

# **Homes for Lambeth Business Plan Financial Modelling**

**OWNERSHIP & STEWARDSHIP PANEL  
22<sup>ND</sup> OCTOBER 2020**



# Purpose of the presentation

To provide members with an overview of the financial modelling that supports the approved HFL Business Plan

# Coverage

- Scope of the financial modelling
- Assumptions used in the financial modelling
- Review and scrutiny by the Council
- Summary of outputs of the financial modelling
- Summary of revenues, costs and land value

# Scope of the financial modelling

- Build Ltd and Homes Ltd models
- Models forecast:
  - Revenues and costs for re-development of six large estates and a range of small sites
  - Borrowing from Council by Build Ltd to finance development
  - Borrowing from Council by Homes Ltd to finance purchase (from Build Ltd) of affordable housing
  - GLA and other grants receivable by Homes Ltd
  - Intercompany transactions between Group, Build Ltd and Homes Ltd
  - Cost of borrowing for loans from the Council
  - Payment to the Council (by Build Ltd) of land value (to offset Council costs)
  - Repayment of Council loans

# Assumptions used in the financial modelling

- The HFL modelling depends on a wide range of assumptions, including:
  - the number of units that can be built on the identified sites
  - costs to design and build homes
  - revenues generated by private sales
  - rental income streams from affordable stock
  - cost of borrowing from the Council
  - levels of grant available
  - risk allowances and levels of contingency
- Assumptions are based on:
  - industry standard indices and working practices
  - market intelligence, including advice from local estate agents
  - Instruction from the Council
  - existing GLA grant regime

# Review and scrutiny by the Council

- The Council has applied an appropriate level of due diligence to:
  - challenge and verify the assumptions
  - to check the structure and workings of the HFL models
  - to ensure that the HFL financial modelling meets the key objectives, including a total land value to offset Council costs and the recovery of Council loans
- This due diligence has been carried out by:
  - officers from Sustainable Growth & Opportunity and Finance & Investment departments with relevant skills and experience in housing management, housing and other large-scale development projects, financial modelling, financial management, including project finance
  - with external support from expert advisors
- The assumptions used are those that are considered reasonable and are supported by evidence at the time and must be reviewed and refreshed periodically to maintain the models' robustness.

# Summary outputs of the financial modelling

## Headlines: all years modelled

- £2.0bn revenues
- £1.8bn total costs (including financing costs & margin)
- £0.2bn land value due to the Council
- £0.1bn peak borrowing by Build Ltd in 2026 to meet development costs
- £0.4bn peak borrowing by Homes Ltd in 2040 for Homes Ltd to finance purchases (from Build Ltd) of affordable housing
- £0.1bn GLA Grant and RTB receipts
- Build Ltd loans fully repaid by 2038/39

Variances on 'live' projects compared to this financial modelling include material changes in revenues and costs on some projects but, in aggregate, no material impact on the land value due to the Council.

# Summary of revenues, costs and land value

	Small Sites (see notes)	Central Hill	Cressingham	Fenwick Estate	Knights Walk	South Lambeth	Total
<b>Revenue £m</b>	397	466	419	484	38	166	1,971
<i>less</i>							
<b>Costs £m</b>	355	434	370	406	35	153	1,753
<i>yields</i>							
<b>Residual Land Value £m</b>	42	32	49	78	3	13	218

Therefore, as per previous slide:

- £2.0bn revenues
- £1.8bn total costs (including financing costs & margin)
- £0.2bn land value due to the Council

Notes:

Small sites includes projects described in the CMDDR of 30/03/2020 as

- Other projects (Angell Town, Carmelita & Orsett, Denby Court, Hemans, Hydethorpe, Larkhall, Patmos, Somerleyton Road, Westbury & Wootton St)
- Phase 1 of Central Hill (Roman Rise), Fenwick (Fenwick Place) and Cressingham (Trinity Rise)

# Next steps

The financial modelling will be fully updated to inform the next iteration of the Business and Programme Delivery Plan for approval by the Council in 2021.

# Questions