

Appendix 1

# Hackney Housing Company Ltd.

## Business Plan

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## **1. Executive Summary**

**1.1** LBH Cabinet agreed to the creation of a Group of three wholly owned Local Authority Housing Companies for the purpose of purchasing properties delivered by the Council's regeneration programmes.

**1.2** The group of company aspirations are to manage a portfolio of properties built as part of the Council's mixed tenure regeneration projects to deliver a responsible and sustainable market rental product and extend the range of affordable housing options to local people.

**1.3** Hackney Housing Company Limited (HHC) (Company No.11738936) was established as a parent company to two initial subsidiary companies (Hackney PRS Housing Company Limited (PRS Co.) (Company No.11750933) and Hackney HLR Housing Company Limited (HLR Co.) (Company No. No.11750958) which are created for the purpose of purchasing properties for private renting at market rates and at living rent levels respectively.

**1.4** The parent company will coordinate the formation of the group and ensure that resources and infrastructure to support the effective mobilisation are put in place. In addition, the parent company will ensure that the Group business model operates on a sound financial basis, so as to maximise the potential to deliver more affordable housing.

## **2. Mission**

**2.1** The group of companies was set up to mitigate the potential for losses in the context of a changing housing market, as any significant reduction in house prices would have an immediate impact on the Council's regeneration programme, as well as deliver a high-quality, well managed market rental product and extend the range of affordable housing options to local people.

**2.2** Following a Cabinet decision in January 2018, the fully owned HHC was created. At the same Cabinet meeting, it was agreed that the Company is formed on the basis of a parent company model, with two fully owned initial subsidiary companies created for the purpose of purchasing properties for private renting at market and at living rent levels.

**2.3** HHC's aim is to assist the shareholder in delivering on commitments to make available to local residents:

- i.** An additional affordable accommodation tenure for families unable to access the private market but whose means also effectively exclude them from being eligible to access a Council home with a social rent
- ii.** High quality and well managed private rented sector accommodation

**2.4** These additional tenures and the extra homes they will provide will be cost neutral to the Council.

**2.5** As the parent company, HHC will retain responsibility for approving the business plans of its subsidiaries that will perform Group operational activities, providing shareholders are also in approval of these plans.

**2.6** HHC will achieve its own aims by ensuring that individual Group company business plans are aligned and by providing strategic guidance to HLR Co. and PRS Co. in their purchase of new build properties.

**2.7** Outcome based indicators to measure the success of the company will be developed in the next 12 months and agreed by the Board of Directors.

### **3. Governance**

**3.1** HHC is not an alternative model for the building or development of new homes nor will it directly employ staff. The wholly Council owned company is in no way intended to be an alternative route for the delivery of other types of new homes such as Council social rent or shared ownership. HHC will provide a way for the Council to offer a wider range of housing options for residents in addition to what is already offered. It does not divert from campaigning for either further investment or freedoms to deliver social housing nor for better regulation of the private rented sector.

**3.2** HHC allows Hackney Council to continue to deliver on its ambition to respond to the multiple challenges faced by those impacted by the housing crisis, specifically in this case those that are finding it harder and harder to rent in the private sector in Hackney. By delivering homes to rent at both Hackney Living Rent and market rent on longer tenancies the company will be improving the situation for individual households and starting to tackle some of the issues faced in terms of workforce retention in the public, private and third sectors in Hackney.

**3.3** The Company will be owned by the Council's General Fund, and will therefore operate outside of the restrictions of the HRA in terms of tenancies, rents, RTB and borrowing. The sole member (or Shareholder) of the Company will be the Council.

**3.4** The Shareholder will make use of an Intelligent Shareholder function, a nominated individual that may take operational company decisions on behalf of the Shareholder. The Intelligent Shareholder will be a person acting as its representative who can attend general meetings and/or make sole member resolutions for any operational issues. This role has been installed to expedite the approval of company decisions that are beyond the Directors' scope of responsibilities but within the approved business plans.

**3.5** Responsibility for taking strategic company decisions will remain with Cabinet, exercising its executive function, as the Council is the sole Shareholder unless otherwise, and specifically stated.

**3.6** Set out below are the operational parameters which, in addition to compliance with the Articles of Association, the Board of Directors (the Directors) will work within, contributing to the delivery of Company objectives. The Directors will:

- i. Give due consideration to the objectives laid down by its shareholder, in making business decisions
- ii. Report to the shareholder at least annually, such reporting to contain both a forward and backwards look on performance and outcomes
- iii. Ensure the financial neutrality of HHC business plan (which will fully incorporate the business plans of HLR Co. and PRS Co.)
- iv. Access investment capital from the Council on behalf of the Directors of HLR Co. and PRS Co. and ensure that such capital is readily available to support business plan approved investment decisions
- v. Ensure the Intelligent Shareholder is invited to all Board meetings and that as soon as they are available, the minutes of all such meetings are forwarded to the Intelligent Shareholder, whether or not they attend
- vi. Maintain and regularly review a robust risk management framework, as appropriate

**3.7** For the time being, the Board of Directors is composed of:

- i. Dawn Carter-McDonald (Appointed 12th June 2019)
- ii. Simon Theobald (Appointed 12th June 2019)
- iii. James Goddard (appointed 24th July 2019)

The parent company and the two subsidiary companies have the same board make-up.

## **4. Product and Services**

**4.1** As the parent company, HHC will not directly deliver any products or services. The Hackney Living Rent and Hackney Private rented accommodation will be delivered by two subsidiary companies, each subsidiary company with its own business plan.

**4.2** The Hackney Living Rent product is designed to respond to the Mayor of Hackney's commitment to provide a range of genuinely affordable housing options to residents. It is a sub-market rental product aimed at low to middle-income households who currently live or work in Hackney and are currently unable to purchase a home, whether through shared ownership or outright sale. As is good practice, this will not exclude welfare benefit recipients.

**4.3** The Hackney Private Rent product is a market rent product that generates an income which helps fund the delivery of Hackney Living Rent properties. The PRS properties will align to Hackney's Better Renting principles; whilst it operates at market rates, it will offer

greater security and transparency than is often seen in the private rental sector. The Housing Company Lettings Policy will seek to extend the 'first dibs' approach to ensure that people that live or work in the borough are prioritised for council-owned homes.

**4.4** Should the opportunity or requirement to enable other housing products arise the HHC could, only with approval of the Council as shareholder, establish a further subsidiary company to undertake the approved business of the company.

## **5. The Market**

**5.1** There is an identified need for intermediate housing in the borough, with 13,000 people on the social housing waiting list and the cost of purchasing a property, even through shared ownership, being out of reach there is an identified need for a discounted private rented product that goes beyond the government's 80% 'affordable' product.

**5.2** The majority of offerings in the private rented sector are out of reach for those on 'average' incomes in the borough, with the market price of a two bedroom property £1,850 pcm. The median income identified by the GLA in Hackney is around £35,000 per annum, this would mean that two-thirds of an 'average' salary would be spent on housing costs if living in a market rate two bedroom property.

**5.3** The living rent product is aimed at employed households in the borough on lower incomes who may be unable to access alternative purchase options such as shared ownership. Lack of equity for a mortgage deposit due to high housing costs can be addressed with lower rents and longer term non-secure tenancies.

**5.4** The setting up of HHC responds to the multiple challenges faced by those impacted by the housing crisis, specifically in this case those that are finding it harder and harder to rent in the private sector in Hackney. By delivering homes to rent at both Hackney Living Rent and market rent on longer tenancies we will be improving the situation for individual households and starting to tackle some of the issues faced in terms of workforce retention in the public, private and third sectors in Hackney.

## **6. Operations**

**6.1** The Board will meet at least quarterly and are bound by the Company's Articles of Association and the Code of Conduct for Board Members of Public Bodies (June 2019). The directors hold the responsibility for the day-to-day operation of the company, making decisions, providing leadership and monitoring the performance of the company. The directors are responsible for obtaining appropriate legal, financial and tax advice to enable them to make informed decisions about the running of the company.

**6.2** The HHC Board monitors the overall standing of the combined property portfolio of both subsidiaries and takes decisions regarding any necessary changes to the financial model and/or parameters of either wholly owned company.

**6.3** The Board also provides direction as to the type of properties that should be considered for purchase. Particular consideration is given to the suitability of properties and their impact on Group financial performance, ensuring the financial interests of HHC and thus the Council as sole shareholder remain protected.

**6.4** Subject to approval of HHC business plans, the Council will inject capital funding into the company in exchange for additional HHC share equity. This funding will be requested by the company only when it is required by either of its two subsidiaries for imminent property acquisitions, or the need to fund other shareholder-authorized expenditure.

**6.5** The obligation to return this capital contribution will crystallise (either in part or in full - as appropriate) when some or all of the property portfolio is disposed of. Funds will be repayable to the extent that they were used to fund the acquisition of properties to be sold, and will also be:

- i. Subordinate to the redemption of any loans used to fund HHC capital expenditure and;
- ii. Fully returnable, with a proportionate share of any meantime increase in property values

**6.6** All sums reimbursed to HHC are immediately returnable to the Shareholder, though the Council may waive the right to receive these funds and instead choose to recycle them within the Group for other property related expenditure.

## **7. Financial Forecast**

**7.1** The HHC Financial Plan is essentially an amalgam of the capital injection requirements of HLR Co. and PRS Co. that pass through the parent company.

## **8. Risk Mitigation and Exit Strategy**

### **8.1 Exit Strategy**

**8.1.1** The HHC business plan is inextricably linked to those of its two subsidiaries and so has an identical exit strategy. The HHC will only exit when the subsidiaries are closed.

**8.1.2** For both HLR Co. and PRS Co., each batch of properties acquired will be retained for thirty years after which time they will be disposed of. This course of action will generate a capital receipt of sufficient value to settle related debts and reimburse capital injections by HHC into the subsidiaries.

### **8.2 Financial Risk Mitigation:**

**8.2.1** HHC is not an operational company, nor does it possess any assets. It takes no risks and accrues no rewards.

**8.2.2** The performance risk is borne by its subsidiaries and the risk to capital by the Council. HHC is therefore not in a position to mitigate risks to which it is indirectly exposed.

