

EAST HERTS COUNCIL

CORPORATE BUSINESS SCRUTINY – 30 AUGUST 2016

REPORT BY THE HEAD OF HOUSING AND HEALTH

PROPOSAL TO ASSESS FEASIBILITY OF A HOUSING COMPANY

WARD(S) AFFECTED: ALL

Purpose/Summary of Report

- This report outlines the proposed approach to assessing the financial viability of setting up a housing company, wholly-owned by East Herts Council.
- It is proposed to first assess the case for establishing a housing investment company to acquire properties and rent them out at market rents, thus generating a revenue income for the Council.
- The report notes that should a housing investment company be established, it is proposed that the feasibility of a council-owned housing development company to build homes in all tenures is then explored.
- The policy aims for the establishment of a housing investment and development company and its proposed operating model, as detailed in paragraphs 2.2 – 2.4 and 2.10.

RECOMMENDATIONS FOR CORPORATE BUSINESS SCRUTINY:

That:

(A)	the preparation of a full business case be endorsed, and
(B)	the establishment of a housing development company, as detailed in paragraph 2.10, be considered.

1.0 Background

1.1 East Herts Council's Corporate Strategic Plan 2016/17 – 2019/20 includes conducting feasibility work on the establishment of a housing company.

1.2 Housing companies are typically set up by authorities to create a revenue income stream and/or address specific housing requirements.

- 1.3 There are a number of models although the main approaches are:
- housing *investment* companies which buy existing properties and then rent them at market rents – examples include companies set up by Broxbourne Borough Council and South Cambridgeshire District Council, and
 - housing *development* companies set up to build both market and affordable housing – examples include work by Thurrock Council, Daventry District Council and the London Borough of Havering.
- 1.4 It is proposed that in East Herts a stepwise approach is adopted whereby setting up a housing investment company is assessed first before then considering a housing development company.

2.0 Report

First phase – assessing the case for a housing investment company

- 2.1 It is proposed to first consider establishing a company, wholly-owned by East Herts Council, to acquire homes to then rent out in the private rented market.
- 2.2 The company would:
- purchase existing homes in the open market, and/or
 - buy properties off-plan, and/or
 - receive properties currently held by East Herts Council.
- 2.3 This would essentially be an investment vehicle, herein termed Invest Co. The aims of Invest Co would be:
- primary aim – create revenue income for the Council
 - secondary aim – provide good quality private rented housing in East Herts and potentially outside of East Herts.
- 2.4 The Council would be able to generate a financial return in the following ways – see Essential Reference Paper B for more details:
- lending money to the company at a higher interest rate than it either costs the Council to borrow or the Council is receiving on cash held on deposit
 - recharging the company for the cost of Council officer time spent on the company

- receive annual dividends from the company deriving from profits net of tax made by the company from rental income and uplifts in the value of any assets sold by the company.

Initial financial modelling

2.5 A new private sector company would typically be able to access 65% of its funding requirements via borrowing, with 35% of resources needing to be in the form of 35%. Initial in-house modelling has used this ratio and suggests that acquiring a portfolio of 25 properties over a five year period would require:

- equity investment by the Council of £2.5m
- lending to the Company by the Council of £4.75m on a 30 year term.

2.6 Currently modelling of income to the Council indicates:

- an average of c£98k a year in the first ten years of the 30 year business plan
- c£188k a year in years 11-20
- c£293k a year in years 21-30.

2.7 See Essential Reference Paper B for more details

Provisional timetable for establishing a housing investment company

2.8 It is proposed that as part of the decision-making process, Corporate Business Scrutiny would receive a report including the full business case for the company prior to presentation to Exec and Council. This is recognised in the key milestones below:

Key action		Date
Detailed viability and sensitivity modelling		Sept – Nov 2016
Identification of recommended company governance structure		Oct – Nov 2016
Consideration of full business case by: <i>(all dates to be confirmed)</i>	Corporate Business Scrutiny	29 Nov 2016
	Exec	6 Dec 2016
	Council	14 Dec 2016
Articles of Association and Shareholder Agreement signed off		Jan 2017

Key action	Date
Invest Co and holding company (to hold the interest in all East Herts' companies) incorporated	Feb 2016
Invest Co starts trading	March 2017

Second phase – assessing the case for a housing development company

2.9 Establishing a company to build homes is a more complex proposition. It is proposed that once the viability of Invest Co is established, work could commence on assessing the viability of a housing development company wholly-owned by East Herts Council, herein termed Dev Co.

2.10 Dev Co would:

- build homes – primarily for market rent and sale
- build affordable homes – in line with East Herts' planning policies and requirements
- create revenue income for the Council in much the same way as would Invest Co
- build and sell properties to generate a profit to cross-subsidise the provision of affordable housing just as private developers do.

A comparison of a housing investment company and a housing development company

2.11 The key differences between a housing investment company and a housing development company are as follows:

	Housing Invest Company	Housing Development Company
Who owns the company?	100% ownership by East Herts Council (via an East Herts holding company)	100% ownership by East Herts Council (via an East Herts holding company)
How are homes acquired?	Purchase of existing homes, similar to a 'buy-to-let' landlord	Builds homes (through contractors)
What tenures are provided?	Private rent	Private rent and sale, affordable rent, low cost home ownership
Who owns the rented homes?	Invest Co	Dev Co or Invest Co – <i>whichever is more tax efficient</i>

	Housing Invest Company	Housing Development Company
Who manages the rented homes?	A local letting agent under contract	Private rented homes by a local letting agent under contract Affordable homes by a local housing association under contract

3.0 Implications/Consultations

3.1 Information on corporate issues and consultation associated with this report can be found within Essential Reference Paper 'A'.

3.2 Based on experience from other authorities which have established housing companies, it is anticipated that the Council would benefit from external support on:

- business planning and financial modelling
- legal matters – advice on (a) powers and duties being used, (b) company structures and (c) the Company's articles of association and the shareholder agreement
- taxation to ensure the most tax efficient structure is pursued.

3.3 A budget requirement of £60,000 is anticipated at this stage. Funds are available to cover this expenditure.

3.4 An officer project group consisting of a Director, Housing and Health, Finance, Legal and Property has been formed to oversee the feasibility work.

Background Papers

None

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