

Homes for Lambeth: Brief of Support Required to Register New Companies with the Homes & Communities Agency as Registered Providers

1. Introduction

In October 2015 Lambeth Cabinet approved the proposed strategy for the formation and mobilisation of the primary group of companies that make up Homes for Lambeth and to delegate to officers to set up those companies.¹

The Homes for Lambeth (HfL) group of companies will play a key role within the Council's 'toolkit' for delivering new housing and regeneration that meets the current and future needs of Lambeth's residents and will create the opportunity for the Council to become an investor and active developer in these markets.

The structure proposed for the HfL group of companies comprises a wholly owned company (100% of equity owned by LB Lambeth) 'TopCo', which will coordinate the activities of the following subsidiaries:

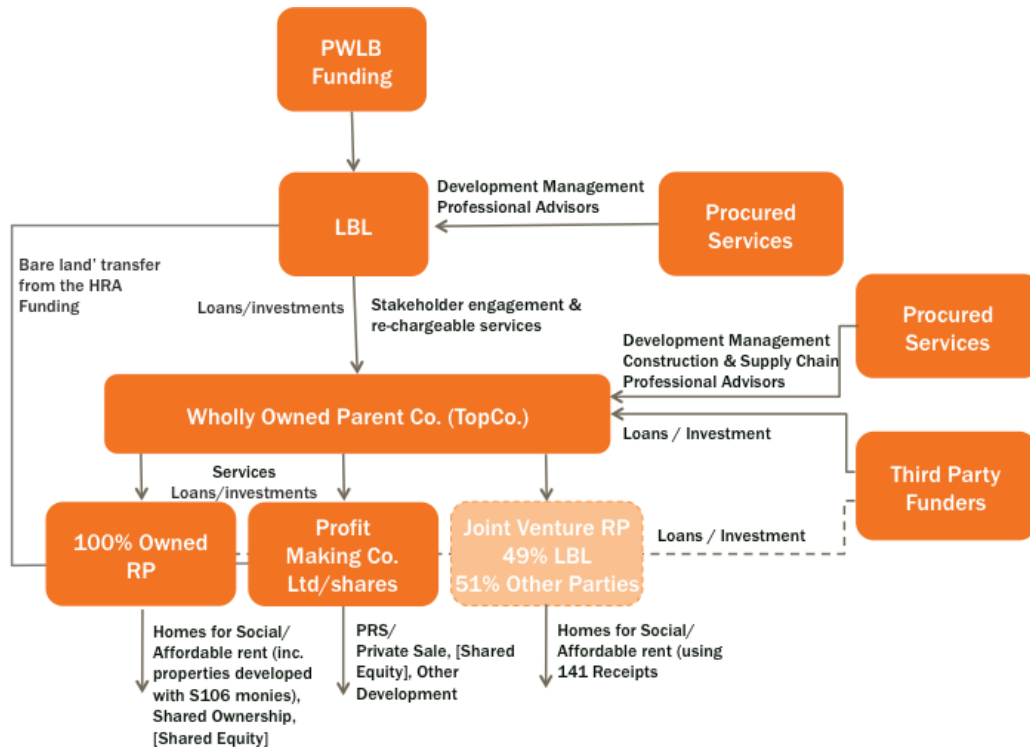
- A wholly owned Registered Provider (100% of equity owned by TopCo)
- A wholly owned 'For Profit' Company (100% of equity owned by TopCo)
- A joint-venture For Profit Registered Provider in which TopCo holds a minority equity stake of 49%, with one or more parties (to be determined through market testing and a procurement process outside of the scope of this commission) holding the majority equity stake.

It is proposed that the Council will seek to obtain Registered Provider status for the company that is to be set up as the 'For Profit Registered Provider' concurrently with procuring investment partner(s) to hold the majority interest in this company.

¹ Full details under agenda item 5

<http://moderngov.lambeth.gov.uk/ieListDocuments.aspx?CId=225&MId=9359>

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New Venture Group Structure: Key Features for Asset Delivery

This brief sets out the Council's requirement for support from suitably skilled external advisors to lead a key element of the mobilisation process, the successful registration of two of these subsidiary companies as Registered Providers with the Homes & Communities Agency (HCA).

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2. Context

It is essential that HfL structure is suitably mobilised to support the delivering of the initial S.106 sites also proposed in the Cabinet Paper, together with the Somerleyton Road Scheme

The Initial Development Portfolio Considered for Delivery via Homes for Lambeth in the First Phase of Schemes (01/01/2016 to 01/09/2018)						
Scheme	Total New Homes Delivered	Homes At Council Rent Levels	Funding Strategy	Vacant Possession Secured	Construction Start	Practical Completion
Lollard	89	70	100% funded by S.106 contributions & Profit on Private Sales	Now	Early Spring 2016	2017/18
Fenwick	55	55	100% funded by S.106 contributions	Now	Before 2019	Unknown
Westbury Phase 1	64	64	100% funded by S.106 contributions	Now	2017	2018
Somerleyton Road	304	121	141 receipts and PWLB Borrowing	August 2016	2016	March 2019

Within the HfL structure, the two Registered Providers play key roles in supporting LBL to access and deploy funding and resources in order to deliver homes targeted at residents requiring affordable housing and housing similar to the Council's social housing stock:

The **Registered Provider (RPCo)**, which is wholly owned by TopCo will directly take a transfer of land (by way of long leases granted by the Council). RPCo will enable HfL to directly deploy funding (which can include S.106 receipts) in order to develop and hold affordable and social rented housing, shared ownership, and shared-equity housing. It is the intention that existing Council tenants would be given the opportunity to transfer to tenancies offered by RPCo.

The Lollard Street, Fenwick and Westbury (Phase 1) S106 sites identified within the Initial Development Portfolio proposed to Cabinet are intended to be owned by RPCo, subject to the requisite approvals. This will support HfL to generate in income stream into RPCo that can then be re-deployed to progress the development of further affordable and social rented housing.

The **joint venture For Profit Registered Provider (JVCo)** JVCo will enable HfL to deploy funding in order to develop and hold affordable and social rented housing, shared ownership, and shared-equity housing. JVCo may also be used to hold housing at market rental levels.

Through its exclusive shareholding position in TopCo, LBL will hold a non-controlling equity interest in JVCo.

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Alongside (but separate to) the process of registering JVCo with the HCA as a RP, the Council intends to undertake a process of market testing and appointment of one or more equity partners to invest in this venture as its majority shareholder(s). Potential partners in JVCo may include Registered Providers, Private Sector parties (including Institutional Investors) or other Public Sector bodies.

This strategy also presents an important opportunity to bring in third party investment, thereby sharing a level of risk within the HfL group and to diversify the overall funding strategy, but it also brings with it key considerations that must (and will) be addressed through the market testing and appointment process, such as the security package sought by the Third Party Investor(s) and the Council's requirement for all nomination rights.

A key consideration within the process of registering JVCo as a RP will be the implications of the strategy for testing and appointing the majority equity-holding partner(s) in this company upon the process of RP registration with the HCA. This will be discussed with advisors as a priority in order to understand and manage the potential impact of this strategic intention on the delivery programme for Somerleyton Road.

3. Outline Brief of Requirements

3.1 Working with the Council & its Advisors

This work must be undertaken in cognisance of and with reference to the wider mobilisation activities underway for HfL:

- Pinsent Masons have provided on-going legal advice to the Council on matters concerning HfL and are continuing in this faculty.
- Support has been commissioned from Grant Thornton to optimise the structure of the HfL group of companies. This will inform the funding and financial strategies, models and business plans for the initial development portfolio and subsequent schemes.
- The Council will be separately appointing advisors to assist with the procurement and appointment of an equity partner(s) in JVCo.

In addition to the Council's legal and financial advisors, the advisor will be required to work with the Homes for Lambeth Interim Executive (primarily comprised of Council officers) and individual Council departments (Finance, Legal and Estates Regeneration in particular), in order to develop and progress the work programme for the key activities set out below.

3.2 Key Activities

The following guidance extract illustrates the key requirements of the registration process. Advisors are required to successfully lead the registration process and fulfilment of these requirements with input from the Council's retained legal and financial advisors (as outlined above).

Creating the RP:

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<i>To be eligible for registration, an applicant must:</i>
<ul style="list-style-type: none"> • <i>Be an English body</i>
<ul style="list-style-type: none"> • <i>Be a provider (i.e. landlord), or intending provider</i>
<ul style="list-style-type: none"> • <i>Provide, or intend to provide, social housing</i>
<ul style="list-style-type: none"> • <i>Satisfy the registration criteria</i>
<i>Applicants may be non profit, or profit-making, bodies; "For Profit" Registered Provider (RP):</i>
<ul style="list-style-type: none"> • <i>Incorporated</i>
<ul style="list-style-type: none"> • <i>Branding and communications strategy</i>
<ul style="list-style-type: none"> • <i>Tax and legal implications</i>
Governance Standards:
<i>Board Appointments:</i>
<ul style="list-style-type: none"> • <i>Regulatory standards require Board to exercise stewardship</i>
<ul style="list-style-type: none"> • <i>Sign up to the UK Corporate Governance Code 2010 and meet standards</i>
<ul style="list-style-type: none"> • <i>c5 members, including affordable housing skills</i>
<ul style="list-style-type: none"> • <i>Chair will be a "figurehead"</i>
<i>Executive Appointments:</i>
<ul style="list-style-type: none"> • <i>Executive leadership to develop business and act as client to parent</i>
<ul style="list-style-type: none"> • <i>Project Manager to set up RP and deliver</i>
<ul style="list-style-type: none"> • <i>Registration</i>
Business Case – Viability Standards: Financial performance
<ul style="list-style-type: none"> • <i>Development - typical numbers give comfort that S106 schemes will be viable</i>
<ul style="list-style-type: none"> • <i>Typical gross initial yield will be low, at c 4%. Over time it will vary with rent inflation and reinvestment costs – typically 6-8% long term</i>
<ul style="list-style-type: none"> • <i>The Regulator will expect 30-year business plan showing provision to: -</i>
<ul style="list-style-type: none"> ○ <i>Protect assets – retain and maintain homes, cash,</i>
<ul style="list-style-type: none"> ○ <i>other resources</i>
<ul style="list-style-type: none"> ○ <i>Protect services to tenants, particularly in time of financial distress</i>
<ul style="list-style-type: none"> ○ <i>Increasing trading opportunities</i>
<i>Rent, Value for Money and Consumer Standards;</i>
<ul style="list-style-type: none"> • <i>Have in place management arrangements that demonstrate the capacity to meet the other regulatory standards</i>
<ul style="list-style-type: none"> • <i>The Rent Standard has to be taken into account in the business plans which support the assessment of financial viability</i>
<ul style="list-style-type: none"> • <i>The Regulator's assessment will also include things such as contractual arrangements where key services are contracted out".</i>

4. Timescale

The registration process can and should be started as possible, but cannot be progressed fully until the relevant HfL companies are constituted as legal entities, which is planned for early February 2016.

Notwithstanding the impact of the appoint of equity partners in JVCo (as discussed above), the Council understands that the RP registration process can take between 6 and 12 months but the Council anticipates that the process may expected to take up to 9 months from the appointment of advisors.

It is essential that HfL is suitably mobilised to support the delivering of the initial sites:

- For the progression of Lollard Street RPCo must be in place as a legal entity and as a registered provider prior to completion of the first new homes. Ideally it

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should be in place well before then so that the new entity is in a position to help make decisions that will impact on the management of the new homes.

- For the progression of Somerleyton Road JVCo must be in place as a legal entity and as a registered provider prior to completion of the first new homes. Ideally it should be in place well before then so that the new entity is in a position to help make decisions that will impact on the management of the new homes.

5. Fee Proposals

The Council intends to procure support using this procurement process and advisors are invited to provide fixed fee quotes for providing the support proposed.

A fee target of up to £90,000 (excluding VAT) is envisaged for undertaking the registrations of both RPCo and JVCo.

6. Responding to the Brief

Advisors are invited to meet with the Council to discuss its requirements prior to the finalisation of this brief and prior to making a formal submission.

Please contact Bruce McRobie, Interim Development Surveyor, bmcrobie@lambeth.gov.uk, tel. 07801 260644 to arrange an appointment and for any queries in relation to this brief.

The formal submission must propose a clear methodology, timetable and itemised fee proposal for the support proposed. This should include robust project management proposals that illustrate how the advisor will support the Council to successfully fulfil its strategic aims for this commission.

Advisors should also detail the relevant experience of undertaking similar commissions previously, both at the organisational level and for the individuals proposed as the project team.

The formal submission is to be returned to the Council by 5:00 p.m. on Friday 5th February 2016. Submission details are to follow.