer of land (either free or at low cost), which can make a big difference in places where land prices are high. However, it was noted that land is not a free good and that there are opportunity costs for the council to consider (not least loss of revenue from land sales).

How has your LHC been capitalised?

General fund	27%
Public Works Loan Board	24%
Council equity investment	20%
HRA	12%
Developer contributions/future income streams	9%
Land at less than market value	6%
Commercial borrowing	5%

Source: Smith Institute/TCPA Survey, 66 councils - NB multiple answers/not either or

Some LHCs, such as Colchester Council's Colchester Commercial, are reported to be using New Homes Bonus money to set the company up. Others, such as Croydon Council's BXB, claim they will use RTB receipts.[69] Lambeth Council's new 'Homes for Lambeth' plans to bring in money from pension funds. Some councils, like Broxbourne Borough Council, have adjusted the capital investment flows into their LHC to reflect the council's wider efforts to be self-financing.[70]

Given the constraints mentioned on HRA borrowing, many councils said they have little option other than lending to the LHC through the General Fund (which unlike the HRA is governed by the Prudential Borrowing code). This was generally agreed to be a commercially viable "real alternative."[71] The challenge is to ensure that the business plan for the LHC includes a stable revenue stream to service the debt; generating that income is "key to staying a commercial organisation".

However, according to Imogen Fisher, a Partner at Trowers & Hamlins: "It is assumed that interest on development finance [to the LHC] will roll up during the development phase, but it needs to be considered whether, following practical completion, anticipated net rental income or sale proceeds are sufficient to meet repayments of principal and interest."[72]

"Delivery models aren't the issue; we need the funding first and foremost"

- Council finance officer

Most LHCs start out with fairly modest funding ambitions and seek to draw down loans from the council as they bed in. Other LHCs that are seeking to operate at a much bigger scale and/or are in joint ventures will probably seek additional funding from the capital markets. Local circumstances and the robustness of the business plan will be key, although 100% council owned LHCs will naturally be much more reliant on the council's financial position. Mention was also made of the prospect of LHCs benefiting from reform of Compulsory Purchase Orders to enable councils to buy land at closer to existing use value (see below).

CPO reform
Reform of Compulsory Purchase (CPO) powers to allow councils (and LHCs) to assemble land at a lower cost than they are currently was mentioned in the Conservative Party manifesto, Labour's are also pledging similar reforms. According to Shelter, CPO reform would "unlock considerable sums of money for affordable housing and important infrastructure."[73] According to Jamie Ratcliff, assistant director at the GLA, changing CPO to allow the GLA to purchase non-residential land at current use value could help deliver an extra 21,000 homes over the next 20 years.[74] However, how significant CPO reform might be will depend on how big the savings are in purchasing at below market value. The prospect of large savings and extensive use of new CPO powers could prove to be significant for councils and LHCs in high housing demand areas. Equally, modest reforms may have little impact. For the time being at least it does appear that the government is still considering the options, and has yet to declare its intention.

Council officers told us that they hope to continue to provide affordable homes through planning obligations (Section 106 agreements), even though it was observed that national policy changes have severely eroded the ability of councils to do so[75] (under the direction of central government, the priority for planning gain income in many areas is to fund infrastructure, encouraged by the Community Infrastructure Levy (2010) which is widely considered to have a negative impact on affordable housing delivery[76]).

Nevertheless, research by the TCPA, for example, suggests local planning authorities are finding ways of utilising S106 for new housing developments.[77] Whether they are redirected S106 money to the LHC is less well known. We were informed that some councils are exploring the option of using S106 for LHC build. Mark Baigent, advises that councils can make "use of S106 Planning commuted sums (paid by private developers to pay for affordable housing off-site) or other council capital grants from receipts on other land or asset disposals."[78]

"The LHC should be free to secure S106 contributions for affordable housing from small sites"

- Council housing officer

Most councils have sought financial and tax advice prior to establishing a LHC. The impression from our research is that the advice has been similar in most cases, although there are legal grey areas, such as the degree to which the HRA can contract with the LHC. Although LHCs don't' pay SDLT on any transfer of council land the tax position is also complicated in respect of VAT. And like any company, LHCs are subject to corporation tax.

On-lending

Despite the constraints on PWLB borrowing and debt rescheduling, our research shows that more and more councils are seeking to raise extra revenue income by borrowing long term at below market rates from the PWLB and on-lending to the LHC at a market-rate premium. The LHC uses the loan finance to invest in property (including homes for market rent and sale) and the council makes a return on the loan.

Council lending from the PWLB via the General Fund to the LHC is usually mixed with equity finance (shares in the LHC). This is in part for financial prudence but also because 100% of funding from the council to the LHC might suggest that the LHC was a non-commercial arrangement.

"A contribution to the council's bottom line in not the primary intention, but a by-product of the business model which allows us to make a return on lending at commercial rates"

- Councillor

According to the FT, this so called 'carry trade', which is common in the foreign exchange markets, has "acquired serious momentum", with councils typically outbidding private investors and sometimes investing out of their area.[79] Councils retort that the practice is legal and overseen by Section 151 Officers who have to ensure compliance with the Prudential Code for Capital Finance.

On-lending certainly features in most LHC business plans. In Norwich, for example, where the city-council owned LHC is developing eco-homes on council land (see below), the council secures an income stream from on-lending.[80] This is tempered though by the council choosing to forgo maximising dividends from its equity stake in the LHC in favour of providing extra sub-market homes at higher build standards.

Many councils are clearly taking advantage of on-lending, but we were told by financial advisers that the most critical component is the terms of the loan agreement and the pre-conditions on draw down, as well as how the loan debt fits with other financing (including the terms of council land transfers and the forecast rental/sale revenue stream).

Norwich City Council's LHC, established as a wholly owned Regeneration Company, in order to enable the council "to seek ways to become more financially self-sufficient by developing commercial opportunities which makes it less reliant on dwindling government funding". Established in 2015, the company's first mixed tenure development (172 homes in Three Score, Bowthorpe – of which 112 will be built to the high 'Passivhaus' eco-homes) is intended to include 33% affordable housing (85% social rent, 15% shared equity) with the remainder of the units being private dwellings to be sold or rented on the private market by the company. The Council reviews the company's business plan on an annual basis and includes break clauses in construction contract for future schemes. The HCA provided £2.5m towards the company's housing scheme.

Private finance

At the seminar discussions representatives of LHCs said that securing private finance at competitive rates was often difficult, especially when schemes were small scale or deemed "unattractive" or unprofitable for private developers. However, some of the larger LHCs, such as Croydon's BXB, have established 'revolving investment funds' to attract private finance (see below).

Brick by Brick Croydon (BXB) is a wholly council owned LHC, which includes a small housing association to take on S106 affordable units. The council lent the company £292m for 2017/18 (£74m equity), with an expected return of around 4% a year once each development site is completed. One of the key aims of the company is to bring forward land with the potential for development. It is currently delivering a variety of tenures with priority given to local residents (approximately 1,200 units on some 50 separate sites – many either infill on council estates or other council property, such as car parks). The council claim the LHC will provide homes at 65% of market rent and save £1.2m alone on temporary accommodation costs. BXB uses RTB receipts and buys homes on the open market. The council claims the BXB model of delivering over a number of sites simultaneously allows for commercial efficiencies which have the effect of increasing the overall quantum of affordable housing in the programme. In general, the margin sought by BXB development is commensurate with that sought by other private developers (15% profit on cost for private schemes). Initially, the council's 'Revolving Investment Fund' was the sole source of development finance. This was set up for the purposes of investing in projects such as BXB and provides both debt and equity financing at market (and therefore state aid compliant) rates. Repayment of interest on this debt by BXB provides an additional revenue stream to the council. All borrowing by BXB is site specific and subject to an individual loan agreement. The borrowing is secured against land and includes numerous pre-conditions on drawdown as well as ongoing performance measurements.

Others have secured private funding by virtue of being a joint venture LHC, such as the LHC in Gateshead and Nottingham City Council's housing and regeneration company, Blueprint, which is a joint venture with the development company Igloo, (see below).

Blueprint is a joint venture LHC whose principal objective is to bring about a mix of residential and commercial development on "difficult" brownfield sites (in mixed council/private owners) on which previous efforts by the council and HCA, to bring forward commercial development had not succeeded. Nottingham City Council acquired half ownership of the company from the HCA. The intention is that the company will help de-risk schemes and several sites are currently in progress, including development on a former school site. The company has a strong emphasis on sustainable homes and workplaces (especially high standards of energy efficiency). It is a 50/50 deadlocked joint venture with Igloo, backed by Aviva, and financed through a mixture of equity investment and commercial loans. Two directors from Igloo and the Council's leader and executive member are on the board. The company's business is carried out by Igloo's development company.

Housing market risk

Councils and LHCs are as much at risk from a downturn in the housing market as anyone else. A drop in house prices (and private rents) would affect the cross-subsidy of LHCs as much as housing associations. However, several councillors told us that that LHCs are arguably more resilient because they are "in it for the long term" and have the option to switch property tenure. Furthermore, they claim that LHCs are better placed to manage lower yields and can defer dividend payments to the council if needs be. However, some LHCs, especially in lower demand areas, did flag up the risk of homes for sale not reaching the valuations in the business plan.

How resilient LHCs would be in a financial crisis will of course depend on their exposure to the market and the terms of lending. Arguably those councils which have not been involved in housing delivery for some time and have little in-house experience and expertise will be more at risk. Some of the leading affordable housing advisers warn that councils are nevertheless taking bigger risks by developing homes for sale, compared with market rent. The rational for this is that the homes-for-sale market is much more volatile and counter cyclical than homes for rent. It is much less risky to service debt from rental incomes, although rents can of course rise and fall like house prices.

"You have to think long term – development takes time and you need to manage expectations"

- Head of housing, county council

Most LHCs appreciate the market risks and have set aside a minimum revenue provision. One LHC officer said that his company had a mixed and balanced portfolio and that made it distinctly different from the housebuilders – whose business model is seen as less resilient to house price falls.

"Sacrificing short-term profits will be more sustainable for the council in the medium term and will produce wider social and economic benefits"

- Council officer

At the London roundtable discussion with the Deputy Mayor for Housing and Residential Development, London borough housing leads and GLA members and officers, it was mentioned that there is a risk that councils could become preoccupied with setting up an LHC and "take their eye off delivery". It was said that this could result in delaying new developments.

Others remarked that the politicians needed to understand that delivery failure was often a consequence of failing to resource the LHC properly from the start. It was not just the funding, but ensuring the right quantity and capability of staff are in place.

Whilst the mood in London and at other discussions around the country was generally positive towards the idea of LHCs, not least among elected members, there was some concern that LHCs may in the end merely displace development and crowd out other providers. This of course is hard to prove, and will only be measurable retrospectively. For most councils with a LHC, the counter-factual arguments held sway, especially in regard to providing additional homes, meeting specific housing needs and speeding up development.

An additional risk concerned building skills. It was mentioned by several council officers, especially in the South East, that LHCs faced shortages of construction skills and tradespeople,[81] which it said would probably worsen as a result of Brexit.

Political risk

Our survey work and interviews suggest that a major risk to LHCs is a sudden and adversarial change in government policy, especially for housing companies that are developing sub-market housing. As mentioned, the legal opinion is that RTB does not apply to LHCs. However, DCLG has stated that "Ministers are not supportive of LHCs delivering affordable rented homes without the RTB."[82] As such, the risk of a change in the regulations (through secondary legislation) cannot be ruled out. LHCs are also vulnerable to other policy changes, such as a clampdown on on-lending, changes in rent regulations or tax reforms. However, in the current political environment few commentators expect government to successfully pass controversial housing legislation through Parliament.

"The prospect of policy wildcards and reckless interventions makes business planning difficult"

- LHC director

LHCs also face local political risk in the form of protests and complaints from local residents. While there seems to be widespread support or at least little antipathy towards LHCs, there is evidence of some LHCs engaged in estate renewal facing vociferous opposition from community activists. The controversy and adverse publicity surrounding proposals for the London Borough of Haringey Development Vehicle is a case in point (see below).

Outside of the capital, there appears to be less ardent local opposition, especially in places where there is more affordable housing and community support for regeneration. However, there is evidence of protests aimed at LHCs over new communities (such as the new garden communities planned for North Essex under the auspices of the NEGC).

Tenants are quite naturally concerned about what will happen to their homes and livelihoods when confronted by planned development. This is not confined to large schemes. There is also understandable concern over infill schemes on council estates, especially involving car parking space or community facilities. Most LHCs usually promise to compensate the community, offering to re-provide homes and community facilities. However, not all re-housing offers meet tenant expectations or stack up financially.

Critics of LHCs argue that they are not subject to the same democratic control as the HRA and that joint venture companies are a form of "backdoor privatisation". This can escalate political opposition to LHCs. Councils counterclaim that a 50:50 partnership gives them a veto over proposals that fail to meet agreed objectives and that it spreads the risk. The argument presented by LHCs is that the council is more flexible, more resilient and better off financially with an arms-length type arrangement. How well received that is with residents and other stakeholders varies.

"Part of the difficulty with residents arises from the confusion over the LHC's relationship with the council"

- LHC officer

Resident hostility is different in different places and circumstances. And, it is, of course, not always the delivery vehicle or partnership arrangement that is at issue. Opposition to development may be rooted in a dislike of the changes proposed and the scheme itself, regardless of who delivers it.

Most LHCs we spoke to said that they had the support of both tenants and the wider local community. It was suggested that the LHC brand was generally untarnished and that people trusted the council-owned or part-owned housing company more than private developers. In particular, it was mentioned that the LHC can give greater assurance that the supporting infrastructure and public services will be managed and delivered alongside the new housing development. This was widely viewed as critical given local concerns about additional pressures, for example, on local roads and schools.

"Tenants get a better deal under the LHC – the planning and delivery is under local control and we can give assurances that the private sector can't"

- Council officer

The Haringey Development Vehicle (HDV) is a 50:50 partnership over 20 years between Haringey Council and Lendlease, with the council's equity share coming from land transfers. The process to establish the HDV started in 2015, and the Council's stated aim is to use this partnership to provide more homes, better jobs and improve the prospects of local people. The new organisation plans to provide 6,400 new homes on the first phase of sites, including large-scale estate regeneration, as well as commercial property (including the council's existing commercial property portfolio). The Council has stated that "only by securing private investment and expertise can we hope to redevelop some council-owned land at the scale and pace needed". Whilst some have objected to the proposals - claiming there will be few "genuinely affordable" homes, inadequate consultation, poor transparency and insufficient consideration of alternative models (such as a wholly owned LHC) – others recognise that this is a pragmatic way to deliver growth in the area that will be of benefit to all. Some campaigners have said they are concerned that residents will be displaced and moved to less secure housing, but the council's stated policy is that this is will not be the case. Haringey Council leader Claire Kober says tenants affected by a partnership with the private sector will pay the same rent and be entitled to the secure tenancies they enjoy now. She added "any estate renewal scheme in Haringey – whether led by the vehicle or not – will be based on end-to-end engagement with the local resident and business community."[83]

Whilst councils with LHCs acknowledge the potential risks others without LHCs told us they were wary of setting up a LHC because of political uncertainty at the national level, not least over possible changes to the RTB (discussed above). Others said the scale of development was too small to justify the effort or that establishing a company involved unnecessary hassle and expensive legal and consultancy fees.

Financial risk

The level of income to the council will of course rise and fall depending on the performance of the LHC, which, as mentioned, is shaped by a range of risk factors – many of which are outside the council's control. The point was stressed by councils, however, that because they are in the main using existing land assets they are not borrowing huge sums to fund development. If councils were borrowing to buy land *and* to develop, then the risk is higher.

The assumption in most LHC business plans is that the risk is highest in the first five years (when the LHCs asset base is close to its debt liabilities). This explains the incremental scale of delivery and why some councils predict a zero return from their LHC in the early years.

"Letting rental housing is not high risk, but development poses risks if the costs and yields depart adversely from prior assumptions"

- Financial advisor

Councils are aware of the need to ensure there is a sufficiently certain and reliable income stream to support borrowing. They are also not naïve about the risks associated with lending to LHCs for 25-35 years. Where the LHC is seeking to maximise investment in affordable housing and cross-subsidising sub-market housing there is an understanding among officers and members that the principal sums probably won't be repaid in full. However, the financial planning for LHCs is built on the requirement that they would not be loss-making over their lifetime.

"We have to be wary of market risk and whether schemes will achieve the financial return projected"

- LHC service manager

The extent to which councils have put in place reserves to cover any losses is unknown. What is clear from our review of LHC business plans is that most councils are not solely reliant on securing a return from on-lending or indeed from capital receipts from land sales or dividend payments as a shareholder in the company. As mentioned, many councils secure additional income through the benefits of providing new homes not just directly through rental income and sales but indirectly from additional council tax, New Homes Bonus and in some instances by providing additional housing services.

Given the diversity of LHCs and the uncertain economic and public policy context it is hard to judge how financially sustainable individual LHCs will be in the face of rising interest rates and any market downturn. Council officers claim that because development is usually piecemeal and often dependent on the release of the council's own land the LHC is less exposed than private companies. It was said that in extreme circumstances the council could always reschedule the loans and/or sell its shares in the company to a third party (possibly a pension fund or another council).

Any sudden change in government policy leading to constraints on the PWLB/Prudential Code regarding lending to LHCs would arguably be a deterrent to the establishment of new LHCs, and could affect current lending arrangements. As mentioned, also any sudden shift in national policy on RTB and rent controls would also be very challenging. However, arguably the biggest risk to borrowing is the inability to secure the planned yields from LHC investments. As one LHC officer pointed out, "property investments do not come risk free; we face the same market risks as private developers."

Findings and recommendations

Findings and recommendations

The affordable housing crisis in England has worsened, with more and more people unable to buy or rent in areas where they live and work. New supply continues to fall short of demand and, in many areas, there are now acute shortages of homes for those on low *and* medium incomes. The "broken housing market" has also made it difficult for cash struck councils to meet specific local housing needs, especially for the elderly and homeless.

Hopes of stock holding councils building again under a reformed HRA in the early years of the Coalition government failed to materialise. Alongside budget cuts and welfare reforms, councils faced tough new restrictions on their ability to build. National housing policy was focused on private development and home ownership, largely ignoring the contribution that councils could make.

Although there are now welcome signs of a shift in government policy with councils being spoken of as part of the solution, rather than part of the problem, the main constraints on local government's capability to deliver through the HRA system remain in place (including the RTB, rent cuts, borrowing caps and almost no government funding for new social housing). Furthermore, councils continue to complain that despite all the housing and planning reforms the housebuilders and private developers are still failing to provide enough affordable homes.

Frustrated by national policy-making and critical of the performance of other registered providers, a growing number of councils, large and small, have "gone it alone". Under the banner of localism, councils of all types have sought to use the new general freedoms and flexibilities that they have been granted to establish their own housing companies. These council owned companies, which reflect the new entrepreneurial ethos of many councils and mirror the trading companies some councils had already established, are home grown, developing in-spite of government intervention, rather than because of it.

As we have documented in this report, the rise of local housing companies has occurred fairly quickly and with little controversy. The vast majority of LHCs have secured local cross-party support and appeal to both councillors and council officers. In fact, LHCs are fast becoming a "must have" for councils wanting to pro-actively intervene in their local housing market, albeit often initially on a small scale. It would help if government could provide some basic information on the establishment of LHCs. We would therefore recommend that:

DCLG should monitor the growth of LHCs and seek to keep an open register or database on the homes they are providing

The growth of LHCs has attracted little attention in either Whitehall or Westminster. There has been little political discussion at the national level about the future of LHCs and what they might contribute going forward. We believe that there is an opportunity for government to support the scaling up of LHCs to be significant contributors of additional homes, particularly new affordable homes. As such we would recommend that:

DCLG and local government, perhaps through the LGA, establishes a high-level commission or task force to consider how best to maximise the potential of LHCs as alternative providers of affordable housing

Many councils have long harboured the chance to play a more pro-active role in housing and place-shaping. As documented, the tight constraints on the HRA system has made that extremely difficult for stock holding councils. Non-stock holding councils have meanwhile been largely side-lined by the government's strong support for private sector-led development.

Providing new homes "commercially" using council assets and public borrowing (with no capital grant) effectively frees the council from Whitehall control. It also gives councils a much-welcomed degree of flexibility to offer a mix of housing tenures, rather than just council housing. Councillors often spoke passionately about this, arguing that their LHC gives them some "skin in the game".

Most LHCs are providing a mix of tenures in the PRS, with 30-40% of new LHC homes at sub-market rent (depending on the scope for cross-subsidy). However, we found plenty of LHCs who aim to provide some private housing at social rents (especially where they have land available). In some LHC schemes the company's sub-market housing is funded through S106 agreements. The extent to which LHCs can support social housing is generally limited – albeit not inconsequential. Our research suggests that in five years the level of social rented homes could match the current build of council homes under the HRA.

In some places, the LHC is also seen as a viable alternative or complement to delivery by the private sector and housing associations. In others, the LHCs purpose is primarily to kick-start development or to change the tenure mix on existing estates. Several LHCs are also providing specialist housing for older people and students, as well as temporary accommodation. Some also offer self-build and eco-homes. Councils claim that LHCs are not just filling gaps in the local housing market and making budget savings, but also driving up standards in the PRS. In some instances, such as Newham in East London, the LHC aims to be the major market provider of PRS homes.

In terms of ethos and their social purposes many LHCs are arguably similar to housing associations, operating where they can a cross subsidy model for funding sub-market housing. However, unlike most housing associations, the LHCs, by virtue of being new housing providers, have higher concentrations of market housing for rent and sale. As mentioned, the proportion of housing at social rents for most LHCs is much lower.

Most LHCs generate income directly from their market housing, as well as through on-lending and from other sources, like the New Homes Bonus. However, there is little evidence to suggest that the LHCs are making hefty profits or that they are diverting large surpluses into the council's General Fund, rather than re-investing them back into the LHC. However, as our survey showed the financial return is still a key motivation for establishing a LHC. There is a risk that government could intervene to change the way LHCs can generate surpluses. Equally government could seek to fund LHC directly via the HCA, although this may create regulatory problems. In the current financial climate, we recommend that:

Councils should be able to retain all their RTB receipts for investment by their LHC

For now, the focus for many councils with ambitions to build is shifting away from HRA-funded development and towards delivery by the LHC. In some cases, this has been aided by the completion or near completion of repair and refurbishment of existing stock under the Decent Homes programme. However, the situation has become more complicated since the Grenfell tragedy. The government's forthcoming housing green paper, for example, is expected to place the policy spotlight back on the safety and quality of social housing. Whilst ministers are keen to "shift the whole conversation about social housing and challenge outdated, unfair attitudes",[84] Whitehall's focus is not (for now at least) on funding more social rented (council) housing or on the potential contribution of LHCs.

There has been no clear statement from government offering unequivocal support for LHCs. This may in part be down to the frustration shown by ministers over coverage of the RTB. Although the legal opinion suggests that LHCs are outside of the scope of RTB (and proposals concerning higher value sales), the government continues to imply that this may not be the case. This carries a risk premium for LHCs, although few expect to see radical changes to the RTB in the short term. However, the government could help LHCs by removing the policy uncertainties surrounding the scheme and other proposed reforms. We would therefore recommend that:

The government should give unambiguous support to LHCs and remove the caveat that "we want to see" LHCs offering tenants the RTB. It appears that LHCs are not subject to the RTB or Right to Acquire (or to higher value sales), but the prospect that they might be is confusing and undermines investor confidence

The principal drivers – more control, more influence and financial benefit – probably explain why LHCs have emerged across all tiers of local government and in both rural and urban areas, although there are far fewer in the North of England.

Our research suggests that there may now be as many as 150 LHCs in England, equivalent to 42% of all English councils. This figure which could easily rise to 200 by 2020. The majority are relatively new and building on a small, incremental scale. However, some of the larger LHCs have ambitious build programmes (especially in London).

LHCs are independent companies and must adhere to their commercial purpose. However, the majority are wholly council owned, council funded and report to the council. This does raise questions over possible conflicts of interest, including in the way LHCs interface with the local planning process. However, there is no suggestion that councillors are unfairly "favouring LHCs" or not holding them to account.

Whilst council officers sometimes complain that councillors tend to expect too much from the LHC or don't fully understand its commercial purpose and elected members sometimes claim that officers are too cautions, overall, councils seem to have made considerable effort to get the housing company's legal structures and governance arrangements "fit for purpose". We could find little evidence that councils have been careless about setting up their LHC.

Most LHCs though are still on a learning curve and many are just starting out. As the 'top tips' list below shows, much of the advice is fairly straight forward and business-like. Several councils said that they could benefit from more help and guidance, perhaps in the form of a one-stop shop or centre of expertise and best practice. This was considered particularly relevant to the smaller councils.

Top tips for Local Housing Companies
The following top tips derive from the interviews and roundtable discussions with councils and LHC staff

- Don't reinvent the wheel – talk to others about their experience
- Listen to Members and share the strategic 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
- Don't get distracted by RTB and talk of more housing reforms
- Be thorough and diligent, especially on market appraisals
- Get good external legal and financial advice
- Think and plan long term

There has been some effort in the East Midlands to share best practice and promises by the GLA to help London boroughs access the resources they need to build new council housing, but more could be done. A scaling up of LHCs could be compromised by a lack of capacity and capability. We would therefore recommend that:

Local government, perhaps through the LGA, should offer a centre of excellence or learning hub on LHCs

Some concerns were raised about the staffing of LHCs, especially for non-stock holding councils. However, although a few of the London LHCs said they struggled to attract qualified staff, most councils claimed their housing company is comfortable hiring in the expertise they might need. Nevertheless, there was a feeling that councils were all too often "reinventing the wheel" and that there is a need to share best practice and learn from each other. This was considered especially important for those LHCs who are looking to grow rapidly.

Most LHCs have councillors on their boards or have set up member-led advisory boards. Several also have investment panels and close working relationships with housing associations and private developers, especially those running joint-venture LHCs. A few LHCs also involve other 'support agencies', such as the HCA and the local LEPs. However, it was evident from the interviews we held that LHCs could do more to strengthen relationships with the other public and private agencies involved in housing and growth. As such we recommend that:

Both central government and local government could do more to raise awareness of LHCs, particularly among other agencies which can support housing growth (e.g. LEPs, HCA, NHS Estates, National Infrastructure Commission)

With a few notable exceptions, there appears to be little public antipathy towards LHCs. Although public awareness of LHCs is fairly low, most of the local media coverage has been generally positive. Where there has been protest and criticism it is usually centred around proposed schemes, rather than the LHC itself (although there has been criticism of some joint-venture LHCs in London).

However, not everyone agrees that LHCs are the right route for councils to provide "genuinely" affordable homes. In some places, such as London where land for development is scarce, it was commented that there is a risk of displacement and unnecessary competition with housing associations. How far this is happening is hard to tell. The view from the councils we spoke to was that the private sector and housing associations are not doing enough and that any new homes provided by the LHC are a welcome addition.

Sifting the reality from the hype in the early days of LHCs is difficult given that some have development plans that probably won't be realised. As one council officer remarked, "over-selling is a serious issue." Our review suggests that most councils want their LHC to be a delivery vehicle for the long term, not a talking shop, and are keen to demonstrate that they can develop sites and meet local housing needs. While some of the LHC plans could be judged to be over ambitious, the general impression is that, if anything, councils tend to err on the cautious side. As one advisor commented, "it's only sensible that LHCs are cautious about volumes in the early stages."

Actively intervening in the local housing market, levelling up the playing field with other providers, avoiding Whitehall regulations, generating much needed revenue, saving on temporary accommodation. All these reasons, and more, stand behind the sudden growth in LHCs. However, in the next stage of development many of the newly formed LHCs will want to show they can deliver on their business plans.

So far, the start rate for new build for the average LHC has been fairly modest (our on-line survey suggests on average LHCs are planning around 50 homes a year). This is understandable in the start-up phase and partly reflects the growth of LHCs among smaller councils. However, if the LHC business plans are enacted we could see a gradual scaling up of delivery. Our best guesstimate is a gradual increase from around 2,000 LHC homes completed each year to maybe 10,000-15,000 a year by 2022, with around half in London and the South East.

This level of completions is not a game changer given the government's aim to see total supply rising to over 200,000 new homes a year, but it does represent an important contribution to building more housing. It also signals a significant step change in the housing role that councils can play, notably in the PRS and the growing demand for affordable homes from "generation rent". How many new LHC-homes for rent will be affordable at 80% (or less) of market rents will though continue to vary from place to place. Overall, we estimate it could be around 30%-40% of the total (with a minority at the equivalent of social rented levels).

Building new affordable homes is, of course, not risk-free. Councils say they are fully attuned to the market risks and that LHCs are more resilient than private developers because they can more easily cross-subsidise and, if needs be, simply reduce any profits or flip tenures. This may be true, but LHCs will undoubtedly face difficult challenges in some areas if the housing market slumps.

The extent to which councils and their LHCs can realise their plans will largely be determined by the state of the local housing market and the wider economy. Nevertheless, central government has a critical role and there are actions that it could take that would help LHCs. These could include not only action on the RTB, but major CPO reforms (enabling acquisition at closer to existing use value) and changes to the regulations governing the transfer of HRA properties. Although such changes probably won't "super-charge" all LHCs they could make a difference in some areas. We would recommend that:

The government should revise upwards the regulations which restrict the number of HRA-properties that a council can transfer to its LHC

The government should move ahead with its promised CPO reforms and examine the potential benefits to LHCs

Action should not be confined to the national level, especially given the fact they LHCs are very much "bottom up" initiatives and have cross-party support. In this regard there is the possibility of more LHCs operating across local authority boundaries (including in the combined authorities) and that existing joint ventures with councils on housing and regeneration could perhaps be converted into LHCs. We think there is more scope for expanding LHC and therefore recommend:

Combined authorities and the GLA should explore ways of supporting and incentivising LHCs (and multi-authority LHCs) within their areas

A government U-turn on HRA borrowing limits, relaxation of the social housing regulations and the return to previous (pre-2010) levels of capital grant for social rented housing would certainly be welcome by many councils, especially those with borrowing headroom. However, this may slow down the momentum for local authority direct investment in LHCs.

One of the core messages that emerged from the research was that housing development is a long-term business, and that it takes time to progress a LHC from concept to implementation. "Evolution not revolution" was the watchword of most councils, although some of the larger LHCs have very ambitious building programmes. Both officers and Members we spoke to had an appetite to innovate, but they also wanted to ensure that their LHCs were financially viable and business like. Few countenance failure and having to sell-off their LHC, which they can do if needs be.

Our research suggests that councils from across England are embracing the opportunity to provide more housing and different housing tenures. It is still early days, but from the evidence we have gathered it seems that some LHCs also have the potential to deliver affordable housing for rent and sale at scale. As we have suggested, there are actions that both central and local government can take that would help LHCs. However, for the vast majority the key to success in the short term is to be allowed to grow as trading companies outside of the social housing regulatory regime. As this report shows, it is this independence and freedom, blended with commercial discipline and a commitment to community benefit, that makes local housing companies a different, and increasingly important, type of housing provider.

Recommendations to support LHCs

- DCLG and local government, perhaps through the LGA, should consider establishing a high-level commission or task force to consider how best to maximise the potential of LHCs as alternative providers of affordable housing

- The government should give unambiguous support to LHCs and remove the caveat that "we want to see" LHCs offering tenants the RTB. It appears that LHCs are not subject to the RTB or Right to Acquire, but the prospect that they might be is confusing and undermines investor confidence in LHCs

- Councils should be able to retain all their RTB receipts and be able to choose whether to invest them via their LHC or HRA as they wish.

- The government should revise upwards the regulations which restrict the number of HRA-properties that a council can transfer to its LHC

- The government should move ahead with its promised CPO reforms and examine the potential benefits to LHCs

- Local government, perhaps through the LGA, should offer a centre of excellence or learning hub on LHCs

- Both central government and local government could do more to raise awareness of LHCs, particularly among other agencies which can support housing growth (e.g. LEPs, HCA, NHS Estates, National Infrastructure Commission)

- DCLG should monitor the growth of LHCs and seek to keep an open register or database on the homes they are providing

- Combined authorities and the GLA should consider the case for supporting wholly owned or joint venture LHCs as well as multi-authority LHCs

Notes

Notes

1 LGA *Housing White Paper Briefing* (February 2017)
2 According to the Institute for Fiscal Studies between 2009–10 and 2014–15 local government net spending per person on housing was cut by more than 30%, while net spending on planning and development services was cut by more than half - IFS *Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenues in England, 2009-10 to 2014-15* (2015)
3 Through Help to Buy, Starter Homes, Build to Rent etc
4 DCLG, Live Table 104: Dwelling stock: by tenure, England (historical series)
5 DCLG Live Table 209
6 Bowie, B "The Dilemmas of Metropolitan City Growth in the London Region - paper presented at The European Network for Housing Research conference, Tirana, Albania 04 to 07 September 2017" (WestminsterResearch, 2017)
7 According to the Association of Retained Council Housing (ARCH) lifting the borrowing cap could release an additional £7bn, enough to fund 60,000 council homes
8 CIH "Nearly 250,000 of the cheapest rented homes will be lost between 2012 and 2020", 18th January 2017
9 Social housing rents were reduced by 1% a year for four years from 2015/16
10 A successful example is the Gateshead Regeneration Partnership, which was established in 2012 as LABV between the Council, Home Group and Galliford Try.
11 *Room 151* estimates that councils spent around £1bn on commercial property in 2016 – Marrs, C "Local authority property deals to hit £1bn in 2016", 27th October 2016
12 Compared with housing associations, councils had limited powers to provide a mix of tenures or borrow to build affordable homes
13 HRA is the statutory accounting system for council housing. It is a ring-fenced self-financing account. HRA funding of new homes must be on HRA land.
14 The CIPFA/CIH report *Self-financing of council housing* states that HRA-based investment is viable because rents are pooled in the HRA and, costs can be shared across the whole stock. The report also notes that council debt levels per unit are almost one-third lower than those of housing associations and their borrowing costs are low.
15 During the period of HRA reform (2009-12) ministers spoke of self-financing delivering between 5,000 to18,000 new homes a year
16 Such as in the West Midlands where Birmingham's HRA-based Municipal Housing Trust have built nearly 2,000 homes on council land since 2009
17 Some 37 ALMOs manage around 500,000 properties
18 In July 2015 the government announced a reduction in the rents housing associations and local authorities could charge of 1% per year. This has reduced the ability of housing associations to finance the construction of new housing
19 *Housing Magazine* "ALMOs standing the test of time", May 2016
20 See *24 Housing*, "ALMOs have 'aspirations' to build new homes", April 2017
21 CIH/CIPFA, *Investing in council housing* (2016)
22 Ibid
23 Prudential borrowing is permitted against the General Funds but not against the HRA.
24 *The Lyons Housing Review: Mobilising across the nation to build the homes our children need*, carried out by Sir Michael Lyons for the Labour Party's Policy Review, 2016
25 House of Lords, 'Building more Homes', July 2016
26 Morphet, J et al, *Local authority direct provision of housing – Interim report* (RTPI, 2017)
27 See Evans, C "Could hedge funds solve the housing crisis", *New Statesman*, 31 March 2017
28 See the work of the Local Authority Pension Fund Forum
29 NLGN *Securing a resilient Future: Capital spending for social value* (2016)
30 The Decent Homes programme (from 2010) is aims to bring all council and housing association homes up to minimum standards.
31 Conway, J *Housing Policy* (Psychology Press, 2000)
32 The Newcastle and Sheffield pilots continued to be developed
33 See Hunter, P *Halfway house: the opportunities and limits of devo-housing in England* (The Smith Institute, 2017)
34 See GLA website 'Mayor strikes deal for 50,000 new affordable homes', July 2017. The deal involves 44 housing providers – including large and small housing associations, as well as nine London councils
35 The past decade has seen the emergence of private sector led bodies, notably the 38 LEPs which replaced the former Regional Development Agencies. Most of the LEPs' Strategic Economic Plans include targets for private housing provision linked to infrastructure and employment growth
36 Barnes, S "More than a third of councils set up housing companies", *Inside Housing*, 9 December 2016
37 Ibid
38 TCPA/APSE *Building homes, creating communities* (2017)

39 Rural exception sites are small sites that can be used for affordable housing, mostly in perpetuity (although the NPPF does allow councils to offer a mix of tenures
40 A survey of 112 councils by 3Fox International in 2015 reported that the overwhelming majority selected long term housing solutions as the reason for establishing a LHC, followed by generating revenue.
41 There are also restrictions on the number and type of homes a council can provide through the General Fund
42 Baigent, M *How To Set Up A Local Housing Company: A practical guide* (2016)
43 The New Homes Bonus was introduced in 2011. It offers councils grants to match the extra council tax raised by new build homes, including affordable homes. Nearly £5bn was allocated on 2016/17
44 The Bournemouth Development Company (a partnership with Morgan Sindall Investments) is an example.
45 Reading's LHC plans to buy about 500 properties to rent over five years specifically for those needing temporary accommodation. The Council lend funds to the company in order for the company to purchase flats and houses. The housing company lets these and the rental income covers both the company costs and the cost of borrowing
46 See LGA website 'Mansfield District Council: A flexible approach to social housing investment', 5 December 2016
47 As a group company, Concilium Group does not directly carry out any trading activity but rather acts as a consolidation vehicle for operational and financial matters from its subsidiaries.
48 Gaell, J "Eyes on the East", *Municipal Journal*, 20 July 2016
49 The LHC can offer social rents under the Local Government Act (2000) as long as this is not the sole purpose of the company
50 The restrictions on use of retained RTB receipts prevent the Council transferring receipts into a LHC in which the council holds a controlling interest (i.e. more than 50% shareholding)
51 According to the LGA, councils lost 36,786 homes through the Right to Buy in the last three years 2013-16. In 2015/16, 12,246 council homes were sold to tenants under the Right to Buy but just 2,055 replacements were started by councils
52 Retained RTB receipts can be used to fund up to 30% of replacement affordable rented homes, with the balance derived from council borrowing or private investment. The retained receipts have to be spent within three years
53 In November 2016 the government announced that the national roll-out of the Right to Buy for housing association tenants would not take place until after April 2018 at the earliest. The sell-off of higher value vacant council homes to fund the extension of the RTB was also delayed
54 Assured shorthold tenancies can't be offered by the council directly. Secured tenancies can only be created within the HRA.
55 Speech to TCPA/APSE seminar, May 2017
56 Birminghamupdates "Birmingham City Council apartments will soon be In-reach", 10 March 2017
57 Stoke City Council, Cabinet Agenda - Public Document Pack, 26 April 2016
58 Only five properties a year can be transferred to a wholly owned subsidiary company under the 1985 Housing Act, and associated general consents need the Secretary of State's approval
59 ARCH 'Sale of high-value stock to local housing companies/housing associations', April 2016
60 LocalGov, 'Council to sell homes on the open market', June 2017
61 Thurrock Council website 'Gloriana gets off the ground', March 2016
62 See 3Fox International *Local housing innovations* (2017)
63 Investing 4 Brent *Business Plan* (2016)
64 The Rent Standard requires that "registered providers shall charge rents in accordance with the Government's direction to the regulator" – see HCA *Rent Standard Guidance* (2015)
65 Some advisers recommend this route, arguing that it is better suited to joint ventures and is more arms-length (and 'off-balance sheet')
66 Public Accounts Committee *The financial sustainability of local authorities* (2016)
67 Several interviewees stressed that there is a robust creative tension inside councils with s151 officers (usually finance directors) taking a properly cautious view and that "there is inherently less risk investing in property and bricks and mortar"
68 See CIH report *Working together to meet housing need: local authority and housing association partnerships in a changing environment* (2017)
69 We were told that several councils were returning their RTB receipts to the Treasury because they could not meet the 30-70 ratio of match funding
70 The Council's wholly owned property investment company, Badger BC Investments, currently contributes around 4% of the Council's net budget requirement
71 State aid legislation dictates that loans for homes for market rental/ must be provided on commercial terms, including a charging interest on the loan
72 Fisher, I "Funding local authority housing companies" *Local Government Lawyer*, 20 July 2017
73 Shelter *New Civic Building: Policy Briefing* (2017)
74 Brown, C "CPO plan could deliver 420,000 new homes" *Inside Housing*, 17 February 2016
75 According to the JRF funded Oxford Brookes University report *Rethinking planning obligations: balancing housing numbers and affordability: The update* (March 2017), "Since 2013/14 S106 completions have remained volatile, ranging between 30% and 47% of all affordable homes".

76 See for example research by the TCPA on the way in which the narrowly defined 'Viability Test' in the National Planning Policy Framework has reduced the amount of affordable homes being delivered through S106 agreements, and the report by JLL *CIL hits affordable housing delivery* (2015)
77 TCPA/APSE survey of 126 councils in February 2017 found that 65% of respondents said S106 was the dominant model of delivering social and affordable housing in their area.
78 Baigent, op cit
79 Plender, J "UK public finance: councils build a credit bubble" in *Financial Times*, 25 May 2017
80 See cabinet report "Housing Development company- finance and land for Three Score phase 2", Norwich City Council, 7 October 2015
81 See Construction Leadership Council's *The Farmer Review of the UK Construction Labour Model* (2016)
82 Comment made by James Prestwich, Senior Policy Advisor, Affordable Housing Division, Department for Communities and Local Government CLG official at APSE seminar in July 2016
83 Kober, C "Article from Council Leader Cllr Claire Kober on the Haringey Development Vehicle" 19 January 2017
84 See Speech by DCLG secretary of state, Sajid Javid MP, to National Housing Federation conference, September 2017

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If you would like to know more about the Smith Institute please write to:

The Smith Institute
Somerset House
Strand
London
WC2R 1LA

Telephone +44 (0)20 3141 7536
Email info@smith-institute.org.uk
Website www.smith-institute.org.uk
Twitter @smith_institute

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