



COUNCILS SETTING UP HOUSING COMPANIES – A SURVEY

BY HUUB NIEUWSTADT
RESEARCH MANAGER, 3FOX INTERNATIONAL

Introduction

With central government funding reducing, local authorities are looking for new and innovative ways to generate an income to fund council services and improve the volume and quality of housing provision in their borough. One method that is currently on the agenda for public debate is setting up a council-owned private housing company. This practice has recently been the subject of some controversy, as housing minister Brendon Lewis stated these companies cannot interfere with right to buy rules – exactly one of the reasons some councils have set up a company in the first place.

While this topic is very much at the centre of public debate, 3Fox International is keen to find out the extent of interest amongst the local authorities to set up a housing company. To do this, a survey was conducted amongst local authorities to pole their opinions on the topic.

The next paragraph will discuss the survey itself and how it was structured. Paragraph three will then proceed to present and analyse the results.

The fourth paragraph will put the outcomes in the context of a masterclass workshop organised by 3Fox International on 17 June about this topic.

The report ends with a few concluding remarks.

The survey and its methodology

The survey was conducted in mid-April 2015. 311 single tier and lower tier authorities were approached, out of a total of 326 authorities. County councils were not contacted for this. The handful of councils that were excluded was not contacted as we were not able to obtain suitable contact details. A way to contact these councils would have been through a Freedom Of Information (FOI) request, but for reasons described below, we opted to not go down this road.

The councils that were contacted were initially approached through a generic information or enquiries email, for example: enquiries@councilname.gov.uk. The email included four questions:

1. Has your local authority set up a housing company to deliver new homes?
2. If not, is it contemplating setting one up?
3. If the answer to (1) or (2) is yes, what is the priority objective of the company? (delete as appropriate):
 - a. generating revenue
 - b. providing long term housing solutions
 - c. providing short term emergency housing
 - d. other (please specify)
4. If the answer to (1) or (2) is yes, has your council contracted the services of any private sector organisations to help set up the company? If so who, and for what services?

The reason for avoiding FOI requests is that we wanted undertake a secondary research objective: assessing the method and speed at which local authorities respond to general enquiries like this. This subject will not be discussed in this report as it is not relevant to the topic at hand: housing companies, but outcomes for this can be found in a future blog post on the 3Fox International website.

Councils that did not respond to the initial email were sent reminder emails on several occasions. As well as using generic email addresses, we also sent the survey to a senior officer at the council (head of housing, director of housing or similar people). We sent the survey to senior officers at 207 councils, to cross reference responses obtained through contacting the generic email addresses, as well as increasing the pool of participants so as to increase the probability of receiving a response from a council.

Senior officers were reminded on a number of occasions to respond if they had not done so. If a response came in through the generic information email, we would ask the senior officer to confirm that information and provide a few more details.

In total, we have received responses from 112 councils, out of a total of 311 requests; a response rate of over a third. As mentioned earlier there are 326 authorities. If we are to assume that the 112 responses are representative of all 326 authorities we would have to take into account a 7.5% margin of error. That particular margin assumes a 95% confidence level in its accuracy. In other words, we assume 95% of participants' responses fall within the margin of error.

Outcomes

This section presents and disseminates the outcomes of the survey. These will be presented question by question: the outcomes and some accompanying thoughts.

Question 1:

Has your local authority set up a housing company?

Of the four questions, this is seemingly the most straightforward – either a company has been set up or it has not. However, there is a bit of leeway in terms of how a company is structured and defined, as for example an ALMO (arm’s length management organisation) would not qualify as a housing company because of the non-profit component. For the purposes of the survey, a company is qualified as a wholly or partially council owned for-profit company.

That being said, out of the 112 councils approached – 14 said that they had set up a housing company. In other words: 12.5% of local authorities have set up a company. One response stated that a company had been set up, but subsequently closed again. One of the 14 respondents stated a company had been set up, the purpose of which still needed to be determined but could possibly be housing. Interestingly, a council responded that it had set up a company in collaboration with another local authority and a local registered provider. A number of councils indicated they had considered the option, but after weighing up the pros and cons rejected the idea.

Question 2:

Is your local authority contemplating setting up a housing company?

This question is more open to interpretation: what does ‘to contemplate’ mean? There are different responses indicating different stages in the process that leads up to setting up a company. For the purposes of this research we have interpreted ‘to contemplate; in the broadest possible way. What we want to know is if a council has even entertained the possibility of setting up a company, as this indicates a (admittedly minor) level of engagement with the topic. It can be formulated as a negative argument: if a council does not outright reject the option of setting up a company it is at least contemplating the possibility.

That being said, 38 councils indicated that they had contemplated setting up a company – that is 34% of all local authorities or just over a third. Two of the respondents indicated they are currently in the process of setting up a company. Others had already contracted a consultant (law firm, accountant, etc) to assess and review the options. Some councils mentioned that there were just exploring their options through initial and internal conversations. One council had already set up a not-for-profit ALMO, but was looking to instead set up a for-profit company.

For this question, it is worth looking at the geographical distribution of councils. With the limited number of councils that have set up a company, the geographical spread is quite random. But since the number of councils that are contemplating setting up a company is larger, mapping these reveals a few trends. The red dots on the map below show the locations of local authorities that have indicated that they are contemplating setting up a housing company.



Map 1:
**Location of councils contemplating
a housing company**

The Map reveals some interesting trends. Perhaps unsurprisingly there is a large cluster in and around the M25, as well as along the south east coast. Next, there is a cluster of local authorities in the midlands, and another smaller one in the North of England. It is beyond the scope of this report to explore the reasons behind the geographical distribution, but it is nonetheless worth highlighting here.

Question 3:

What is the priority objective of the company?

The next question we asked participants is the objective of the (proposed) company, to get an idea of why local authorities set up housing companies. Participants were given three choices: generate revenue, provide long term housing solutions, or short term housing relief, as well as an 'other' category for those objectives that do not fall under the aforementioned three choices. Participants had the option of choosing multiple options.

Of the three categories, an overwhelming majority selected long term housing solutions: no less than 32 councils indicated this to be a priority objective of their (proposed) company. With the housing shortage being one of the main issues in the UK today, this should come as no surprise.

Generating revenue was said to be a key priority by 18 councils. Again, not surprising as councils are looking to other streams of income with government grants and funding reducing. The revenue from the housing company would be invested into council services.

Finally, short term solutions to provide immediate relief to a housing shortage is less of a priority for councils; only 8 respondents indicated this to be a key priority.

Only two local authorities provided an alternative priority not covered in the three choices, and interestingly both provided the exact same objective: boosting the local economy.

Question 4:

Are any private sector companies involved?

Setting up a housing company comes with specific challenges: what are the legal implications? How should the financial side be structured? How should the business side be run? These are just some of the issues, and to address these councils can contract the services of consultants to help. These private sector partners include law firms, accountants and property consultants.

Out of the local authorities that already set up a company, only two claimed not to have made use of an external adviser. Nine councils that are contemplating setting up a company have already contracted a consultant.

The firm that came up the most in this survey is law firm Trowers & Hamlins: five councils indicated making use or having made use of their services. Other firms whose services are frequently used are Savills, PWC and KPMG – who are mentioned by three councils. Other firms that are mentioned include: GVA, Sharpe Pritchard, Capita, Mazars, PWC, KPMG, EC Harris, Grant Thornton, Bevan Brittan and Eversheds.

Developing councils: a SocInvest Masterclass

On 17 June, 3Fox International organised a masterclass on the topic of councils setting up housing companies. At the masterclass, senior officers from three local authorities that had set up a housing company presented a case study of their council's company. These officers were: David Baptiste, head of housing development at Ealing, John East, director of place commissioning at Newham and Andrew Sivess, group manager for housing and investment at Barking and Dagenham. All three councils have a housing company up and running, the specifics of which will be discussed in more detail further below.

The other speakers at the workshop were Robert Beiley, partner at law firm Trowers & Hamlins, Michael Hill, new business director at housebuilder Countryside, and Stephen Armitage, head of public sector at property consultancy Lambert Smith Hampton. Armitage made the point that setting up the Company does not in itself tackle the housing problem or generate revenue and therefore a workshop session focussed a delegate discussion to identify the main challenges local authorities face when operating a housing company in their area.

How do the outcomes of this survey fit in with the lessons delegates learned at the workshop? The survey question that ties in the closest with the workshop is the one about the priority objectives of the council and how this shaped the companies at Barking and Dagenham, Ealing and Newham. The outcomes of the survey indicate that providing long term housing solutions and generating revenue are the most important factors driving the creation of a council-owned housing company. And this indeed turned out to be the case.

However the delegate workshop highlighted that a common challenge is the decision making time horizon of local administrations. New and better housing needs long term investment but administration decision making is primarily driven by issues that arise in a four year window.

For the London Borough of Ealing providing long term housing solutions, specifically affordable homes was one of the key objectives of the company. David Baptiste explained: 'What we really are about is 'affordable' housing in its widest sense – not just the vague definitions of that, but dealing with the real business of what people can afford in this area. We're working hard

to craft opportunities for homebuyers that are genuine, taking incomes into account and linking that into Ealing as a place to live. This is probably going to hone in on a form of rented property which we are pushing ahead with through the company.'

As the survey indicated, generating revenue is an important aspect, as is evident in Red Door Ventures, the housing company owned by Newham Council. John East explained easing pressure on the housing market and generating revenue are both key objectives for the company:

"We have the top five overcrowded wards in England and I think we are officially the densest borough in the UK. That probably explains some of the extreme pressures."

East said the authority's experience of acting as developer to address some of these issues led to the thought process behind the housing company as long ago as 2011. He went on to set out the objectives for Red Door Venture, saying: "The intentions of the company are 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. What we want is that once we start generating profit, that money can be piled back into the borough."

A repeated issue in the workshop is the tensions that occur when the Housing Company is 100% owned by the authority and controlled by Officers. The Housing Company should be taking a commercial view and maybe pushing the boundaries of some Council policies and tensions can occur particularly in dealing Planning Applications. The thorny issue of the Company appealing their own authority was raised on several occasions.

In the case of these two boroughs, we see the outcomes of the survey reflected in companies that have been set up.

The general view in the workshop was that availability of finance is not a major challenge but of more concern is meeting the scale requirements to attract the most competitive funding rates. Understandably Housing Companies are cautious at the outset embarking on a limed development programme and therefore finance requirements are limited, but the finance market prefers scale and repeat business. Possibly further collaboration across the separate Housing Companies could offer advantages.

Concluding remarks

Our survey emphasises that setting up a housing company is currently very much a hot topic for councils. A significant proportion of local authorities are considering doing so; are already in the process of doing so, or have already done so. But with Housing Minister Brandon Lewis indicating government plans to limit council-owned housing companies circumventing right to buy rules, the issue is looking to be on the public agenda. With the housing market coming under increasing pressure, providing long-term housing solutions is a key priority of many (planned) housing companies.

Generating streams of income is an important secondary objective and at times even the main priority for certain local authorities. This was reflected in the approach of the local authorities presenting case studies of their company at the SocInvest Masterclass.

The devolutionary trends in London and Manchester look set continue and this could lead to the accelerated release of public sector land with all sectors working more closely together co-ordinated through regional administration. The most recent public budget constraints are pointing this way and this could address another of the Housing Company issues being the availability of land.

With all the attention council-owned housing companies are receiving, and with a significant proportion of councils considering the possibility of setting one up, these companies are here to stay.