ECONOMIC DEVELOPMENT, ENVIRONMENT AND INFRASTRUCTURE SCRUTINY PANEL

A meeting of the Economic Development, Environment and Infrastructure Scrutiny Panel was held on 4 July 2018.

PRESENT:	Councillors Storey, (Chair), Arundale, Higgins, McGloin and Walkington
PRESENT AS OBSERVERS:	Councillor Walters
ALSO IN ATTENDANCE:	M Gadd, Head of Housing at Property Services, North Kesteven Council G Mansbridge, Head of Development Services, South Tyneside Council L Chiverton, Head of Operations, Brick By Brick, Croydon Council
OFFICERS:	C Bell, A Carr, S Fletcher, L Henman, R Horniman, D Johnson, S Lightwing

APOLOGIES FOR ABSENCE were submitted on behalf of Councillors Branson, Hubbard, Hussain, Lewis.

DECLARATIONS OF INTERESTS

There were no Declarations of Interest at this point in the meeting.

1 **MINUTES - ECONOMIC DEVELOPMENT, ENVIRONMENT AND INFRASTRUCTURE SCRUTINY PANEL - 13 JUNE 2018**

The minutes of the meeting of the Economic Development, Environment and Infrastructure Scrutiny Panel held on 13 June 2018 were taken as read and approved as a correct record.

2 **HOUSING DELIVERY VEHICLES (HDVS)**

The Chair welcomed Michael Gadd, Head of Housing and Property Services at North Kesteven District Council, George Mansbridge, Head of Development Services, South Tyneside Council, and Luke Chiverton, Head of Operations, Brick by Brick, Croydon to the meeting. The Panel heard presentations from each of the visitors as follows:

<u>North Kesteven District Council - Lafford Homes</u>

North Kesteven District Council was facing significant financial pressures and low amounts of new housing were being delivered. The Council created ExCITe, a transformation programme to mitigate the pressures and identify ways of improving income for the Council.

The Council had a Local Plan in place which proposed approximately 6000 new houses would be required over the next 5 years. Whilst some of those houses would be built via the Housing Revenue Account (HRA), gaps in delivery had been identified, mainly in private housing market sector delivery. Many single people wished to rent properties but the availability of suitable homes was low and few commercial companies offered this choice.

The Council set up Lafford Homes, a wholly owned company, with the aim of generating income through the receipt of market housing rent. The Council loaned Lafford Homes capital and also transferred land to the company at an affordable level. Interest was charged on the loan, which Lafford Homes paid back. Any profit that Lafford Homes made was also repaid to the Council as a dividend as well as all support costs.

It had taken eighteen months to establish Lafford Homes, including twelve months to have the Business Case approved and six months to have the company incorporated. The mission and vision for Lafford Homes was to be a profitable, sustainable and flexible housing company, which met the demands of local people. The Company would improve the quality and supply of housing and be a major provider of properties for private rent, as well as being an exemplar landlord. Where new sites were being built, a number of affordable houses were included but these were mainly for renting since the Council also had an HRA.

Lafford Homes was a private limited company which was 100% owned by North Kesteven District Council. There were three directors, two were Council Officers and one was a Non-Executive employee, employed by Lafford Homes. The Housing Property Department acted as Agent and carried out all the work on behalf of the Company. In addition, a lettings agency was employed to let the properties on the Council's behalf.

A governance review had been set up with an annual timetable of when things should happen and an Annual General Meeting was held. Since its incorporation in August 2016, 33 new properties had been built, including 6 affordable homes, and 15 properties had been purchased on the open market. The forthcoming AGM would consider a new Business Plan and a Strategic Options Appraisal for the future. In the short term, Lafford Homes would continue to buy properties on the open market, look at options for stalled sites and buy land. Longer term, the Company was looking to supply more new build homes and affordable housing. Consideration would also be given to a possible joint venture and new build market sales as the Company developed year on year.

North Kesteven District Council put £2 million in initially as equity from its Capital Programme to establish Lafford Homes. Lafford Homes had borrowed £6 million from the Council to date and approvals were in place to borrow another £14 million over the next 3 to 4 years. The interest rate on the Company loans was 4.5% above the interest rate the Council paid on its loans from the Public Works Loans Board (PWLB). The Company anticipated making a small profit in the second year (2018/2019). By 2022/2023 it was calculated that the return to the Council would be £500,000 per annum, with the intention of having 180 properties by 2023.

It was highlighted that one of the biggest lessons learnt to date was to control costs. When dealing with a small amount of properties and money, the slightest change in building costs could impact very quickly on the profitability of a scheme. The Council had anticipated letting its first 33 properties immediately, however the reality was that it took 10 months before they were all let, which affected the predicted cash flow. The private rented market was quite buoyant and people usually wanted a property within two to four weeks. In future, the Council was looking at developing in phases on larger sites rather than waiting until the whole site was complete.

As a result, there had been some further investment to publicise Lafford Homes so that it was more readily recognised in the market. This approach had proved successful and people were now starting to contact the Company independently when seeking property.

It was also noted that Kesteven had a lot of rural areas and bordered with Lincoln. Renting levels were a lot higher in the city, which was only 20 miles away, and therefore profit could change dramatically.

Although planning permission was in place to deliver almost all the homes required in North Kesteven's Local Plan, they were not being delivered by Developers because some sites were not profitable enough for them. One of the benefits of having a housing company was that where a site had stalled there was an opportunity for a joint venture with a Developer. The housing company did not require the same level of profit as a Developer and could look at sites flexibly. There were also opportunities to provide different types of housing architecturally which had already included passive and straw houses. Lafford Homes was also currently investigating the use of modular building. To date, Kesteven Council had received good publicity in relation to its direct intervention in meeting the housing need.

It was stressed that the Council retained ownership of the land and Developers were only employed for construction. Developers would make about 5% profit on construction only but around 20% if they were also selling the land.

With regard to receipts from Lafford Homes, the repayment on the loans and any dividends were paid into the Council's General Fund as revenue.

One of Lafford Home's stated aims was to be an exemplar landlord. Since the Council had its own housing stock the intention was to bring the same values to the private rented market.

Repairs to both private and council owned stock were carried out by the same company which provided a 24-hour emergency service. Properties were let with fully integrated kitchens where they could be purchased at a good price. It was hoped that Lafford Homes would become a trusted buyer on the private market and be able to pick and choose those properties that produced maximum rent. Two and three bedroomed semi-detached houses generally produced the best rent, whereas the rental return on larger four bedroomed homes did not justify the capital investment.

The main focus of Lafford Homes had to be on generating income for the Council and the secondary focus was to fill the gaps in the market. If the Company had been set up purely to provide housing this would replicate the HRA but avoid rent-to-buy.

South Tyneside Council

South Tyneside Council had initially identified challenges in relation to the supply of older persons' and specialist housing. Housing was key to achieving the Council's economic and social objectives and there was a strong political commitment to investment in housing. The Council had an up-to-date Local Plan with a long-term supply of deliverable housing land. The Council had an HRA but were at the operating limit and unable to build more houses.

Geographically, South Tyneside was quite distinct and self-contained with large areas of social housing, private rented and private owned. However, there were more people on the housing waiting list than there were houses available. Despite the credit crunch and recession, the private housing market had remained resilient and there was a certain amount of confidence in the housing market.

Through its intervention in the housing market the Council aimed to achieve:

- A rebalanced market with more executive housing in great locations.
- The stock of affordable homes better reflecting local housing needs and more resilient to Right-to-buy.
- A step change in the quality and diversity of the private rented sector.
- Older people with care needs being better supported in modern, connected and adaptable homes.
- Towns and villages being a great place to live and making a major contribution to long- term economic prosperity.

The Council had developed a robust process in relation to governance, risk, reward and taxation issues. There was an intensive process around evaluation of sites that were available and surplus to requirements and consideration of their worth in terms of capital returns, profitability, risk, marketing opportunities, build costs, and housing needs. A decision was then made as to the best outcome for individual sites.

South Tyneside currently had 5 housing companies to deliver its priorities:

- South Tyneside Homes was the Council's housing management company (ALMO) which managed 17,500 homes and provided a broad range of services including area management, anti-social behaviour and homelessness prevention. The Council provided the back office function. South Tyneside Homes' Property Services Division was well respected and very successful. The Company also provided management and project management to Housing Ventures and Centaurea Homes Limited.

- Housing Ventures was an independent registered provider of social housing. The Company was independent of the Council but a quarter of its Board membership was Elected Members. Housing Ventures had a funding agreement with the Council and its focus was on increasing the supply of affordable homes and bringing empty homes back into use, as well as providing high quality new build homes for older people.

Since its inception 4 years ago, 400 homes of exceptional quality had been built and plans were in place for the next 5 years.

- Centaurea Homes Limited (CHL) was a Council owned Company established to build homes for sale and potentially market rent. The Company was still at proof of concept stage with a test site in Jarrow. CHL worked in partnership with Ventures and South Tyneside Homes provided professional services. South Tyneside Council was sole shareholder and received net profits as a dividend. The focus of CHL was on quality of place as well as broader economic benefits.

- Joint Ventures (JV) were public/private sector partnerships that delivered mixed tenure communities. Some major regeneration projects had been delivered through JV arrangements in South Shields. JV could access private sector skills and development experience. In addition to borrowing money from the Council JV could borrow privately and opportunities to access some private equity were also being explored. The Council could share the risk but also the rewards, however the legal structures could be complex.

- New Co was a working name for a new company the Council was setting up as a response to issues in the private rented sector. New Co intended to provide homes for market rent but also improve standards across the private rented sector. Selective licensing was being introduced and private landlords invited to join the Council's accreditation scheme and meet the required standards.

It was emphasised that establishing a range of delivery vehicles to meet local needs required a corporate approach and a strong commercial mind-set was needed to engage in the private housing market. The impact could be significant but there had to be a balance of risk and reward against control and independence as well as strong governance.

Housing vehicles could also become a catalyst for corporate values, for example specialist housing for people with disabilities or the older persons' housing, areas where an unsustainable amount of money was spent on care. Indirectly, whilst the housing might not make a profit for the Council, it could be saving the Council money. The Council had built two large developments of 42 and 60 apartments and was also building some bungalows. The private sector were not keen to build bungalows as they generally cost more, used more land and did not return a high enough profit. On average, every bungalow advertised for rent in South Tyneside attracted approximately 300 applications.

Whilst South Tyneside Council had a good relationship with many Housing Associations, many were merging and becoming less responsive to local needs. Therefore, if they were not building a new care home that was needed for example, the Council could do it.

Governance was very important since Councils were naturally risk averse and sometimes quick decisions were needed. Joint Ventures was a private company with 2 local authority members on the Board of 9. The only real control the Council had was through the Funding Agreement. South Tyneside Council had also established a Housing Performance Scrutiny Panel, which monitored and held to account the housing delivery vehicles in operation.

Training and apprenticeships were very important and also helped in terms of community cohesion. One of the first schemes to be build was next to a primary school and pupils were engaged at a basic level about construction and safety on the building site. In another scheme, HV had developed an alliance with Galliford Try, a private company. A key part of that was around apprenticeships and new models of modular type construction.

Brick by Brick, Croydon

Brick by Brick (BBB) was a private and independent development company which built units primarily for sale. The London housing market was changing all the time due to Brexit. BBB was a commercial operation providing mixed tenure housing all for sale with Croydon Council as the sole shareholder.

Councils were significant landowners and it was critical to release the value of their land and lock-in value while delivering much needed housing. Croydon was a significant landowner with sites with potential. However, many sites that had development potential were not straightforward or easy to make viable and meeting housing targets meant looking at small sites as well as large. In London, the answer to the housing crisis was in-fill sites such as old derelict buildings and garages. Whilst such sites were a lot harder to deliver, they allowed for innovation. A single site might only deliver 9 or 10 units but several sites added up to a significant level of housing delivered. BBB had considered joint ventures but the value of the land was lost with transfer.

Balanced tenures contributed to healthy place making and it was vital to unlock the value of private units in order to subsidise affordable housing. Councils faced significant challenges to deliver schemes at pace due to procurement rules and the availability of development expertise. Delivering affordable housing was quite hard to do in London because building costs were high. BBB used some of the profit from private units to cross subsidise affordable house from private sales.

BBB was an investment vehicle to deliver housing and the Council funded it through providing equity, loans and land. Council services could benefit from any dividends as the sole shareholder, interest on any loans and the value of land when it was sold. The Council could decide whether to re-invest with BBB or offset its General Fund. The housing delivery vehicle provided the freedom to generate this financial return.

In respect of the land going into the investment vehicle this was about infrastructure, providing high quality housing and community assets, for example libraries or community centres. Several arrangements had been made where BBB had substituted land by moving a community asset and getting land that could be developed.

There were several benefits of this independent commercial model, the biggest one being the procurement freedoms. The Council could build the framework but the Company could move quickly and lock in commercial benefits. Where a particular need, or different expertise for design etc was needed, different contractors could be engaged. The Company could decide whether to procure the right skills and expertise locally or nationally. BBB was not an employer but could contract architects and development managers. It was also easier to sell private units as a private company.

The key risks were the level of control, State Aid and Council decision-making. BBB was an independent company but the Council could exert influence in less traditional ways such as Board representation and conditions built into land and funding agreements. Strong legal advice and robust structuring of all land and finance deals between the Council and the Company were vital.

BBB had to ensure that it did not breach into becoming a public funded body with the Council controlling the Company too much. At Croydon, decisions were made by the Cabinet but this was done in large tranches and delegated approval was given to officers. One of the accusations that housing vehicles such as BBB faced was that there was bias because the Council wanted it to succeed, so the decision-making had to be clear at the outset. Council Departments had to work effectively with BBB, although it was an independent organisation there was lots of crossover and having a good relationship made it easier.

Critical to the success of this model was ensuring that the structures and governance arrangements were fully compliant. It was important to decide what the company would do in-house and what services would be purchased - for example, architecture practice, key corporate services. An in-house team could also do external work. BBB bought in all the corporate services but on reflection might have been better managing some services, such as finance systems, itself.

This model would only work if there was a strong pipeline of development sites and the appetite to develop them. In Croydon, there were 450 sites across the Borough although some were too challenging. Buy-in from key Council Departments was also important and it was critical to have a partnership from the start, otherwise Officers might view the housing company as extra work.

Croydon was the second most populated Borough in the London, with the north of Borough being quite urban and the south more of a green belt. This was challenging in terms of the political differences between north and south and the types of houses. The north was much denser and it was harder to identify areas to build. As young families were price out of London, there was an appetite for people to move to the outer area. For years it had been an unfashionable part of London but was now more up and coming.

A total of 2,000 new homes were already in development, with 1200 in planning or with consent and the remaining 800 going through planning this year. There were 40 schemes in total and 45% were affordable housing. The aim was for 50% affordable housing. 15 schemes were coming out of the tendering phase and 15 were in development. The first scheme was due for completion in January 2019.

The challenge was celebrating what was good about the suburbs and making it a place where people wanted to live. Housing had to fit in the context and resident consultation was critical. Croydon's biggest challenge from the population point of view was migration and people moving to the outskirts of London. Initially, the priority was to provide for first time buyers and people who did not have housing. Now, schemes more specifically for older people and those with disabilities were being developed.

Agreement with the Council was critical. Before BBB could apply for a loan they had to demonstrate that they had a viable investment and prove it would make a return. The Council also had an option around refusing to sell land. Conditions were generally applied on a development-by-development basis. BBB's Business Plan was presented to Croydon Council's Cabinet on an annual basis and officers also attended Council audit meetings.

AGREED that the information provided was received and noted.

3 **OVERVIEW AND SCRUTINY BOARD UPDATE**

The Chair gave a verbal update on items discussed at the Overview and Scrutiny Board meeting held on 3 July 2018.

The Economic Development, Environment and Infrastructure Scrutiny Panel's Work Programme 2018-2019 had been approved by the Board.