



HOMES FOR
LAMBETH

A large architectural rendering of a modern residential courtyard. The scene is viewed from a low angle looking down a paved path towards a central courtyard area. On either side are multi-story brick buildings with prominent cantilevered balconies. The sky is overcast, and there are some birds flying in the distance. The entire image is overlaid with a semi-transparent blue filter.

Business Plan

2019-20



1. Introduction

1.1 About this Business Plan

This Business Plan sets out the objectives, planned activities, deliverables, performance management framework and forecast financial performance for the companies within the Homes for Lambeth group of companies in pursuit of the objective of building more and better homes for the people of Lambeth. It has been prepared and reviewed in accordance with the Memorandum of Understanding (“MOU”) which is the key governing document between Homes for Lambeth and Lambeth Council. The plan has also been influenced by the regulatory standards of the Regulator of Social Housing (RSH) where appropriate. The plan covers the operating period to March 2020 in detail and provides an insight to objectives and priorities beyond that date.

“This is an exciting time for Homes for Lambeth. In 2018 we took some important steps, including appointing both our Board and Executive Team. This gives us a team with a wealth of master-planning, construction, valuation, housing and financial experience. 2019 will see us welcoming our first tenants into their new homes at Lollard Street as well as achieving start-on-site on a number of other schemes including South Lambeth and Knights Walk. We will also move forward in partnership with Lambeth Council and local residents on Central Hill, Cressingham and the Fenwick Estate on plans to rebuild these estates. I’m looking forward to working with Lambeth Council and the Homes for Lambeth team to build the more and better homes Lambeth desperately needs.”

Richard Reynolds Chairman - Homes for Lambeth

The Business Plan was approved by the HFL Board in January 2019 and recommended to the Ownership and Scrutiny Cabinet Advisory Panel (“OSP”) for onward approval by the council’s cabinet in the council’s capacity as HFL’s shareholder.

1.2 Homes for Lambeth's Objectives and Activities

Homes for Lambeth's overarching objectives are to contribute towards the council's commitment of 1,000 new homes at council rent levels – we will do this by rebuilding current estates, providing replacement homes for current residents, maximising the number of genuinely affordable rented homes and subsidising these homes with grants and the proceeds from private sale and market rents. Homes for Lambeth will work with carefully-selected architects, urban regeneration, and housing specialists and existing residents on the estates we are rebuilding to create homes and communities that will thrive for many years to come by:

- Building new, sustainable homes for local people
- Creating high-quality shared spaces to encourage a sense of community
- Generating and reinvesting surpluses into building more new homes and supporting our communities
- Maintaining a long-term landlord relationship with our residents and delivering a great service

By pursuing these objectives Homes for Lambeth will partner effectively with the council and will support its wider objectives of:

- Enabling growth and development in the borough which will provide opportunities for residents to improve their life chances and protect the council's core revenue streams to help the most vulnerable
- Ensuring that the benefits of growth increase community resilience
- Reforming how the council commissions and delivers services with its partners
- Making sure that Lambeth is a place where people want to live, work and invest.

Homes for Lambeth will undertake the following activities:

1. Progressing schemes on which it has taken an interest in the land (through agreements for lease, with leases drawn down prior to construction) from planning consent through detailed and technical design to construction, occupation and into management;

2. Acting as a centre of expertise for the council to oversee and project manage the achievement of obtaining vacant possession on sites for regeneration, including negotiating with land owners and progressing compulsory purchase orders on behalf of the council – given that providing vacant possession will be a council obligation under the agreements for lease with HFL, this work will be paid for by the council;

3. Acting as a centre of expertise for the council to bring forward projects and progress them through the planning process to achieve outline or detailed planning consent – this activity will be paid for by the council, with Homes for Lambeth operating as a development consultant;

4. Providing development and construction management services for council developments as required;

5. Exploring and securing grants, resources and wider opportunities to increase the quantum of more and better homes that are delivered via Homes for Lambeth, thereby enabling it to make a greater positive impact upon Lambeth's housing needs.

6. Operating as landlord for 'buy-backs' undertaken by the council, for which Homes for Lambeth has taken a short-term commercial lease in order to rent these out under ASTs on the open market – this activity should be self-funding through the income stream generated by the rent;

7. Operating as landlord for those affordable homes and for those market rented homes to full regulatory and quality standards as appropriate;

8. Operating as landlord for those homes that Homes for Lambeth has built and sold on long-leases on the open market;

9. Asset management of Homes for Lambeth housing stock; and,

10. Delivery of heat and hot water to all newly-built homes, where there are district heating systems (including both urban district heating and building level district heating).

2. Executive Summary

2.1 Activities to date have focussed on mobilising the Homes for Lambeth group structure to effectively deliver Homes for Lambeth's objectives. Performance has been reviewed with the OSP and notable achievements to-date include establishing the governance and financial control structure for Homes for Lambeth, appointing the HFL team, and implementing landlord services. Importantly, Homes for Lambeth is also on schedule to achieve in-principle approval to commence the regeneration of the Knights Walk and South Lambeth schemes by March 2019; subject to satisfactory procurement tender outcomes.

2.2 The **2019-20 Business Plan** builds on the mobilisation activities that have necessarily dominated 2018 and sets clear delivery

objectives for the period ahead. These activities will include 'starting on site' for 4 of Lambeth council's primary regeneration sites, achieving planning permission for 2 further sites, introducing our landlord service, and researching/mobilising future activities.

2.3 Homes for Lambeth's success is entirely reliant on the ongoing support and advocacy of Lambeth Council, the regeneration and commercial skills within Homes for Lambeth to demand value-added contracts and to generate surpluses, favourable market conditions, effective resident involvement and influence, and compliance with regulatory standards.

2.4 Delivery – The key deliverables and milestones by March 2020 are set out in the summary table.

Strategic Objectives	Build new sustainable homes for local people	Deliver high quality community places and a great landlord service	Generate surpluses for reinvestment in homes	Build the Homes for Lambeth infrastructure and a high performing team
2019-20 Business Plan Goals for delivery/performance measurement by March 2020	<ul style="list-style-type: none"> • 70 new homes at Council level rents complete and in management by Mar 2019 (Lollard Street) • 145 Council level rent homes and 14 affordable rent homes on site by Mar 2020 • Achieve planning resolution for a further 150 homes by Mar 2020 • Provide an excellent development service to the council – measure by SLA • Investigate and test modern methods of construction • Zero notifiable health and safety incidents within the period • Identify and develop sites within the strategic pipeline to ensure continued delivery 	<ul style="list-style-type: none"> • Implement new Homes for Lambeth landlord service and target satisfaction > 80% • Have 100 AST homes by Mar 2020 • Complete the RSH registration and ensure full compliance with regulatory standards • Support the delivery of the Key Guarantees • Research Market Rent tenure options by Jun 2019 • Reduce inequality through the creation of 50 apprenticeships / job opportunities for local people through the lifecycle of the programme • Promote cohesive and sustainable neighbourhoods through the development of community, health and welfare initiatives • Showcase 6 case studies to evidence social value activities/ achievements 	<ul style="list-style-type: none"> • Establish financial plans to enable effective forecasting and monitoring • Implement effective contracting and performance monitoring of suppliers • Identify and implement the most tax efficient structuring of projects and activities • Optimise grant funding and recycle local grants for local people • Ensure market valuation advice is incorporated within the specification and design of market homes to maximise surpluses 	<ul style="list-style-type: none"> • Recruit the Homes for Lambeth team structure and demonstrate VFM and savings in consultancy through case studies • Establish and implement demonstrably robust treasury and audit practices • Procure a framework of housing management providers by Mar 2020 • Contain costs within approved budgets

Of particular note:

- The first Homes for Lambeth scheme expected to start-on-site is Knights Walk; the development is planned for two phases, with phase 1 comprising of 16 new council level rent homes that enable decant of the 14 secure tenants currently living on the site. Phase 2 will deliver 68 new homes with 23 affordable homes and 45 for market sale in the business planning period 2021.
- Homes for Lambeth will not generate surpluses in the business plan period as the organisation will be investing in infrastructure and early contracting activities; financial performance in this period will therefore focus on cost and performance management.

2.5 Investment – Operating budgets for all Homes for Lambeth companies have been prepared; the forecasts demonstrate that the Homes for Lambeth group will generate losses until 2020-21 when surpluses from the new build schemes are first anticipated. This is because Homes for Lambeth is investing in the necessary infrastructure and resourcing development-related mobilisation activities in the intervening period and is an anticipated necessity within the early stages of a longer-term strategic cycle of growth.

2.6 Cash flow forecasts have also been prepared for all planned development scheme activity. These forecast capital investment of £0.5m by March 2019, rising to £21.5m by March 2020. In addition, HFL expect to provide services with a value of £2m to Lambeth Council in the period.

2.7 The forecast losses will be funded by a working capital loan facility provided by Lambeth Council. In addition, project loans will be provided for each development scheme and transfer of homes. The forecast funding commitment and loan drawdown profile for the business plan period is:

Funding Profile by March	2019	2020
Working Capital Loan – Commitment	£5.0m	£5.0m
Working Capital Loan – Drawdowns	£0.5m	£1.3m
Project Loans – Commitment	£23.6m	£24.1m
Project Loans – Drawdowns	£0.3m	£21.5m

By March 2020, total loan facilities of £29.1m will be required; £22.8m of this is expected to be drawn by this date.

2.8 Consents and Approvals – to enable the delivery of the Homes for Lambeth business plan, various consents and approvals will be required in the business planning period to March 2020. This requires effective, coordinated and timely collaboration between Homes for Lambeth companies and Lambeth Council when acting in their respective interests and remits.

2.9 Risk Management and Mitigations – Homes for Lambeth has implemented a risk mapping process. This is routinely updated and reviewed by the Homes for Lambeth Board alongside the associated risk mitigations and forms of assurance.

2.10 The primary risks facing Homes for Lambeth are currently considered to be:

2.10.1 Construction cost increases beyond forecasts and stress-testing in light of market fluctuations and Brexit uncertainty, causing viability challenges.

2.10.2 Challenges in securing and retaining efficient resources in a timely fashion to deliver the expected programme leading to delays.

2.10.3 Programme delays causing an increase in costs with a consequential impact on liquidity.

2.10.4 Risk of contractor failure due to volatile market conditions.

3. Operating Context

3.1 This section presents a précis of key strategic and contextual drivers that have and will continue to underpin the council’s rationale for forming and mobilising the Homes for Lambeth Group, as an arms-length but closely aligned strategic vehicle for housing delivery, development and management. As such, these drivers are implicit to the shared ethos of the council and the Homes for Lambeth Group.

3.2 Building more homes in the borough is a key driver of inclusive growth and one of the three priorities set out in Lambeth’s Borough Plan (2016-2021). Lambeth has set clear commitments to maintain socially-mixed communities in the Borough; and prevent homelessness by placing people in suitable, affordable, permanent homes as quickly as possible.

3.3 Lambeth’s foremost commitment is to ensure that every one of our residents has the opportunity to live in a good-quality home that is affordable and suitable for their needs. However, there are simply not enough homes, particularly affordable homes, to meet the needs of people in Lambeth.

3.4 Lambeth, like all London boroughs, is facing a major housing crisis. In Lambeth almost 29,000 people are on the waiting list for a council home; the number of homeless families in temporary accommodation has risen sharply to over 2,100 (April 2018), the vast majority of which are families with children. Every year between 3,000 and 4,000 people apply to be on the council’s housing waiting list. This equates to 60 to 80 households per week. Last year the council was able to provide housing for fewer than 1,000 households each year; this equates to around 20 households per week and includes internal transfers from one council property to another.

In the context of these challenges, the council is seeking to improve both the quality and quantity of the housing in Lambeth.

3.5 As a response to this compelling housing need, the council has made a commitment to build 1,000 new homes at council level rents. The estate regeneration programme is one of the initiatives that is being progressed by the council to seek to meet this ambition.

3.6 Lambeth set up the Homes for Lambeth group of companies to contribute towards achieving these aims and to help reduce the substantial pressures on the council’s housing waiting list. It will form an important part of the council’s wider delivery mechanisms for building more and better homes in the Borough, alongside the council’s direct delivery and collaborations with developers and Housing Associations.

3.7 Homes for Lambeth will focus on delivering housing that is financially viable and aligned with the council’s wider priorities, including the design principles developed by the council and the ‘Key Guarantees’ for both council tenants and resident homeowners on Lambeth’s estates. Homes for Lambeth will work closely with and alongside the council in delivering its schemes.

3.8 Homes for Lambeth and the council have both a partnering and commercial relationship; as the sole shareholder in HFL Group and primary source of funding, the council has a strong interest in its activities and retains control over major decisions as set out in the Scheme of Delegations including the approval of the HFL Business Plan and the leasing and loan agreements it contains.

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3.9 The council has secured GLA grant funding for new affordable homes within the program, the current rate of grant is £60,000 per dwelling at council level rents therefore additional subsidy is required through sale of market dwellings.

3.10 Due to limited available funding for affordable housing, Homes for Lambeth will deliver private housing alongside its new build schemes to cross-subsidise the cost of providing the affordable tenures. Homes for Lambeth will also maximise opportunities to access grant for delivering affordable housing.

3.11 Homes for Lambeth enables the council to tackle market failures by delivering the new, quality housing that residents need but which is not being delivered by the market. Pricing and economic conditions are notably tightening within the development and construction sectors, which is, and will, continue to inhibit the supply of affordable housing in Lambeth and across London. The Homes for Lambeth group of companies will become increasingly important as a partner for the council to the supply of affordable housing in Lambeth, particularly on challenging estate regeneration schemes.

3.12 Lambeth remains a highly attractive borough for development, but much of the financial surplus generated by private development has typically left the local economy. Homes for Lambeth enables development surpluses to be generated in Lambeth and reinvested in Lambeth, in order to deliver more and better homes that meet the needs of Lambeth's communities.

Market Context

3.13 Current market conditions are being affected with the uncertainty of Brexit and the impact it may have on the industry. It is envisaged that in the short term build costs will rise slightly and market sales will stagnate. However these conditions will also provide opportunities to engage with consultants and contractors that would ordinarily not be available to us.

3.14 When looking at the market context it is important to remember the long term nature of the projects it is undertaking. The short term uncertainty caused by Brexit and other factors will have an impact.

3.15 Homes for Lambeth will continue to review the skills and expertise at its disposal to guide company activities in this challenging market. Alongside ensuring that there is a clear focus on local needs and resident priorities, It is essential that Homes for Lambeth is able to identify and attract the right people with the skills and proven industry experience required in order to successfully undertake development; to procure and deliver complex construction projects on time and on budget; and to ensure that all Homes for Lambeth residents receive high quality, reliable and timely services.

3.16 In addition, Homes for Lambeth will explore opportunities for integrating private rented housing into the schemes it develops. HFL Living is already established to become the long-term landlord for private rented housing if Homes for Lambeth chooses to deliver it. Private rented housing provides an accessible and flexible tenure option for people at all stages in life. It also diversifies the tenure that Homes for Lambeth will be delivering thereby reducing the group's exposure to market sale risk.

4. Delivery Objectives and Priorities

4.1 In 2019, Homes for Lambeth will ‘start-on-site’ with 4 primary regeneration schemes and will instigate its landlord services through its management of the 70 new homes at Lollard Street and up to 100 temporary market letting of buy-back properties.

4.2 Homes for Lambeth aims to create homes that will stand the test of time and will help to build communities that will thrive. Homes for Lambeth will work closely with existing residents to find solutions that are right for them, while also adding to the housing available in our borough. Homes for Lambeth will design homes and places that are sustainable with low running costs. Homes for Lambeth will create and manage homes for local Lambeth people, with as many as possible at genuinely affordable rents, and others for higher income groups. Where appropriate for the scheme, HFL will consider integrating private rented housing as part of the housing offer.

4.3 For secure tenants who live on estates that we are rebuilding, Homes for Lambeth will work in partnership with the council to deliver on the Key Guarantees made to existing residents. All Homes for Lambeth homes will meet our design principles which require:

- Modern, practical, well-insulated and secure homes
- Plenty of storage space
- Personal outdoor space
- Safe communal spaces, streets and public spaces
- Discrete storage for waste and recycling
- Covered and secure storage for cycles
- Integrated, mixed estates
- Architecture that works
- Sustainable buildings and spaces that are economical to manage and maintain

4.4 HFL Homes Ltd has also completed its registration with the Regulator of Social Housing (RSH). Its landlord services will therefore be resourced and managed to ensure compliance with the RSH’s regulatory standards.

4.5 A summary of the Homes for Lambeth programme activities in the business planning period to March 2020 is:

Delivery: New Homes Under Construction	No. Homes
Fenwick Regeneration s.106	46
Westbury Phase 1 s.106	64
South Lambeth phase 1	30
Knights Walk Phase 1	16
Hillside Gardens	3
Total	159

Delivery: Homes in Management	No. Homes
Lollard Street 100% Council Level Rent	70
Buy-Back Homes (temp. market rents) 100% Market Rent Homes	100
Total	170

Schemes Being Progressed for Development
<ul style="list-style-type: none"> • Fenwick – Phase 2 planning and hybrid for estate • Cressingham – Phase 1 planning and hybrid for estate • Central Hill – Phase 1 planning and hybrid for estate • Somerleyton Road – Phase 2 planning • A selection of small sites

Other Development Services and Activities:
<ul style="list-style-type: none"> • Explore partnerships e.g. L&Q’s programme for small Registered Providers • Research Market Rent as a tenure for Homes for Lambeth • Investigate modern methods of construction with particular focus on off-site manufacture.

New Homes Under Construction by March 2020

4.6 The quantum of homes targeted to be under construction by Homes for Lambeth by March 2020 has an estimated Total Scheme Cost of £25.6m; this is anticipated to be supported by grant funding of £2.0m. These schemes are currently forecast to deliver losses of £22.6m subject to the delivery of all associated forecasts. The early scheme deficits are driven by the focus on early provision of replacement homes; these deficits are forecast to be offset in subsequent development phases

through the sale of newly built houses. The Homes for Lambeth team and Lambeth Council are working together to mitigate these deficits as much as is possible.

4.7 All scheme approvals are subject to viability and value-for-money assessments. Although detailed estimates are prepared throughout the feasibility and planning process, and external valuations and professional advice are sought to inform estimates, the full financial implications cannot be confirmed until planning is confirmed and the construction work is tendered.

4.8 These schemes will therefore be tendered in the business plan period and the associated financial forecasts will be updated when the procurement processes are concluded. It is possible that this process will result in changes to the design and objectives of the scheme. These forecasts will then form the formal project budget for performance monitoring.

4.9 We will be looking to secure planning consents on identified phases within the three lead estates along with a number of small sites. It is also our intention to review consents achieved to date and use our in-house expertise to ensure both the design and construction methodology is as efficient and cost effective as possible.

4.10 The expected tenure mix of the 3 schemes under construction in the business plan period is:

Expected Tenure Mix / No. Units / % Units		
Council level rents	164	92%
Affordable rents	13	8%
Total	159	

4.11 92% of these new homes will therefore be provided at council level rents and a further 8% at affordable rent levels – a significant contribution to the council’s target.

4.12 New Homes built for council level rents are being constructed according to the unit size mix determined at planning and rents will be set in accordance with the council’s rent setting formula.

Scheme Feasibility Activities by March 2020

4.13 Homes for Lambeth will be developing masterplans on the three lead estates by working collaboratively with the council’s planning department to develop a sustainable solution whilst maximising density. We will also be identifying smaller phases that sit within these masterplans that we can bring forward to planning in order to achieve some early delivery.

4.14 Homes for Lambeth will provide a development management service to the council; the resource plan for this activity assumes that this service will require a continued input by Homes for Lambeth to service delivery.

4.15 Homes for Lambeth is committed, with the support of the council, to take a minimum of 4 schemes to planning within the current business period.

Homes for Lambeth Landlord Services – Homes in Management

4.16 HFL Homes and HFL Build will be offering landlord services by March 2020.

HFL Homes

4.17 The RSH oversees the activities of Registered Providers to ensure they are compliant with the regulatory standards which are categorised into ‘economic’ and ‘consumer’ standards. These are:

Economic Standards:

- Governance and Financial Viability Standard
- Value for Money Standard
- Rent Standard

Consumer Standards:

- Tenant Involvement and Empowerment Standard
- Homes Standard
- Tenancy Standard
- Neighbourhood and Community.

4. Delivery Objectives and Priorities continued

4.18 The Board of HFL Homes will ensure that the business acts in the best interests of the residents and remains compliant with the regulatory standards.

4.19 HFL Homes' first properties will be 70 homes at Lollard Street, Lambeth, which is a Section 106 scheme being delivered by the Canary Wharf Group. These homes will be let at council level rents with 35 homes available via a local lettings plan to current council tenants of neighbouring blocks. This scheme is due to be finished and ready for occupation in early 2019. The properties will be acquired from Lambeth Council by Homes for Lambeth with a sub-lease being granted to HFL Homes under a 250-year lease; Existing Use Value – Social Housing is the basis of the transfer price and shares will be issued in Homes for Lambeth as consideration. HFL Homes intends to acquire further Section 106 schemes on a similar basis. In addition, HFL Homes will play an essential role in the Homes for Lambeth structure by being the long-term landlord of affordable homes that will be developed by HFL Build. HFL Homes will acquire new affordable homes within its financial capacity to do so thereby ensuring it continues to manage a sustainable business providing the high-quality homes that its tenants deserve.

4.20 During 2019-20 HFL Homes will undertake a procurement exercise to establish a framework of housing management providers that can offer high quality and good value housing management services across HFL Homes' growing portfolio in Lambeth.

HFL Build

4.21 HFL Build will also increase its portfolio of homes for temporary private rent by March 2020. The first lettings were undertaken in November 2018, and HFL Build expects to have 100 homes in management by March 2020. These homes are temporary lettings for properties on prime sites for regeneration.

4.22 These lettings will be managed by external lettings agents to standards stipulated and monitored by HFL.

Other HFL Development Services

4.23 Homes for Lambeth will undertake research projects in the business plan period to inform and influence future regeneration activities. These projects will include researching HFL's private rented tenure strategy, assessing modern methods of construction, and investigating other sources of development funding and partnerships to assist HFL in fulfilling its objectives.

5. Investment Profile

5.1 The Business Plan to March 2020 and the investment and feasibility activities it contains, reflect estimated capital expenditure as follows:

Schemes Under Construction	By March 2019	By March 2020
Knights Walk Phase 1	£0.3m	£6.9m
South Lambeth Phase 1	0	£14.1m
Hillside Gardens	0	£0.5m
Total (cumulative)	£0.3m	£21.5m

Feasibility:	By March 2019	By March 2020
HFL Resources (re-charge)	£0.5m	£1.5m
Cressingham Gardens	£0.5m	£2.0m
Central Hill	£0.4m	£2.1m
Fenwick - study	0	£2.0m
Somerleyton Road	£0.3m	£0.5m
Other New Business opportunities	£0.2m	£1.0m
Total (cumulative)	£1.9m	£9.1m

5.2 Homes for Lambeth current forecasts indicate capital expenditure by Homes for Lambeth of £21.5m by March 2020 for schemes under construction. This forecast capital expenditure is expected to be supported by grant funding of £2.0m. In addition, Homes for Lambeth propose a budget of £9.1m for the period to March 2020 to support the council's feasibility work for future regeneration schemes; this budget includes Homes for Lambeth staffing resources and externally commissioned professional services only.

5.3 It should be noted that these budget estimates are highly reliant on the outcome of formal tendering activities and agreed new business priorities.

5.4 The operating budgets for Homes for Lambeth were approved by the Homes for Lambeth Boards at meetings in October 2018.

6. Beyond 2019-20

6.1 Homes for Lambeth will support the pre-development activity for this program and additional smaller site opportunities across this business plan period and provide sufficient

resource to meet council demand over the longer term. The overall program and the resourcing plan for Homes for Lambeth across a 3 year period is able to sustain this level of development.

7. Financial Controls

7.1 The Homes for Lambeth Boards have approved Financial Regulations for implementation. These establish financial controls, authorities and delegations commensurate with the objectives of the HFL organisation and with the regulatory context within which it operates.

Homes for Lambeth Operating Budgets

7.2 Outline operating budgets for 2018-19 and 2019-20 have also been approved for each of the subsidiary HFL companies. These budgets include the resourcing necessary to deliver the development programme outlined above, including the assumed development feasibility services to

7. Financial Controls continued

the council. Budget performance will be monitored on a monthly basis by the Homes for Lambeth Boards, in accordance with the commitments set out in the MOU. The Homes for Lambeth operating budgets are summarised as follows:

Budget split by Co	Total 2018/19 £'000	Total 2019/20 £'000
Homes for Lambeth		
Income	75	150
Expenditure	(516)	(1,192)
Net income	(441)	(1,042)
HFL Build		
Income	389	1,303
Expenditure	(476)	(1,196)
Net income	(87)	107
HFL Homes		
Income	289	578
Expenditure	(271)	(332)
Net income	18	246
Total Group		
Income	753	2,031
Expenditure	(1,262)	(2,720)
Net income	(509)	(689)

HFL Operating Budgets 2018-2020 (exc. Finance costs)

7.3 The budgets demonstrate net losses throughout the business plan period as Homes for Lambeth resources the companies to deliver the development programme which is not scheduled to generate turnover until 2021-22. The budgets are therefore highly sensitive to the rate at which the development programme is resourced and progressed and to the rate at which income is realised.

7.4 The HFL operating budgets are reliant on:

- Taking over management of buyback properties;
- Transfer of completed S106 properties by third party developers to HFL Homes; and
- Effective management of HFL staffing and resources budgets.

Homes for Lambeth Capital Budgets

7.5 Homes for Lambeth investment in IT systems, software and the routine supply and replacement of IT hardware is assumed to be covered through the SLA for IT support from Lambeth Council.

7.6 No budget provision has been made for capital investment in properties in the period to March 2020. Any such costs are expected to be funded by retention provisions or via grant funding applications (for example, for necessary aids and adaptations). Any necessary major repairs expenditure on temporary homes is expected to be expensed.

Feasibility and New Business Budgets

7.7 Homes for Lambeth will provide development services to Lambeth Council. As part of this service, feasibility budgets will be agreed and HFL staff will take financial responsibility for the monitoring and management of agreed budgets. The proposed feasibility budgets for the business plan period are:

Feasibility:	By March 2019	By March 2020
Resources (re-charge)	£0.5m	£1.5m
Fenwick – P2 planning and hybrid for estate	£0	£2.0m
Cressingham – Phase 1 planning and hybrid for estate	£0.5m	£2.0m
Central Hill – Phase 1 planning and hybrid for estate	£0.4m	£2.1m
Somerleyton Road – Phase 2 planning	£0.3m	£0.5m
Other New Business opportunities	£0.2m	£1.0m
Total (cumulative)	£1.9m	£9.1m

Budget Management

7.8 The council and the Homes for Lambeth Boards recognise that sound financial management will be critical to the success of this start-up group of companies. There is no existing income or assets and Homes for Lambeth will be undertaking major and complex development activity with expected contract values of c.£19.7m in the first twelve months of being established. As such, it is important that

the growth and risks are carefully managed, and that the company has sufficient financial and human resources to do so.

7.9 It is anticipated that early development schemes will require direct and indirect financial support from the council to facilitate the developments and to contain risks within acceptable risk parameters, particularly for the Homes for Lambeth group companies; support proposals will take full account of legal and contractual requirements and grant funding conditions.

7.10 The council and Homes for Lambeth will work collaboratively to deliver the overarching objectives of more and better homes for Lambeth.

7.11 Within the context of the overall capital programme and spending priorities, the council will consider:

- Application of right to buy (RTB) receipts to eligible expenditure on new affordable homes and/or support applications to the GLA or other funding bodies to maximise allocation of housing grant or other infrastructure funding available;
- Application of eligible Community Infrastructure Levy or Section 106 funding generated within the programme to meet eligible investments; and
- The recovery and timing of sunk costs in relation to residual land values.

The basis of financial viability for each site will be agreed prior to drawdown of funds by the HFL Board and the council and will be regularly monitored throughout the delivery period.

7.12 The Regulator of Social Housing will, as regulator of HFL Homes, have an interest in the financial management of HFL to ensure compliance with the Financial Viability Standard and to ensure that affordable housing assets are not put at risk. The HFL Homes Board will monitor this compliance.

7.13 Set out below are the financial controls and commercial parameters that Homes for Lambeth will work within. These will contribute to the delivery of the strategic objectives set out in the earlier section:

1. Development schemes must meet the viability requirements of the council and of Homes for Lambeth group companies; the investment appraisal criteria will be reviewed annually;
2. Homes for Lambeth will ensure compliance with all funding conditions including GLA funding conditions, and the conditions included in its loan agreements;
3. Homes for Lambeth will maintain liquidity for the companies in line with agreed minimum requirements;
4. Schemes must generate sufficient income to repay loans in line with agreed terms;
5. Post Practical Completion of schemes, Homes for Lambeth will prioritise safeguarding the cash flow requirements of companies within the group prior to distributing dividends;
6. Homes for Lambeth will seek required funding from the council in the first instance but reserves the right to market test the terms;
7. Homes for Lambeth and the council will seek to optimise the use of S106, grant and other similar funding to support the delivery of affordable housing;
8. The performance of HFL Homes will ensure that borrowing from Lambeth (on-lending of Public Works Loan Board funding) is repaid by the end of 50-year loan term for each loan facility or as otherwise agreed;
9. The mechanisms and parameters for the cross-charging of services between HFL and the council will be agreed and implemented. Similarly, any Homes for Lambeth intra-group re-charges will be set out clearly and monitored;
10. Homes for Lambeth activities may require council guarantees to support it as a new company;
11. Homes for Lambeth will use its expertise to add value to schemes and to its landlord services by exploring areas such as third-party income, enhancements to the residential offer, efficient procurement packages, design standards etc; and
12. Where equity is invested in Homes for Lambeth, developments and assets funded by equity will be actively managed to generate the target returns.

7. Financial Controls continued

Planned Procurements

7.14 Homes for Lambeth companies expect to undertake the following procurements by March 2020 (this list represents a selection but is not exhaustive and further procurements may be undertaken within the Scheme of Delegations to support the delivery of the Business Plan):

- Contractor procurement for the following schemes: Knight's Walk and South Lambeth Estate;
- Formal tax advice for the development schemes and land transfers to ensure tax efficiency and full awareness of tax implications for Homes for Lambeth's proposals;
- HFL Homes shall enter into a contract with Pinnacle for the housing management contract at Lollard Street (preferred bidder following a competitive procurement process) by March 2019;
- Services to support executive and corporate functions of Homes for Lambeth companies in so far as these are not provided by the council (e.g. Legal);
- Homes for Lambeth will also appoint auditors in 2019. This appointment will be proposed to the Ownership and Stewardship Cabinet Advisory Panel for recommendation to the Cabinet in accordance with the MOU compliance requirements. This proposal is scheduled for the first quarter of 2019.
- Homes for Lambeth will require an accounting system by March 2019; options will be considered and informed by the new system's capability or providing monitoring reports to the council's requirements;
- Commence procurement of a framework of housing management service providers for HFL Homes (the scope will be expanded to include private rent homes managed by HFL Living if this tenure is integrated into the schemes);
- Commence and complete procurement of asset management services;
- Commence and complete procurement of specialist technical service providers in accordance with the energy strategy to be adopted; and

- Commence procurement of a framework of consultants to support development activity, including but not limited to design and planning.

Key Agreements and Contracts

7.15 The Boards of each company will enter into a range of key agreements and contracts over the business planning period in order to deliver development, estates and tenant management activities, as well as corporate activities.

7.16 These agreements may include (but are not limited to) the following:

- Form of Agreement(s) for Lease;
- Form(s) of Lease and associated agreements (e.g. Warranties, Wayleave Agreements);
- Funding and associated agreements and finance documents;
- Lease and Tenancy Agreements;
- Service contracts for service providers;
- Construction contracts and associated agreements such as warranties, parent company guarantees, bonds etc;
- Estates and Tenant Management services contract;
- Planning Agreements including S106 Agreements, S278 Agreements etc;
- Service Level Agreements; and
- Collaboration Agreement with the council for services.

The council will retain 100% nominations to new affordable homes in accordance with the allocations policy.

7.17 Within Homes for Lambeth, all contracts will be reviewed and approved by the relevant party/parties to the contract in accordance with Homes for Lambeth policies.

7.18 Where the council is counterparty to a key agreement or contract, the council's own decision-making rules and processes as set out in the council's Constitution will govern the council's endorsement of the respective agreement or contract.

8. Enabling Activities

People and Resources

8.1 Homes for Lambeth's detailed plans for the effective recruitment and engagement of people are currently being formulated. The guiding principles will be to ensure that HFL has the skills and capabilities necessary to operate a multi-company structure (including a regulated provider of social housing), charged with the delivery of a complex urban regeneration programme, responsible for the safe delivery of capital budgets up to £1.6bn, operating within the context of a publicly funded organisation accountable to its customers.

8.2 Homes for Lambeth's Boards have agreed a resourcing plan and associated budget for the period to March 2020. This anticipates an initial staffing complement of c.20 staff resourced through secondments from Lambeth Council and interim appointments, rising to a total anticipated headcount of c.26 staff by March 2020.

8.3 Homes for Lambeth people will be contracted/employed by Homes for Lambeth Group Ltd and associated costs allocated and charged to other group companies and Lambeth Council as appropriate and dependent on activity. To achieve this, Homes for Lambeth Group is developing its recruitment offer and building the necessary infrastructure; Homes for Lambeth Group Ltd will, for example, require people related contracts of employment and policies, a pension scheme, and a payroll service.

8.4 Independent benchmarking has been instructed to confirm that the proposed staffing levels are reasonable in the context of the proposed development programme, and to validate salary levels.

8.5 The Transfer of Undertaking test of assignment process is being undertaken jointly by the council's HR team and an independent HR Consultant. There are very few roles that are in scope as the original structure on the Housing and Regeneration Team was predominately populated by interim staff to ensure the right skills were acquired at various points in the project process. Once the final report is complete a timetable can be created, and consultation can begin for the roles within

scope. This is likely to take between 4-6 weeks depending on availability of staff and their representatives for consultation meetings.

8.6 Homes for Lambeth needs a clear brand and identity in the market. Clarity about what a performance culture means will require work on developing the employer brand and ensuring congruency with HFL's external brand. The start of the process could be a workshop with directors to create three or four core values that will then drive how performance is managed. This can begin in January 2019 and be concluded by the middle of February.

8.7 The 2019-20 Homes for Lambeth resource budget approved by the Homes for Lambeth Board is £2.0m. Notably, c.£1m of this budget is expected to be re-charged to the council for the provision of development feasibility services.

8.8 The success of Homes for Lambeth relies on ongoing effective collaboration with Lambeth Council, appropriate controls and assurances. This is partly achieved through council nominated Board Members and thereby direct influence in Homes for Lambeth strategy and decision-making.

8.9 A Collaboration Agreement has also been developed and approved in principle by the Homes for Lambeth Boards. This sets out the service level agreements that will be required between Homes for Lambeth and the council to enable performance and delivery.

8.10 An effective and adequately resourced Homes for Lambeth function is also required within the council to manage the impact on the council of Homes for Lambeth's strategy and operational plans.

8.11 Homes for Lambeth will also implement IT systems in the business plan period and will consult with Lambeth IT as appropriate; these will include data management, business planning, and accounting systems.

9. Enabling Activities Funding

9.1 The Homes for Lambeth companies will be funded, either in part or wholly, by debt funding on commercial terms from the council. The Homes for Lambeth Executive and Boards will be responsible for ensuring that debt can be serviced and that target returns are generated. The following funding sources are in place or are in progress:

9.2 Lambeth Council Project development budget – the council has allocated an initial £25m to bring the nominated sites to the point of transfer to HFL Build (generally on award of a deliverable planning permission). The council is expected to agree that this budget will be

supplemented and replenished by receipts from land sales and will therefore be a recycling fund. Homes for Lambeth will provide the resources to undertake development management services and recharge the cost to this council budget. This funding is in place and accessed through the council’s arrangements for delegated powers.

9.3 Lambeth Council and Homes for Lambeth Funding Arrangements – Heads of Terms have been agreed for various equity arrangements and loan facilities. The purpose, status, and expected implementation dates for these facilities are as follows:

Source of funding	Purpose	Status
£5m Working Capital Loan facility between Lambeth Council and HFL Group Ltd.	Funding Homes for Lambeth cash flows until sufficient turnover is generated by HFL companies.	Heads of Terms Agreed Legal drafting ongoing
Development Project Loan Facilities between Lambeth Council and HFL Build Ltd.	Funding full development project costs until sales proceeds are realised. These facilities are currently capped at £150m.	Homes for Lambeth Board Approval scheduled for Spring 19 Council Approval scheduled for Spring 19
Housing Loan Facilities between Lambeth Council and HFL Homes Ltd	Funding acquisition of social homes from Lambeth Council or HFL Build Ltd.	Heads of Terms Agreed Legal drafting ongoing
Equity Arrangement between Lambeth Council and HFL Group Ltd	To facilitate the acquisition of the long lease of the Lollard Street Homes to HFL Homes Ltd	Agreement for Lease completed. Lease to be granted on practical completion of the new homes.

9.4 By March 2020, total loan facilities of £29.1m will be required; £22.8m of this is expected to be drawn by this date.

9.5 In 2019-20 Homes for Lambeth will research the potential for external funding options to inform the future funding strategy.

9.6 The council’s current delegated authorities to the Section 151 Officer and to the Director of Legal Services to enter into the formal loan agreements and lease arrangements continue to be required to enable and ensure adequate draw down funding during the business plan period.

10. Enabling Activities

Leases and Land Transfers

10.1 The council and Homes for Lambeth have entered into an Agreement for Lease for the 70 homes at council rent level in the Lollard Street development. On practical completion of these homes the council will grant the lease to HFL Group. On completion of the lease from the council, HFL Group will grant a sub-lease of the 70 homes to HFL Homes.

10.2 The council will also grant a head-lease of the 12 homes for private sale located at Lollard Street to HFL Group.

10.3 The council is to enter into Agreements for

Lease with HFL Build for the development sites at Knights Walk, South Lambeth, and Westbury estates. The Agreements to Lease will include provision for the draw-down of leases on a phase by phase basis prior to commencement of construction of the respective phase.

10.4 The council is to enter into Agreements for Lease with HFL Homes for the sale of the homes on the two Section 106 off-site affordable developments at Westbury (Phase 1) and South Fenwick estates. The leases for these two developments will be granted to HFL Homes on practical completion of the new homes.

11. Enabling Activities

Branding and Corporate Identity

11.1 Homes for Lambeth will continue to develop its corporate identity during 2019-20. The purpose of this will be to ensure that the supply chain, residents of estates that will be rebuilt will understand what Homes for Lambeth is, its relationship with the council, the mission given to it by the council and why it is taking the actions that it is. A part of this will be ensuring it is understood how Homes for Lambeth is supporting the council's ambitious plans to build more and better homes for the

people of Lambeth. This process will also lay the foundation for future market homes for sale and rent.

11.2 Homes for Lambeth recognise the need for congruency between the external brand and the employer brand that we use to support the Homes for Lambeth objective of achieving a high performing culture. Employment risk is also minimised by creating a strong employer brand. Activities to date on reward and pay has begun to address this requirement.

12. Risk Management

12.1 The respective Homes for Lambeth Boards are individually and collectively required to maintain risk registers, in order to support them in monitoring and managing the risks associated with all business activities proposed within this Business Plan.

12.2 Homes for Lambeth has a risk management approach that aims to implement a ‘risk aware’ culture which encourages the identification and assessment of risks on a programme level, identifying and assigning ownership for mitigation. Monthly risk reporting is currently operating across the teams. Monthly strategic risk review meetings also take place aimed at setting out and monitoring the level of exposure on a programme level.

12.3 Risks are assessed in accordance with established Lambeth Council risk management guidelines for capital projects, including the application of a pre- and post-mitigation risk score.

12.4 In recommending this Business Plan to the council’s Cabinet for approval, the Homes for Lambeth Boards wish to bring to the council’s attention (in its capacity as shareholder) the key, or headline risks associated with this Business Plan. There are two main types of such risk:

- Risks that may impede delivery of the Business Plan and
- Risks to the shareholder arising from delivery of the Business Plan

12.5 The risks that are set out below represent the main risks that have been identified by the Boards as those which could hinder delivery of the proposed development programme or represent future financial risks to the council as funder and guarantor of any funding of the development programme (and thereafter the new housing stock under management).

Risk	Likelihood	Impact	Mitigation
Tender returns are higher than expected and currently budgeted.	Likely	Major	Returns to be robustly reviewed and to ensure we maximise the number of returns
Residential sales values or inflation are lower than expected resulting in shortfall in revenue..	Likely	Major	Continue to monitor advice from residential agents in terms of inflation expectations.
Delay in securing vacant possession of Phase 2 results in prolongation and increased costs.	Unlikely	Major	Council vacant possession working group meets bi-monthly. Legal process for achieving VP to be commenced 12 months prior to PC of Phase 1.
Delay in extinguishment of third-party rights	Unlikely	Major	The council is to exercise its powers to appropriate for planning purposes which once implemented limit the beneficiaries of the rights to claims for compensation.
Increase in compensation payable for overriding third party rights	Unlikely	Major	The development appraisals include a budget for payment of compensation claims for over-riding third party rights HFL Build can elect to actively settle claims or it can elect to settle claims as they are received.
Tax implications may reduce viability	Unlikely	Moderate	The scheme viability above currently assumes no SDLT is payable and that all VAT is recoverable. HFL must register for VAT and form a VAT group to enable VAT recovery. Formal tax advice is being instructed.
Main contractors’ performance throughout duration of delivery	Likely	Major	Rigorous monitoring of progress through contractors reporting mechanisms along with continued site visits.

13. Investment Criteria

13.1 All development and acquisition activity will be fully assessed for financial viability and for risk; the viability assessments will include stress testing for general market risks as well as specific project risks.

13.2 Scheme cost assumptions will be benchmarked and informed by professional cost consultants; scheme valuation assumptions will be externally sourced and supported by an independent RICS accredited valuation report when the scheme is ready for approval.

13.3 Scheme proposals and risk assessments will be reviewed and approved by the relevant HFL

Board subject to the approval of any associated funding and/or lease agreements.

13.4 The Homes for Lambeth Boards, and the council in undertaking its funding considerations, may seek independent financial or legal advice when considered necessary.

13.5 Scheme viability assessments will be controlled by the adoption of core investment appraisal assumptions. The core assumptions for inflation and operating costs will also be adopted in Homes for Lambeth's financial business planning activities.

14. Governance

The Homes for Lambeth Board

14.1 An initial wave of Director appointments to the Boards were made as part of, and subsequent to, the incorporation of the Homes for Lambeth group of companies in July 2017 in accordance with the approved recommendations to Lambeth's Cabinet.

14.2 Further amendments were made to the council's appointments to the Board during the 2017-18 financial year, in order to reflect changes in the staffing circumstances within the council. A process for recruiting independent directors to join the Boards was also undertaken in accordance with the approach agreed with the council as shareholder of Homes for Lambeth Group. This recruitment exercise was informed by a skills audit of each Homes for Lambeth Board, which identified the key areas of experience and expertise required to supplement those of the respective incumbent Board Members.

14.3 The constitution of the Board of HFL Homes is different to the membership of the other companies to ensure it can demonstrate independence in line with the requirements of the Regulator of Social Housing.

14.4 All Board Members will receive training across the Business Plan period as required to

support the strategic needs of Homes for Lambeth and a skills audit of each Board shall be updated from time to time in order to ensure that each Board is actively considering the skills and experience required for success on a regular basis.

14.5 As a group of companies, Homes for Lambeth shall procure a suite of support services from the council such as resident engagement, communications, ICT, and financial services

14.6 The Boards of each company shall ensure that these arrangements deliver the right blend of experience, expertise and value for money to best meet the needs of Homes for Lambeth in its early years, which include the need to mobilise effective and robust operations and to deliver on the agreed objectives for housing delivery and housing management.

14.7 The Homes for Lambeth Boards will ensure that all strategies and infrastructure required to support the mobilisation and good management of Homes for Lambeth (both individually and as a group) are put in place. Whilst this will remain an on-going consideration, it is envisaged that this shall at least include the following in the business plan period to March 2020:

14. Governance continued

Supporting Strategies

- Estate and Tenant Management Strategy
- Communications Strategy
- ICT Strategy
- Procurement Strategy
- Risk Strategy
- Leasehold Buy-Back and Letting Strategy
- Energy Strategy

Corporate Infrastructure

- Dedicated office premises
- ICT systems for data management and e-mail (which must be fully compliant with all prevailing data protection legislation and statutory guidance)
- Insurances as required to support corporate and delivery activities
- Financial management and planning systems for each company
- Development and financial models
- Website and supporting e-comms.

Professional Registrations

14.8 The Homes for Lambeth Boards will be responsible to ensure that each company is registered appropriately with all statutory and trade bodies required to support the effective functioning of these companies.

14.9 There will be a range of registrations for the companies to put in place including, but not limited to, VAT registration and VAT group, Construction Industry Scheme and potentially a landlord association such as the National Housing Federation and/or Acuity.

14.10 The Homes for Lambeth Boards will ensure that all policies required to support the mobilisation and effective functioning of the HFL companies (both individually and as a group) across the business planning period are put in place.

14.11 The Boards shall endeavour that insofar as is practicable; policies will mirror or support those of the council.

14.12 Each of the Boards shall maintain and review a schedule of review for all policies.