Borough Housing Companies – the 5 ingredients for success

in partnership with ARCADIS

Introduction

London needs to build 65,000 homes a year and nearly half of these need to be affordable homes. To increase housing supply in London both the public and private sectors have a role to play, roles that have recently been dominated by housing associations and developers. However, with the capital's affordability crisis showing no signs of abating, boroughs are now looking at how they can directly deliver homes.

Local authority housebuilding went into decline in the 1960s and 1970s, as councils built fewer homes and concentrated instead on repairing their ageing stock. With the introduction of the legal 'Right to Buy' in the Housing Act 1980, all local authorities had to offer sitting tenants the opportunity to buy their home. Up until this time some local authorities had offered a form of 'Right to Buy' and the production of new homes generally exceeded the numbers sold, however, following the Housing Act 1980, the building of new council homes went into decline.

A new wave of council housebuilding?

London First and Arcadis ran a series of discussions with the new wave of borough housebuilding companies to hear about their ambitions and strategy. Recent policy changes such as the lifting of the cap on the Housing Revenue Account (HRA) and the introduction of a new grant regime, in the form of the Mayor's Building Council Homes for Londoners programme, provides a boost to existing borough housebuilding plans.

Through our discussions with the borough housebuilding companies, a common set of challenges and opportunities emerged. To encourage those boroughs who are building and those who are ready to start again, we have set out below 'five ingredients for success'.

Five ingredients for success

1. Set clear objectives

Boroughs are setting up housing companies primarily to provide new affordable homes for their communities and in some cases, where possible, to generate additional income through alternative housing options, such as shared ownership or build to rent. Behind these objectives are competing pressures which council officers, members and development company executives must reconcile. These include the balance between private and affordable housing, capital and revenue income, cashflow, peak debt, design quality and contribution to place.

Being clear on the development company's objectives and embedding these in its articles of associations, business plan and governance process is essential to providing a clear mandate for programme and project delivery.

Depending on these objectives, it may be appropriate for the development company to make a lower return than a housebuilder, or even no return. It is important however to be clear in advance whatever the decision is.

2. Take time to mobilise the company

There are significant challenges getting companies up and running, especially around capacity and having the right skills in place at both operational and board levels. Spending time developing the right skill requirements before projects commence is a key ingredient for success.

Similarly, robust due diligence on environmental, title and other constraints is time well spent. Too often the pressure to move into delivery compromises robust resource and programme planning.

3. Consider programme ambition carefully

The scale of development programmes should reflect the maturity of the company. Start-ups need to deliver at a scale which is realistic given their experience. Large, ambitious programmes come with a risk profile which may not sit comfortably with other public sector objectives. Authorities with successful development programmes are increasing building at scale over time using lessons and experience learnt on the ground.

4. Think about future asset management at the outset

Asset ownership may seem a long way off at the start of the development programme, but decisions relating to design in the early stages will have a significant impact on future operational arrangements, both in terms of the ability to transfer the asset back into the council or to other registered providers, and the cost of management and maintenance.

Getting early advice on the future long-term ownership options, for example, whether the asset is retained in the company, transferred back to the council or disposed of to a third party, and input on what this means for design, is critical. This extends to thinking about how to brand and operate any long-term rental portfolio.

5. Look carefully at programme efficiencies

One of the challenges for new development companies is that they do not have the experience of efficient design and contract supply chains compared to those of established housing developers that have been built and refined over several years.

The results can lead to development costs which are higher than those incurred elsewhere, and this has an impact on viability and profit. Looking at ways of keeping design and product consistent across programmes will help housing development companies generate efficiencies and deliver more commercially viable projects.

Conclusion

With the removal of the HRA cap and the increase in grant funding for councils made available by the Mayor, there are real opportunities for boroughs to return to building new homes. This won't be easy; boroughs have had to make significant budget savings over the past eight years and lack the skills and capacity in development they once had. Working with the private sector and capitalising on the knowledge and experience that it can bring, will help fill the skills gaps that exist in the public sector, allowing boroughs to remain in control of the development process.

If the five steps outlined above are followed and partnerships with the private sector are sought, there is a very real chance that boroughs can make a valuable contribution to solving London's housing crisis.