HDV Scrutiny

5 April 2017

Notes from Prof Michael Edwards, UCL Bartlett School of Planning.

My comments are mainly about the risks and uncertainties which the Council confronts. In this I'm drawing on experience since my first professional job working on the economics of Milton Keynes, through a career of consultancy, research and teaching on the economics of planning and property development. In particular I set up and ran for 15 years a Masters programme on property development and planning, initially with a European scope but now more broadly international. I have also learned a lot from being involved in the King's Cross development of the last 25 years, and the GLA London Plan process from 2000 onwards. I'm a member of the Highbury expert Group on Housing Supply.

> But first I want to make a comment as a resident. I have lived in Seven Sisters Ward for 14 years. I am a regular reader of the Council's glossy magazine which comes through my letter box and I also get periodic emails from the Council. I have read draft Town and Country Planning documents as they appear and have made representations on some of them. But I have never been consulted on the HDV proposal and I think it's impossible that I would have missed an announcement about it, given my professional interest.

Risks

Alternatives

Risks

The Council's Business Case of 2015 was prepared before the EU referendum and before the numerous changes in housing and planning law which were enacted in the Housing and Planning Act 2016 and trailed in the White Paper recently released. As a result of these changes in the economic and political environment the Council's decisions have to be tested against a much wider range of possible circumstances than must have seemed likely in 2015.

The economy of the UK is very weak, with low investment; what little growth we have being driven by expanding household debt and no clear prospect that we'll be able to take advantage of a devalued pound to increase our exports. Many of our export sectors in finance, insurance and related professional services are directly threatened by brexit while others – like the university sector, a huge earner of foreign exchange, are threatened by visa restrictions. We share with Greece the decline in real incomes in the last decade.

We thus need to consider the possibility that the UK economy will fail to grow and may contract in the coming decade. Furthermore the effect of inflation of import prices leading to higher interest rates would both impoverish an indebted population and change balance of power within the HDV.

The other contextual factor is related to housing policy: it keeps changing in ways which make it ever harder for councils to resume house-building. That's one of the reasons why Haringey has proposed the HDV. But it seems quite possible that government will find ways of extending the Right to Buy to Council-owned companies or in other ways inhibit the efforts of London Boroughs to circumvent government policy. Although the Minister has backed off the RtB threat recently we cannot be very confident.

So what are the risks we should be looking at:

(1) The risks of **debt** exposure of the HDV. We are told that the IP will match the value of the Council's successive transfers of property with injections of equal amounts of its own equity finance. Then on top of that the HDV will borrow the money to do its developments. Can the HDV borrow through the Public Works Loan Board (at about 2% currently) or would it have to pay open market interest rates of perhaps (7-8%)? I'm not a local government finance professional but I doubt whether a private company would be eligible for PWLB.

    In any event (whatever the interest rate) If interest rates then rise, it could indefinitely postpone the moment when Haringey begins to receive 50% of the profits from the venture. (We are told that the Council would receive profits only after all debts are repaid.)

(2) All the work of managing the HDV and the property portfolio handed over to it on day 1 would be undertaken by the IP (Lend Lease). This would presumably mean that the IP is expected to charge the HDV with its costs, and these costs would undoubtedly include some level of profit to themselves on each task performed. The IP would thus be enjoying steady profits from these operations while the Council would gain no profit share from the HDV until much later, if at all.

(3) If the government goes ahead with measures which would impose the Right to Buy on sub-market dwellings produced by Council subsidiaries, the HDV could be loosing units which it had made such sacrifices to produce.

(4) The Council's cash flow under the HDV regime would, at least initially, fall because the flow of rents from its commercial property portfolio would instead flow to the HDV. The leader of the council in her recent article, implicitly accepts this prospect, but expects it to be made good by growing income from Business rates and Council Tax. That may be so, but we ought to be able to see the figures.

(5) A final risk which I consider should be explored is what happens if and when the IP or decides to sell its share. We are assured by the Council Leader that Haringey would have to consent to any such sale. But if economic conditions become very adverse and there are few willing buyers the Council might not have much choice. I raise this point because we have seen examples, especially in Germany, of large portfolios of rented housing falling into the hands of hedge funds of the very aggressive kind which then exert intense pressure to raise rents and evict those who cannot pay.

I have listed all these risks because they appear to me to be possibilities which should be explored before the scheme is finalised. Perhaps they have been explored. Your committee and the general public at least need detailed reassurances and surely should be able to scrutinise the cash flow projections which correspond to them.

Alternatives:

Among the alternatives which should be explored I am not at all happy that the set is wide enough or serious enough.

The "do nothing" strategy **Option 1 Base Case** gets little attention in the Business Case document. But it could really be the best strategy in current conditions insofar as "regeneration" on current models almost invariably leads to a reduction in social rented housing. (Assembly) It would, in that event, maximise the Council's capacity to house those in greatest need including the homeless, while not meeting the Opportunity Area targets for total dwelling numbers.

This would combine well with a more piecemeal approach: developing individual sites or estates as an when it can feasibly be done in the changing economic and policy environment. If political condition improve, for example, the Council would be able to borrow and build in the normal way. If conditions get worse, the Council would at least have battened down the hatches.

There is a lesson from King's Cross here. Camden negotiated one huge planning permission for KXC with one huge S106 agreement alongside it. The local community groups called for the Council to give permissions stage by stage but were defeated. Under intense negotiation the scheme was to have about 41% of affordable housing units of various kinds, with some co-funding from the HCA from the Labour Government. In the first half of the development this went well. But after HCA funds for affordable housing were severely cut back by coalition and conservative governments, the developer exercised a clever clause in the S106 agreement which enabled them to reduce the social housing % in the later phases. Camden was tied down to a 2006 contract and had to accept a reduction to about 31%.

Had the permission been split into phases, a fresh negotiation would have taken place for the later phases and, since market values for homes had escalated enormously, it would have been possible to negotiate at least the same level of affordable housing, and probably more.

I tell this story not because there's a likely parallel in Tottenham, but because it illustrates the dangers of committing an entire long-term programme in one agreement.

Finally we should be looking at 2 other alternatives:

A Development **Corporation**. London has two already and why don't we explore how good one would be for Haringey. Although there is criticism of the level of community engagement in the 2 existing ones, they are at least governed by accountable bodies, with planning meetings open to the public and fully subject to FOI. It also has the attraction of being able to draw on GLA funds.

Finally the study should explore a **majority**-owned public-private company, perhaps on the model of the Sociétés d'économie mixte in France, hundreds of which have been operating for decades. The law prescribes that public bodies, taken together, must have a minimum of 51% control, and maximum of 85%. It's a distinctly lower level of privatisation than the 50% proposed here because the public owner can ultimately break a deadlock in the public interest. The economist Nicholas Falk has also written compellingly on German and Dutch models which we should be learning from.

Extract: Kober article 19 January 2017

http://www.haringey.gov.uk/news/article-council-leader-cllr-claire-kober-haringey-development-vehicle

That transfer of land constitutes the Council's 50% equity stake in the development. The private partner then matches that stake with an equal cash equity contribution, cementing the 50/50 nature of the partners' relationship. The vehicle will then borrow whatever additional funds it needs to pay for development, and do the building work. The proceeds from development are then used first to repay the borrowing, and what's left over is split 50/50 between the partners.

and

First of all, I'm determined that council budgets – and the services which depend on them – are protected. The first principle has to be that we are no worse off. Where the council loses rental income from commercial property transferred into the vehicle on day one, we are absolutely clear that the vehicle will make good the difference. As the vehicle's work goes on, we will very closely manage both our General Fund and Housing Revenue Account, always ensuring that any impact is manageable. In the long run, our costs will be greatly outweighed by the returns from development and the increases in council tax and business rate income.