

**Cabinet**      **22<sup>nd</sup> January 2018**

**Report title:** Homes for Lambeth Business Plan (January 2018 to March 2019)

**Wards:** All

**Portfolio:** Councillor Paul McGlone, Deputy Leader of the Council (Investment and Partnerships)

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### **Report summary**

Housing represents one of the greatest challenges facing Lambeth. It is an issue that links all three major themes of the Lambeth Borough Plan (2016-2021) – Inclusive Growth, Reducing Inequality and Strong and Sustainable Neighbourhoods.

Over the past few years house prices have risen by 47% in Lambeth, putting home ownership in the open market out of the reach of an increasing number of local people. Private rents have risen by 27%, with an average two bed flat in the borough costing nearly £1600pcm; combined with reductions in benefits many families find themselves priced out of the community they know and love. Despite being one of the most effective boroughs in London in preventing homelessness we have seen the number of homeless families needing temporary accommodation rise to over 1800, including almost 5000 homeless children, a scandal in a prosperous city like London.

While Lambeth has exceeded its targets in the London Plan with an additional 5700 homes in the three years to April 2016, changes in government policy have seen too few social and affordable homes built across London. In Lambeth that has meant the waiting list for housing has grown to over 23000 people with fewer homes becoming available each year and overcrowding for families getting worse with over 1300 families severely overcrowded in their current home.

The council wants to make sure that the residents of Lambeth can continue to live in the Borough in which they grew up, to enable communities to stay together. At the same time, the council's planning policy seeks to make sure that urban regeneration and new developments give rise to socially mixed communities in the Borough.

As one of the measures to address the housing challenges the council has set up **Homes for Lambeth** (HfL), a new council-owned house building and management company, to build and manage more and better homes, to help reduce the substantial pressures on the council's housing waiting list and to improve the lives of those residents currently living in poor quality and overcrowded homes. The council is and will remain the only shareholder for this new group of companies, thereby ensuring on-going democratic oversight.

The establishment of HfL will enable the council to build more genuinely affordable homes than would be achieved by partnering with other developers or housing associations; the surpluses (such as 20% profit) that would otherwise be extracted by the private sector can be recycled by HfL back into delivering more affordable homes. By developing through HfL, land will be maintained in effective public ownership. And

HfL will enable the council to build and own homes for market rent with longer tenancies, better management and more security than many Lambeth residents are able to access.

In July 2017 the four companies proposed to make up the HfL group of companies were incorporated. Various mobilisation activities have taken place including finalisation of the Memorandum of Understanding between the council (as the only shareholder) and the new group of companies along with preparation of a Business Plan for the new group of companies. The MoU and the Business Plan are now submitted to council Cabinet for approval. The MoU establishes the decision-making framework for the new group of companies. The Business Plan sets out the proposed intentions and deliverables for the HfL Boards to work to over the business planning period through to March 2019.

Within the period of this Business Plan (to March 2019), HfL expects to commence building 300 new homes and over the five years forecast in this Business Plan expects to have over 500 newly built homes under management. As set out in Sections 4 and 5, HfL expects to commit to the delivery of the Phase 1 Estates and several housing developments; the total investment that will be required to deliver all these projects, to build new homes and improve the quality of homes for existing residents will be around £300m.

The council has established a Cabinet Advisory Panel, called the Ownership and Stewardship Panel (OSP), being a shareholder committee to oversee the activities of the Homes for Lambeth group of companies; it will support the council to scrutinise and manage its interest as the only shareholder. A key responsibility of the OSP is to review the draft Business Plan and recommend the approval of the Business Plan to Lambeth's Cabinet.

### **Finance summary**

To enable the delivery of the activities set out in this Business Plan, HfL will draw down working capital funding from the £5m loan that was agreed in principle by Cabinet in May 2017, this money will fund Homes for Lambeth's day to day operations. Homes for Lambeth is also expected to borrow from the council in order to enter into development contracts. The level of this borrowing is expected to be in the order of £300m for the initial 3 estates and housing developments; however only a small proportion of this will be required to commence construction of developments during the business planning period through to March 2019. The terms of this funding and draw-downs will be subject to approval by the council's Director of Finance.

To enable the programme to progress to this stage the Council has already agreed funding of £25m to undertake design and viability work on the identified sites and has agreed £19.737m of funding to progress the buy-back of leaseholder properties.

### **Recommendations**

- 1) To note the recommendation of the Ownership and Stewardship Panel and approve the Business Plan which includes forecasts for the period of 2017/18 – 2022/23 and to delegate authority to the boards of the Homes for Lambeth group of companies to implement the Business Plan over the identified business planning period of January 2018 to end March 2019.
- 2) To delegate authority to the Section 151 officer to raise and onward lend sufficient prudential borrowing to enable HFL group of companies to operate and to enter into construction contracts for the projects outlined in Section 2.
- 3) To approve the Memorandum of Understanding, registered names, board membership, and Articles of Association for each of the Homes for Lambeth companies and to delegate authority to

the Council's Director of Legal Services to enter into lease agreements for projects set out in section 2.

## **1 Context**

- 1.1 Lambeth is committed to tackling the housing crisis in the borough by maximising the number of new affordable homes to make sure residents aren't priced out of the housing market. Providing more and better homes for Lambeth residents is one of the council's key priorities.
- 1.2 The lack of affordable housing is one of the biggest issues facing our residents; across London as a whole, there is a growing housing crisis. According to the Land Registry Lambeth's average house price in 2016 was £518,088 – 15 times London's average annual wage.
- 1.3 In May 2017 Cabinet delegated authority to officers to incorporate Homes for Lambeth and gave approval for a set-up loan facility of £5m for its first 5 years of operation. The decision report set out that officers would return to Cabinet in the near future to seek adoption of a business plan for the group of companies for the initial period of operation.
- 1.4 Following this decision, in July 2017 the four companies proposed to make up the HfL group of companies were incorporated. Various mobilisation activities have taken place; in particular work has been undertaken to finalise the Memorandum of Understanding along with preparation of the business plans for the new group of companies. In addition to this the process for registering HfL Homes Ltd (the housing association within the group) was commenced with the Homes and Communities Agency and the first stage of this registration process has now been successfully completed.
- 1.5 The council has established an Ownership and Stewardship Panel (OSP) to support the council to scrutinise and manage its interest as the only shareholder. A key responsibility of the OSP is to review the draft Business Plan and recommend the approval of the Business Plan to Lambeth's Cabinet.
- 1.6 This Report presents the OSP's recommendation to approve the attached Memorandum of Understanding and the first Business Plan (which includes forecasts for the period of 2017/18 – 2022/23 with a detailed focus on activities during 2017/18 and 2018/19) for the Homes of Lambeth group of companies. The MoU includes a Scheme of Delegation which sets out what decisions can be taken by the HfL Boards and what decisions need to be taken by the council as the only shareholder. The MoU also includes a Terms of Reference for the OSP itself.

### **Addressing the Housing Challenge**

- 1.7 Housing represents one of the greatest challenges facing Lambeth. It is an issue that links all three major themes of the Lambeth Borough Plan (2016-2021) – Inclusive Growth, Reducing Inequality and Strong and Sustainable Neighbourhoods.
- 1.8 Over the past few years house prices have risen by 47% in Lambeth, putting home ownership in the open market out of the reach of an increasing number of local people. Private rents have risen by 27%, with an average two bed flat in the borough costing nearly £1600pcm; combined with reductions in benefits many families find themselves priced out of the community they know and love. Despite being one of the most effective boroughs in London in preventing homelessness we have seen the number of homeless families needing temporary accommodation rise to over 1800, including almost 5000 homeless children, a scandal in a prosperous city like London.
- 1.9 While Lambeth has exceeded its targets in the London Plan with an additional 5700 homes in the three years to April 2016, changes in government policy have seen too few social and affordable homes built across London. In Lambeth that has meant the waiting list for housing has grown to over

23000 people with fewer homes becoming available each year and overcrowding for families getting worse with over 1300 families severely overcrowded in their current home.

- 1.10 The council wants to make sure that the residents of Lambeth can continue to live in the Borough in which they grew up, to enable communities to stay together. At the same time, the council's planning policy seeks to make sure that urban regeneration and new developments give rise to socially mixed communities in the Borough.

### **The Aspirations for Homes for Lambeth**

- 1.11 Homes for Lambeth represents one of the major initiatives being progressed by the council to tackle the housing challenge.

- 1.12 Increasing costs of development have meant that fewer and fewer genuinely affordable homes are being delivered by private developers and housing associations. HfL will help the council to address these market failures and optimise the proportion of genuinely affordable housing that can be delivered through new developments and estate regeneration projects. The company will enable the council to cycle the surplus that would otherwise be taken by private developers and to reinvest this into more affordable homes. It will also give the council greater control over the design of new homes and estate regeneration projects, to enable more cooperative working with residents and communities and ensure that new developments deliver social, economic and physical improvements to local neighbourhoods. There are also other opportunities such as developing a stock of homes for private rent, with long-term tenancies and rent stability, improving the quality and security of the private rented sector in Lambeth, and using these homes to subsidise the building of more social and affordable homes in Lambeth for local families.

- 1.13 The Vision for HfL is set out below:

### **HfL will work with Lambeth Council and others to build more and better homes to help address local housing need and contribute positively to Lambeth.**

- 1.14 The following principles were established for HfL to pursue in order to fulfil this vision:

1. Building more and better homes to help tackle the housing crisis
2. Providing high quality services for residents
3. Investing resources efficiently and to maximise housing and regeneration outcomes
4. Maximising partnerships with public and private sector organisations
5. Being a strategic delivery partner for the London Borough of Lambeth
6. Building and maintaining financial strength and deliver more homes
7. Engaging with local communities and invest for the long term
8. Providing social housing.

- 1.15 In the lead up to incorporation of HfL, the council has initiated an estate regeneration programme and a programme of housing developments that it is intended HfL will build out and then own thereafter. These projects represent the pipeline of developments that form the basis of this business plan for the new company.

- 1.16 Over the next 10 years, HfL will aim to deliver six estate regenerations and a number of smaller housing developments, replacing 1,394 poor quality homes and designing and building more than

2000 net additional homes. As per the principles set out above, HfL will seek to make as many of the new homes genuinely affordable for the residents of Lambeth. In relation to estate regeneration projects, the company will prioritise meeting the council's Key Guarantees to ensure that existing communities can remain living together.

- 1.17 Within the period of this Business Plan (to March 2019), HfL expects to commence building 300 new homes and over the five years forecast in this Business Plan expects to have over 500 newly built homes under management. As set out in Sections 4 and 5 of the Business Plan, HfL expects to commit to the delivery of the Phase 1 Estates and several housing developments within this business plan period; the total investment that will be required to deliver all these projects, to build new homes and improve the quality of homes for existing residents, is around £300m. However, it should be noted that only a small proportion of this funding will be drawn down over the next 15 months of this business plan period.
- 1.18 Sound financial management will be critical to the success of HfL, in particular because it is a new company. HfL is beginning with no existing income or assets and will be undertaking major development activity within the first twelve months of being established. As such, it is important that the growth and risks are carefully managed, and that HfL has sufficient financial and human resources to do so.

## **2 Proposal and Reasons**

- 2.1 The following proposals are made with the recommendation of the OSP.
- 2.2 The Ownership and Stewardship Panel met on 19<sup>th</sup> October 2017 to consider the Business Plan for the period through to March 2019 (inclusive), to consider the final draft Terms of Reference for the Panel, to consider the Memorandum of Understanding and the Scheme of Delegations therein and the approach to appointing the Tenant Member to the panel. The panel endorsed the Business Plan and the Memorandum of Understanding, their recommendations were further considered by the Chair, and revisions were incorporated to inform the proposals and recommendations for Cabinet set out in this report.

### **Business Plan**

- 2.3 The Business Plan sets out the objectives, planned activities, deliverables, financial operating framework and performance management framework for the companies within the Homes for Lambeth ('HfL') Group, both collectively and individually. Individual Business Plans for the subsidiaries of HFL Group are aligned with this Business Plan and are provided as appendices.
- 2.4 This Business Plan forecasts for the period of 2017/18 – 2022/23 with a detailed focus on activities during the remainder of 2017/18 and for the full financial year of 2018/19 ("the business planning period" is considered to be the period from now to March 2019). Going forwards it is expected that the Business Plan will be reviewed and revised annually with the next Business Plan to be adopted for the beginning of the financial year 2019/2020.
- 2.5 The Business Plan establishes the framework of actions and deliverables for the Homes for Lambeth Boards to work towards over the Business Plan period. It represents a key mechanism within the Scheme of Delegations for the group of companies in setting the council's intentions for HfL.
- 2.6 It shall be the responsibility of the Boards of each company to oversee the development and realisation of delivery strategies within the parameters defined in the Business Plan; to direct the implementation of the activities required to realise the Business Plan objectives; and to monitor progress and risk.

## 2.7 This Business Plan:

- Sets out forecast investment requirements for the period, and how key risks will be managed.
- Defines a suite of objectives for each of the operating companies and links these to Key Performance Indicators, which will be used by the Ownership and Stewardship Panel to monitor progress of the business activities.
- Sets out a statement of intent and forecast of proposed activities for the business plan period. It will remain the responsibility of each HfL Board Member to review progress against the Business Plan and in the context of evolving economic and market conditions and other influencing factors to set the overall direction for HfL.

2.8 The financial year for HfL is 1<sup>st</sup> April to 31<sup>st</sup> March, which is aligned with that of London Borough of Lambeth.

2.9 The reason for adopting a Business Plan is to create an operating framework for the respective Boards and a means by which the council as the only shareholder can oversee and monitor the progress and performance of HfL.

### **Contractual and Funding Issues**

2.10 The Council's Director of Legal Services will finalise terms for Agreement for Lease and Lease agreements with HfL in order to enable the delivery of schemes specified in the Business Plan, as set out below:

- Phase 1 Estates
  - Knight's Walk
  - South Lambeth
  - Westbury
- S106 Projects
  - Lollard s106
  - Fenwick s106
  - Westbury s106
- Housing Developments
  - Hemans
  - Patmos
  - Carmelita
  - Orsett Street

2.11 Subject to individual scheme's business cases meeting prudential borrowing funding requirements the Section 151 officer will raise and onward lend sufficient prudential borrowing to enable commencement of projects as outlined in Section 4 of the Business Plan.

2.12 As set out in the Business Plan, it is anticipated that the following schemes (or phases of schemes) will commence during the business plan period through to March 2019: Knight's Walk (Phase 1), South Lambeth (Phase 1), subject to finalisation and approval it is anticipated that some of the housing developments may also come forward e.g. Hemans, Patmos and either Carmelita or Orsett Street.

2.13 Through the process of procuring construction, the total construction cost will be confirmed and HFL Build will need to determine that each project is viable either on its own or is viable in the context of the programme or a larger estate project and should proceed. If the Board of HFL Build considers that the optimal funding route is through the council, then it will need to request funding from the council and it will be the delegated responsibility of the s151 officer to confirm that funding can be made available so that HFL Build can enter into contract to construct the relevant scheme.

- 2.14 Homes for Lambeth will procure, scope and enter into the necessary contracts for works, supplies, land and grant agreements to deliver the schemes set out in the Business Plan, overseen by the respective Homes for Lambeth Boards.
- 2.15 In order to implement the Business Plan and progress the activities of HfL, the respective company boards will need to be able to enter into a variety of contractual and funding agreements. Adoption of the Business Plan will be deemed by the respective boards of HfL Group and its subsidiaries as an instruction to:
- Commit to those regeneration and development projects as identified in Section 4.2 of the appended HfL business plan including the necessary land and development transactions with the council, third parties and between companies in the HfL group.
  - Draw down the required level of funding against the £5m start up loan facility subject to agreement with the appointed council Officer(s), and put in place any intra-group arrangements to ensure liquidity across the group
  - Enter into the necessary contracts with suppliers, contractors and grant funding bodies etc. to facilitate delivery of the schemes set out in Business Plan
  - Prepare the necessary financial information to support the draw-down of capital funding to acquire land and develop new homes, and enter into the funding agreements
  - Complete the registration of HfL Homes as a Registered Provider including the provision of guarantees that the Homes and Communities Agency may reasonably require
  - Put in place the governance and operational arrangements as set out in section 6, including setting in place the key policies that will underpin operations across the group (such as the Procurement Policy, Conflict of Interest Policy and Financial Regulations).
- 2.16 In order to enable HfL to progress the Business Plan, the council for its part will need to execute decisions (such as disposal of land and allocation of funding) in a timely manner according to its own delegated procedures.

### **Memorandum of Understanding**

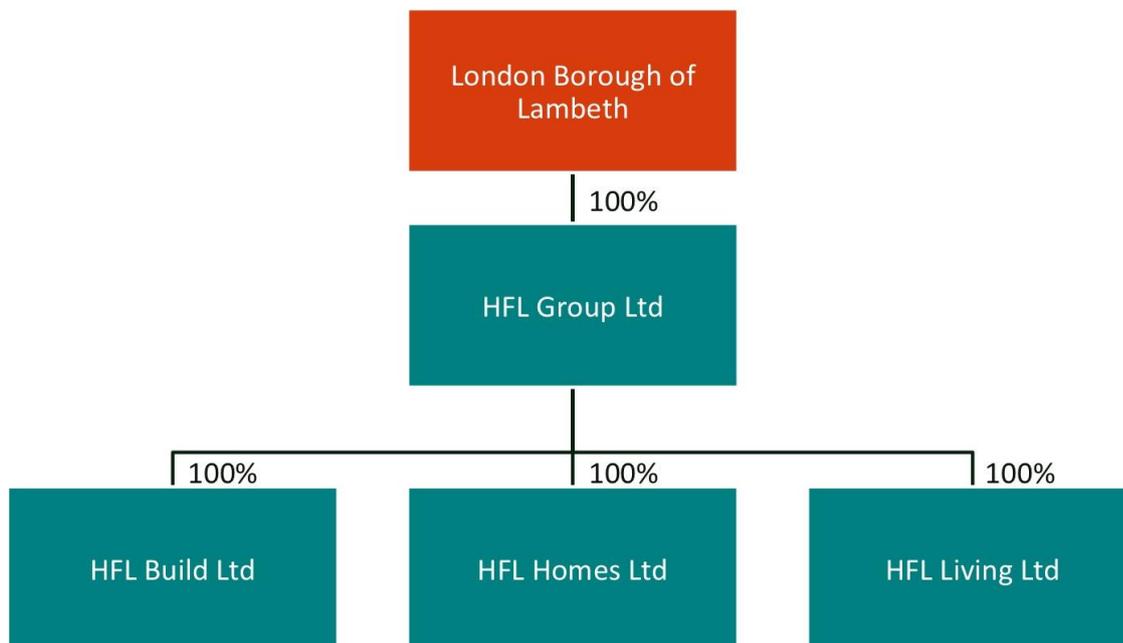
- 2.17 The Memorandum of Understanding (MoU) represents an important governance contract that sets out the contractual relationship between the council as only shareholder and the group of companies and formalises the contractual relationships between each of the group of companies.
- 2.18 The MoU includes a Scheme of Delegation that sets out who can take what decisions regarding the operation of the group of companies.
- 2.19 The process for developing, reviewing and formally adopting the Business Plan for the HFL Group of companies (individually and collectively) is subject to the terms of the MoU between each of these companies and the council as the sole shareholder of the parent company (HFL Group).
- 2.20 Within the MoU, a Scheme of Delegation sets out the reserved matters that require shareholder or board-level approvals. The Scheme of Delegation supports the provisions set out in the MoU that stipulate the requirement for the Council (in its capacity as shareholder) to approve the Business Plan for the Homes for Lambeth group of companies.

### **Articles of Association**

2.21 The Articles of Association for each company sets out how that company will operate and how decisions will be made. If there are any conflicts between the MoU and the Articles of Association contracts, then the MoU will prevail.

### Company Names

2.22 The structure diagram below shows the group structure and the role of each company is also summarised after the diagram.



2.22.1 **'HFL Group Ltd'** is the holding company within the HFL group. It is private company limited by shares, of which 100% of the shares are held by the council

2.22.2 **'HFL Build Ltd'** is a development company responsible for building new homes. It is private company limited by shares, of which 100% of the shares are held by HFL Group.

2.22.3 **'HFL Homes Ltd'** is intended to become Registered Provider of social housing regulated by the Homes and Communities Agency during the period covered by this business plan. It will acquire affordable housing from HFL Build and also S106 properties, which are secured from developers by the Council through Planning Obligations and are delivered by third party developers and then acquired by HFL Home. It is private company limited by shares, of which 100% of the shares are held by HFL Group. (The registration process for HFL Homes was commenced with the Homes and Communities Agency; the first stage of this registration process has now been successfully completed.)

2.22.4 **'HFL Living Ltd'** is a Private Rented Sector ('PRS') housing company that will acquire new PRS housing from HFL Build to manage over the long term. It is private company limited by shares, of which 100% of the shares are held by HFL Group.

2.23 These companies were initially incorporated with the following names: Lambeth TopCo, Lambeth DevCo, Lambeth RPCo and Lambeth PRSCo respectively. However, following a recommendation by the OSP and a formal resolution by each Board, it is now proposed that these names are changed to those listed above.

2.24 The new company names have been reserved and will be adopted immediately after this Cabinet Decision comes into effect.

**Board Membership**

2.25 The Cabinet Decision of 15<sup>th</sup> May 2017 set out the proposals for the membership of the respective company boards. Initial council officer appointments have been made to each of the respective company boards (in accordance with the May 2017 Cabinet approval) and these boards have met formally from time to time. The appointments that have been made are:

- **HFL Group Ltd, HFL Build Ltd and HFL Living Ltd**
  - Strategic Director Neighbourhoods and Growth
  - Finance Director
  - Director Strategic Programmes (with lead responsibility for estate regeneration)
  - Head of Legal, Housing
  
- **HFL Homes Ltd**
  - Director of Strategic Programmes
  - Head of Legal, Housing

2.26 In order to address organisational changes within the Council, it is confirmed that the full composition of the company boards will be as follows:

<b>HFL Group, HFL Build, HFL Living</b>	<b>HFL Homes</b>
<ul style="list-style-type: none"> <li>• Cabinet Member or other elected Councillor</li> <li>• Strategic Director Neighbourhoods and Growth</li> <li>• Finance Director</li> <li>• Director with Lead Responsibility for Estate Regeneration</li> <li>• Head of Legal, Housing</li> <li>• Assistant Director Financial Planning &amp; Management</li> <li>• Assistant Director Housing Regeneration</li> </ul>	<ul style="list-style-type: none"> <li>• Director with Lead Responsibility for Estate Regeneration</li> <li>• Head of Legal, Housing</li> <li>• Assistant Director Financial Planning &amp; Management</li> <li>• Assistant Director Housing Regeneration.</li> </ul>

2.27 In addition to these individuals, the process for appointing external Non Executive Directors to each of these Boards (as per the recommendations approved by Cabinet in May 2017) is underway.

2.28 Decisions on appointments will formally be taken by the respective Homes for Lambeth boards, having consulted the OSP.

2.29 The process for appointing the Cabinet Member or other elected Councillor will require nomination by the Chief Whip.

2.30 The memberships to outside bodies are approved by Council at the AGM much in the same way as Committee Memberships; and these appointments will need to be made at the AGM. The Council's

Democratic Services Officer has delegated responsibility to approve memberships outside of the AGM once the determination of Members has been provided.

### **3 Finance**

- 3.1 Cabinet have previously agreed a package of funding of £25m in 2014 to increase the supply of affordable housing and in May 2017 agreed in principle an initial £5m to provide Homes for Lambeth with working capital.
- 3.2 This report represents the next step in the development of Homes for Lambeth as the delivery route for Estate Regeneration projects and various small sites and provides more information on the estimated costs and related risks and benefits of doing so.
- 3.3 The financial data included within this Business Plan is based on modelling undertaken by the Council based on advice by Pinsent Masons and reviewed by Grant Thornton. This modelling shows the initial three estate regeneration schemes (Knight's Walk, South Lambeth and Westbury) to be viable, although it is important to understand that construction is a volatile industry and the modelled position and the assumptions behind it will need to be kept under continual review.
- 3.4 The initial development costs of the 3 sites are estimated to be £286m including buy back costs. The Business Plan assumes that the company will borrow from the Council at State Aid compliant rates, although the company can potentially borrow elsewhere; in the initial years of operation it is assumed that the Council will be the cheapest source of funding available. There is more detail of the profile of this expenditure within Section 5.2 of the Business Plan.
- 3.5 In borrowing itself, in order to on-lend to the Company, the Council needs to be aware of the risks involved and conscious of how the significant amount of borrowing involved will impact on the wider Treasury Management position. The current modelled position for the 3 initial estates shows a peak debt level of £165m for the group of companies in 2023, which is largely comprised of debt to the Development Company of around £125m. It is important to distinguish between debt owed by the development company and that owned by the housing management companies, as the risk level is significantly different. The risk to the Council is highest in the development phase where costs are most volatile but reduces substantially in the operating phase where the company owns assets that provide a guaranteed income stream.
- 3.6 In addition to the 3 estate regeneration schemes, it is also expected that Homes for Lambeth will look to develop other smaller sites in the early part of its operation. Detailed costings of these sites have not yet taken place, but the expectation is that the development cost here would be in the range of £30m-£50m. Therefore the total borrowing by Homes for Lambeth is likely to exceed £300m in the first phase. Aside from the initial allocation of working capital, the required borrowing will only be undertaken once a revised financial model is submitted by the company prior to development commencing and has been reviewed by appropriately qualified staff.
- 3.7 As with any significant Investment decision, the Council will need to update the modelling and risk analysis on a regular basis, to ensure the risk to the wider Council is fully understood, bearing in mind the legislative environment, as Central Government continue to review guidance on how Councils should report on and make investment decisions. Among the many variables that will impact on the viability of the initial 3 schemes are construction costs, sales values and rental income and the level of grant funding to be received from the GLA. The development costs outlined within this report are as at October 2017 and can be expected to change and therefore will need to be updated as the company works through the different phases of the development, such as seeking planning permission, awarding contracts and commencing development.

- 3.8 Other smaller housing development schemes are identified within the Business Plan, which require more detailed design work and viability modelling to develop viable and deliverable planning applications that would be appropriate for taking forwards by Homes for Lambeth.
- 3.9 It may well be that by lending to Homes for Lambeth, the Council is limited in the amount of borrowing it can undertake for other projects.

#### **4 Legal and Democracy**

- 4.1 Section 1(1) of the Localism Act 2011 introduced the “general power of competence” for local authorities, defined as “the power to do anything that individuals generally may do” and which expressly includes the power to do something for the benefit of the authority, its area or persons resident or present in its area. The generality of the power conferred by subsection (1) is not limited by the existence of any other power of the authority which (to any extent) overlaps the general power.
- 4.2 Section 4(2) of the Localism Act 2011 provides that where, in exercise of the general power, a local authority does things for a commercial purpose the authority must do them through a company.
- 4.3 Section 95 of the Local Government Act 2003 authorises the Council to do for a commercial purpose anything which it is authorised to do for carrying on any of its ordinary functions (other than where it is under a statutory duty to provide that function) however, this power is only exercisable through a company.
- 4.4 Section 111 of the Local Government Act 1972 enables the Council to do anything which is calculated to facilitate, or is conducive to or incidental to, the discharge of any other of its functions, whether involving expenditure, borrowing or lending money, or the acquisition or disposal of any rights or property.
- 4.5 Section 9 of the Housing Act 1985 empowers the Council to provide housing accommodation by erecting houses, or converting buildings into houses, on land acquired by them. This power may equally be exercised in relation to land acquired for the purpose of disposing of houses provided, or to be provided, on the land, or of disposing of the land to a person who intends to provide housing accommodation on it.
- 4.6 Section 17 of the Housing Act 1985 empowers the Council to acquire land as a site for erection of houses or to acquire houses, or buildings which may be made suitable as houses, together with any land occupied with the land or buildings. The power conferred this section includes power to acquire land for disposing of houses provided, or to be provided, on the land or of disposing of the land to a person who intends to provide housing accommodation on it.
- 4.7 Section 24(1) of the Local Government Act 1988 provides the Council with the power, subject to the consent of the Secretary of State, to provide any person with financial assistance for the purposes of, or about, the acquisition, construction, conversion, rehabilitation, improvement, maintenance or management (whether by that person or by another) of any property which is or is intended to be privately let as housing accommodation. Financial assistance is defined to include the making of a grant or a loan, guaranteeing the performance of any obligation owed to or by that person; indemnifying them against loss, or where that person is a body corporate acquiring shares or loan capital in that person.
- 4.8 Under section 26 of the Local Government Act 1988 the Secretary of State has issued “The general consent under section 25 of the Local Government Act 1988 for financial assistance to any person

2010". General consent C empowers the Council to provide any person with any financial assistance for the purposes of or about the matters referred to in section 24(1) of the 1988 Act.

- 4.9 Subject to the Secretary of State's consent, section 32 of the Housing Act 1985 gives the Council the power to dispose of land held under part 2 of the Housing Act 1985 in any manner it sees fit.
- 4.10 Pursuant to Sect 34 of the 1985 Housing Act the Secretary of State has issued "The General Housing Consents 2013 Section 32 of the Housing Act".
- 4.11 General consent A3.1.1 permits a local housing authority to dispose of land held under part 2 of the Act for consideration equal to its market value. However, this does not apply to a disposal to a body in which the authority owns an interest except the first 5 disposals in a financial year. "Land" includes buildings (which could include dwelling-houses, houses and flats) and other structures, and any estate, interest, easement or right over land.
- 4.12 Section 123 of the Local Government Act 1972 empowers the Council to dispose of land in any manner it sees fit, save that it cannot dispose of land, otherwise than by a lease of less than 7 years, at less than the best consideration that can reasonably be obtained, without obtaining the Secretary of States' consent.
- 4.13 The Secretary of State has issued the general consent "Disposal of land for less than the best consideration that can reasonably be obtained: circular 06/2003". This permits local authorities to dispose of land for less than the best consideration that can reasonably be obtained, where the Council considers the disposal will help secure the promotion of economic, social or environmental well-being of its area, and the undervalue does not exceed £2,000,000.
- 4.14 In determining whether to dispose of land for less than the best consideration reasonably obtainable, and whether any specific proposal to take such action falls within the terms of the consent, the Council should ensure that it complies with normal and prudent commercial practices, including obtaining the view of a professionally qualified valuer as to the likely amount of the undervalue and ensuring that any disposal is state aid compliant.
- 4.15 The provision by the Council of financial support to the companies may raise questions of state aid under Article 87 of the EC Treaty and the Council must be satisfied that the proposed actions are lawful. The specific ingredients of state aid under Article 87 are: (i) there is aid; (ii) it is granted by a Member State or through State resources; (iii) it favours certain undertakings; (iv) it distorts or threatens to distort competition; and (v) it affects inter-State trade. An "aid" comprises any form of intervention which has the same or similar effects to a subsidy. Independent legal and accountancy advice have confirmed the terms of the loans to the company is state aid compliant.
- 4.16 Section 149 of the Equality Act 2010 sets out the public-sector equality duty replacing the previous duties in relation to race, sex and disability and extending the duty to all the protected characteristics i.e. race, sex, disability, age, sexual orientation, religion or belief, pregnancy or maternity, marriage or civil partnership and gender reassignment. The public sector equality duty requires public authorities to have due regard to the need to:
- Eliminate unlawful discrimination, harassment and victimisation and other conduct prohibited under that act
  - Advance equality of opportunity between persons who share a relevant protected characteristic and those who do not share it; and
  - Foster good relations between those who share a protected characteristic and those who do not share it, which involves having due regard to the need to-

- (i) tackle prejudice, and
  - (ii) promote understanding.
- Having due regard to the need to advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it involves having due regard to the need to—
    - (a) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;
    - (b) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it, including steps to take account of disabled persons' disabilities;
    - (c) encourage persons who share a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.
  - Compliance with the duties in section 149 of the Act may involve treating some persons more favourably than others; but that is not to be taken as permitting conduct that would otherwise be prohibited by or under the Act.
  - The Equality Duty must be complied with before and at the time that a policy is under consideration or decision is taken - that is, in the development of policy options, and in making a final decision. A public body cannot satisfy the Equality Duty by justifying a decision after it has been taken.
  - When considering whether to adopt the recommendations of this report, the decision maker will be exercising discretion within the constraints of the duties referred to above and should therefore have in mind the following principles of administrative law:
    - the decision must be within the Council's powers;
    - all relevant information and consideration, including the Council's fiduciary duty to the Council Tax payer, must be considered; and
    - all irrelevant considerations, including unauthorised purposes, must be ignored.

## **5 Consultation and co-production**

- 5.1 Consultation and coproduction with residents and the wider community is central to the development of individual regeneration schemes and officers from the Housing Regeneration team are working closely with residents and communities to support them through the process, ensure they have a say in the look and feel of their new homes, and help them to understand what Homes for Lambeth is, and what it means for them.
- 5.2 Consultation and coproduction has, and will continue to, play a key role in the development of key Homes for Lambeth policies, including the Key Guarantees (agreed by cabinet in March 2017).
- 5.3 Residents have recently been consulted on the tenancies and leasehold agreements which Homes for Lambeth will provide. The council, in its capacity as shareholder of Homes for Lambeth, will require HFL Homes (the housing association) to use these new tenancies and leases for those residents who are currently living on these regeneration estates and would be moving to a newly built HFL home.
- 5.4 Residents of the regeneration estates have also been asked for their views on the specification of service for future housing management arrangements. This specification will define what Homes for

Lambeth expect from companies bidding to provide housing management services. The specification will also determine the cost of these services.

- 5.5 Homes for Lambeth will then shortlist suppliers who have shown they can meet this specification. As estate redevelopment work nears completion, shortlisted bidders will be invited to talk to residents at an exhibition and answer questions about managing their new estate. Residents will score each supplier on their ability to meet the needs of the estate, and on their approach to estate management. These scores, along with scores from a full tender process and an interview, will decide which supplier is chosen.
- 5.6 Officers have worked with Members to develop the proposals set out in this report, which includes on-going consultation with the Deputy Leader for Investment and Partnerships.
- 5.7 Local Ward Councillors will be consulted at the point that a development site within their ward is identified for development via Homes for Lambeth.

## **6 Risk management**

- 6.1 The risks highlighted in the table below are a summary of a more comprehensive risk register. These are the key programme risks for Homes for Lambeth.

<b>Risk</b>	<b>Likelihood</b> (1= v unlikely 4 = highly likely)	<b>Impact</b> (1 = Minor impact 8 = Major impact)	<b>Mitigation</b>	<b>Post Mitigation Likelihood</b>	<b>Post Mitigation Impact</b>
Delay in sites being brought forward in time to facilitate decants	3	7	Early engagement with Lambeth to identify and appraise potential opportunity sites. Develop asset management strategy	2	4
Reduction in sales prices and rental values so fewer affordable homes can be provided	2	7	Run sensitivities to test resilience to market downsides. Ongoing monitoring of market conditions	2	5
Freeholder/leaseholder buy back costs above budgeted estimates due to higher number of leaseholders opting for the offer and house price inflation	3	6	Assumptions in financial model to include Lambeth's estimates buy back rates and costs including compensation.	2	4
Risk that operating costs, voids and bad debts are higher than forecast leading to viability challenges and reduced or no surpluses generated	3	6	Incentivise managing agent to perform well with KPIs, tight variation controls and strong contract management. Maintain stock in good standard with active marketing to attract tenants. Down side sensitivities in financial model.	2	4

## 7 Equalities impact assessment

- 7.1 The Boards of the Homes for Lambeth companies will adopt a suite of policies that guide how they will carry out their business. This suite of policies will include an equalities policy, which will be developed and agreed, based on a forthcoming council approach to equalities, but with specific reference to the HfL role, functions and operations.
- 7.2 The impact of estate regeneration will be different for each project at different times and therefore Equalities Impact Assessments are required on a project basis and reviewed at regular intervals. No specific equalities impact assessment has been carried out to inform this Cabinet Report as these are being carried out at a project level.
- 7.3 In progressing estate regeneration projects, Homes for Lambeth will abide by the Council's approach to equalities, which are embedded in the Future Lambeth Borough Plan. The principles that will be followed by the Housing Regeneration team will be:
- 7.4 **Information.** Any equalities strategy for an estate regeneration project is only as good as the information it is based on. It is therefore essential to collect adequate information concerning those affected by estate regeneration and to maintain such information up-to-date. This is undertaken through the course of estate regeneration projects by means of activities such as housing needs assessments, which are carried out for all affected households.
- 7.5 **Training.** Equalities principles must be embedded in all minor decision-making throughout an estate regeneration project. This requires that those working on estates projects are continually mindful of equalities issues and have access to adequate training to ensure that they embrace such principles in their day-to-day work.
- 7.6 **Assessment.** Formal equalities impacts need to be carried out to inform any major decisions or commitments on the future of an estate. For a typical estate regeneration project, equalities impact assessments are required at the following stages:
- Feasibility Stage – to help inform whether or what part of an estate will be redeveloped – an Equalities Impact Assessment accompanies the Cabinet Decision on the scale of redevelopment for an estate;
  - Masterplanning and Local Lettings Plan Stage – to help inform the design work and to ensure that the replacement homes adequately cater for the existing community of residents, whose homes are being demolished – an Equalities Impact Assessment then accompanies any Cabinet Report that seeks authorisation for a compulsory purchase order; and
  - Allocations – to help inform the allocations process to ensure that homes are allocated in a way that conforms with equalities principles – once construction and decanting has commenced, equalities reviews will be undertaken at pre-defined intervals specific to each estate.
- 7.7 New small site developments will have localised impacts on the immediate neighbourhood around these projects. Any impacts on local residents will be identified and determined in the process of working up designs for projects and preparing and submitting planning applications. The planning process itself requires consultation with local residents and the council will work with local interests as part of the design process. It is only through the process of such consultation that it will be possible to identify what and whether there are any impacts and then deduce whether these raise any equalities considerations. Community statement will be submitted with planning applications and will address such matters.

## **8 Community safety**

- 8.1 Homes for Lambeth will contribute positively to community safety by ensuring that each scheme delivered involves the removal of areas that attract anti-social behaviour and providing more passive surveillance of streets and spaces. The wider regeneration initiatives will promote estate pride and actively design out the potential for crime as part of the development process.
- 8.2 As outlined above, Homes for Lambeth will also contribute towards the delivery of safer and stronger communities. The provision of safe, high quality housing, committed to in the Homes for Lambeth design principles, is recognised to make a positive contribution to the improved wellbeing of residents. Therefore, by increasing the provision of accessible housing, Homes for Lambeth will directly support Lambeth's communities to become safer and stronger. The Council will lead the stakeholder engagement for each scheme and will ensure that residents have both an active involvement and influence over how each new development is planned and operated.

## **9 Organisational implications**

### **9.1 Environmental**

Environmental sustainability will be a key consideration for any proposed interventions and the Council will seek the highest possible standards with the resources available.

### **9.2 Staffing and accommodation**

Homes for Lambeth will be resourced appropriately and this may provide opportunities for internal secondments and professional development. The governance proposals Homes for Lambeth will create new, un-remunerated directorship roles for Council officers and an appropriate level of support will be provided to assist officers in these new roles. Four remunerated roles for Non-Executive Directors will be created.

### **9.3 Procurement**

Due to the level of control exercised by Lambeth Council over the Homes for Lambeth Group, the wholly owned companies will be classed as 'Contracting Authorities' for procurement. This means that they will follow the Public Contracts Regulations 2015.

There are no immediate procurement considerations arising from this report. Direct engagement with procurement officers is taking place to support the formation and mobilisation of Homes for Lambeth and to ensure that suitably robust and legally compliant procurement policies and practices are put in place to guide the activities of Homes for Lambeth.

### **9.4 Health**

The delivery of additional safe, warm and affordable new homes across a range of tenures, together with the delivery of safer and stronger communities that are designed with and for Lambeth's communities will directly support the health and wellbeing of residents. The Lambeth Health and Wellbeing Strategy (2016) identifies having a good home as an important factor in preventing ill health and poor wellbeing. Homes for Lambeth will also make investments to generate income for the General Fund that will support the Council to sustain the delivery of vital services that residents need in the face of sustained Central Government cuts. The Council's Social Value principles are also embedded within Homes for Lambeth's approach, which will result in new economic and learning opportunities for residents.

## **10 Timetable for implementation**

- 10.1 A high level delivery plan for Homes for Lambeth is set out in section 4.0 of the appended Business plan.

<b>Audit Trail</b>				
<b>Consultation</b>				
<b>Name/Position</b>	<b>Lambeth directorate/department or partner</b>	<b>Date Sent</b>	<b>Date Received</b>	<b>Comments in para:</b>
Cllr Paul McGlone	Deputy Leader (Investment and Partnerships)	05.01.18	12.01.18	All
Sue Foster	Strategic Director for Neighbourhoods and Growth	05.01.18	11.01.18	All
Rachel Sharpe	Director Strategic Housing, Regeneration and Communities	22.12.17	02.01.18	All
Matthew Gaynor, Finance	Corporate Resources	10.10.17	05.01.18	3
Greg Carson, Legal Services	Corporate Resources	10.10.17	05.01.18	4
Henry Langford, Democratic Services	Corporate Resources	10.10.17	05.01.18	All
Ownership and Stewardship Panel	Date of Meeting: 19.10.17			

<b>Report History</b>	
<b>Original discussion with Cabinet Member</b>	02.08.17
<b>Report deadline</b>	10.01.18
<b>Date final report sent</b>	12.01.18
<b>Part II Exempt from Disclosure/confidential accompanying report?</b>	No
<b>Key decision report</b>	Yes
<b>Date first appeared on forward plan</b>	04.08.17
<b>Key decision reasons</b>	2. Expenditure, income or savings in excess of £500,000
<b>Background information</b>	Incorporating and Mobilising Homes for Lambeth (15 May 2017) - <a href="https://moderngov.lambeth.gov.uk/documents/s88683/Cabinet%20Report%20-%20Incorporating%20and%20Mobilising%20Homes%20for%20Lambeth%20-%20May%202017.pdf">https://moderngov.lambeth.gov.uk/documents/s88683/Cabinet%20Report%20-%20Incorporating%20and%20Mobilising%20Homes%20for%20Lambeth%20-%20May%202017.pdf</a>
<b>Appendices</b>	Appendix A – Homes for Lambeth – Business Plan Appendix B – Homes for Lambeth - Memorandum of Understanding
<b>Supporting Information</b> (the documents will be uploaded to the council website for information, but not printed out for the Cabinet meeting)	HFL Group Ltd Articles HFL Build Ltd Articles HFL Homes Ltd Articles HFL Living Ltd Articles