

Hackney Housing Company Limited - Annual Report of Directors**Key Decision No. FCR S044****CABINET MEETING DATE
(2021/22)**

28 February 2022

CLASSIFICATION:

Open

WARD(S) AFFECTED

All Wards

CABINET MEMBER

Mayor Philip Glanville

KEY DECISION

Yes

REASON

Affects two or more wards.

GROUP DIRECTOR

Ian Williams, Group Director Finance and Corporate Resources

1. MAYOR'S INTRODUCTION

- 1.1 Renters in Hackney are on the frontline of Hackney's housing crisis, facing a lack of regulation that too often means unpredictable rents, insecure tenancies and the difficulty in finding a good, stable and well-managed place to live. Increasingly they also face an affordability crisis that started long before the pandemic and presents renewed challenges as the Hackney rental market starts to recover, inflation and cost of living pressures bite and given there is no imminent sign of the long hailed legislative end to Section 21 evictions.
- 1.2 Our BetterRenting campaign is not just fighting for changes in law to offer renters greater stability, affordability and protection. We're also directly intervening by taking tougher action against rogue landlords and demonstrating what a good landlord looks like through our own Hackney Living Rent Homes.
- 1.3 Hackney Living Rent offers the standards and protections that we think should be standard in the private rented sector, including longer tenancies, no unfair evictions, annual rent increase limited to CPI+1%, and deposits capped at three weeks' rent.
- 1.4 Most importantly, it offers genuine affordability in a sector where rents have risen dramatically quicker than incomes. By setting rents at a third of local incomes, Hackney Living Rent gives local people who are unlikely to qualify for social housing but unable to buy outright the opportunity to rent a home that won't compromise their living standards or prevent them saving for a deposit. The first Hackney Living Rent homes were let at Bridge House in July 2020 with more at Gooch House in the spring.
- 1.5 The housing companies we have set up give the council a mechanism for addressing these issues, enabling us to deliver on our commitments that are set out in Hackney's Housing Strategy 2017-22 and our 2018 Manifesto. These companies will allow us to continue to deliver on our 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.
- 1.6 This Directors' annual report follows the previous report in March 2020 and recommences the annual reporting of companies to Cabinet. The report and the companies' accounts set out the activities of the companies for the financial year 2020/21 where the company acquired and let the first Hackney Living Rent properties. The report also identifies a further 16 Hackney Living Rent properties at Gooch House that will be let later in the year. The request for the working capital loan is in line with the previous approved business plans for the company.

2. GROUP DIRECTOR'S INTRODUCTION

- 2.1 In January 2018, 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.
- 2.2 The companies have been set up as the Council is not allowed to directly own properties that are let at Living or other private rents. The companies do not develop the housing and therefore are not exposed to the risk of the construction and house price markets. This significantly reduces the financial risk to the companies.
- 2.3 In August 2019 the Hackney Private Rented Sector (PRS) Housing Company Ltd acquired the leasehold interest (250 year lease) in 25 properties at Hoxton Press. This development was part of the London Borough of Hackney (LBH) Regeneration programme developed by Anthology at Colville. In July 2021 the company also took a short term lease (7 years) of 3 flats at Church Street, Stoke Newington, developed by the Council's Strategic Property Services.
- 2.4 In July 2020 the Hackney Living Rent (HLR) Housing Company Ltd acquired eight properties from the Council's Bridge House development. The Company is discussing the acquisition of properties being refurbished at Gooch House for Hackney Living Rent.
- 2.5 The companies are looking and will seek to identify other opportunities within the Council's development portfolio to provide the surpluses to fund more HLR properties throughout the borough.

3. RECOMMENDATION(S)

Cabinet is recommended to:

- 3.1. Note the Directors' annual report in Appendix 1 and the Companies' Statement of Accounts 2020/21 in Appendix 2.**
- 3.2 To approve the loan of £1m to Hackney PRS Housing Company on commercial terms consistent with the original loan agreement.**

4. REASONS FOR DECISION

- 4.1 The Council is the sole company shareholder and the activities and plans proposed by the Directors should be based on the shareholders objectives and priorities.
- 4.2 The company requires the approval of a loan from the Council

5. DETAILS OF ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

- 5.1. A requirement of the housing company is that the activity and plans are taken to Cabinet to be approved as Cabinet exercises the main shareholder functions.

6. BACKGROUND

6.1 Policy Context

The Housing Strategy adopted by the Council in January 2018 reinforces the priority of building high quality, well-designed, and genuinely affordable new homes and includes an action to set up a housing company, to help provide new Hackney Living Rent homes – homes that are genuinely affordable to those on medium incomes with rent levels targeted to be at one third of average local incomes.

As stated in Hackney’s inclusive economy strategy 2019-25, “Building an inclusive economy is not just about economic opportunity, it is also about people feeling they belong in the borough and feel safe and included here”. With the provision of Living Rent homes in the borough through the Housing Company, we can ensure that those living and/or working in the borough are able to keep contributing to the betterment of Hackney and given fairer access to the economic opportunities in the borough.

6.2 Equality Impact Assessment

The Housing Company will facilitate an increase in the range of tenures and housing opportunities that the Council can provide and consequently the range of people who could benefit. In particular, the delivery of living rent properties will provide high quality housing to those on low to middle incomes who are not able to afford the private rented market and do not qualify for social housing.

6.3 Sustainability

None of the recommendations in this report would have a direct impact on the physical or social environment.

6.4 Consultations

The Business Plans were developed in consultation with the Hackney Housing Company Board of Directors and the shareholder.

6.5 Risk Assessment

Each company’s business plan includes a detailed risk assessment. The main potential risks facing the companies are financial. The risks are assessed

annually for the Statement of Accounts to ensure they are a going concern.

7. COMMENTS OF THE GROUP DIRECTOR OF FINANCE AND CORPORATE RESOURCES

7.1 There is no direct financial impact of the Annual Report of Directors and the companies' accounts, which will be consolidated into the Council's financial statement. The report and accounts demonstrated the companies are a going concern and therefore remain a viable business.

7.2 The request of £1m working capital loan is required to fund interest costs, paid to the Council, until the company is able to generate surpluses from the appreciation of property values over the medium term. Any loans and equity subject to approval by the Group Director of Finance and Corporate Resources before submitting to Cabinet for Shareholder approval.

8. VAT Implications on Land & Property Transactions

8.1 The housing companies are not VAT registered and so there are no VAT implications. VAT will be charged on any transaction between the Council and the company, but this is not recoverable by the companies.

9. COMMENTS OF THE DIRECTOR OF LEGAL & GOVERNANCE SERVICES

9.1 This report recommends Cabinet approve the three business plans for each of the three housing companies and asks it to note the annual directors' report.

9.2 As the sole shareholder, the Council has the ultimate control over the operations of the Company. The day to day and purely operational decisions of the Housing Company shareholder is undertaken by an "intelligent shareholder" role, performed by the Group Director of Finance and Corporate Resources, but any new or significant changes in the operations of the Company should be agreed by Cabinet. This is in accord with the Mayor's Scheme of Delegation dated January 2017 which states that, "...the Council's representation on ...companies...where the representation relates to an executive responsibility or function" shall be undertaken by the Mayor and Cabinet.

9.3 It will be important to ensure that any financial arrangements between any of the three individual companies and the Council are compliant with legal requirements regarding subsidy control. Subsidy control provisions replaced the previous State aid regime in 2021. The Council is seeking external legal advice on the compliance with such regime in respect of social housing and the arrangements between Hackney HLR Housing Company Limited and the other companies. The Council will ensure that any arrangements are compliant with such provisions.

APPENDICES

Appendix 1 - Annual report of Directors 2021

Appendix 2 - Statement of Account for Hackney Housing Company Limited, Hackney PRS Housing Company Limited, Hackney HLR Housing Company Limited

CONFIDENTIAL

N/A

BACKGROUND PAPERS

In accordance with The Local Authorities (Executive Arrangements) (Meetings and Access to Information) England Regulations 2012 publication of Background Papers used in the preparation of reports is required

None

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