



## Mayor and Cabinet

### **Lewisham Homes Legacy Company – Update**

**Date:** 20 September 2023

**Key decision:** Yes

**Class:** Part 1

**Ward(s) affected:** All

**Contributors:** Interim Director of Finance, Executive Director of Place & Director of Law & Corporate Governance

### **Outline and recommendations**

This report sets out the interim Business Plan and management agreement and associated schedules for the properties remaining in the legacy Lewisham Homes company for the period 1 October 2023 – 31 March 2024. It also seeks agreement to the appointment of the new company directors.

Mayor and Cabinet are recommended to approve this interim Business Plan, note the development of the management agreement and associated schedules, appoint new directors to the company, note the amended Articles of Association and delegate any necessary finalisation of arrangements and implementation of the interim Business Plan and the management agreement and associated schedules to the Executive Director for Housing in consultation with the Executive Director for Corporate Resources and the Director of Law and Corporate Governance.

### **Timeline of engagement and decision-making**

Lewisham Homes Annual Business Plan 2023/24 – April 2023

Lewisham Homes transferred back to Lewisham Council – 1 October 2023

## **1. Summary**

- 1.1. The Council decided in December 2022 to terminate its management agreement with Lewisham Homes and to directly manage and deliver its housing services to its over 19,000 homes within the borough.
- 1.2. Some services transferred back in February and May 2023, with the remaining services returning on the 1 October 2023.
- 1.3. However, Lewisham Homes company will remain as a wholly owned subsidiary of the Council. In part this is to ensure that the necessary legacy arrangements and services can be provided and secondly because it remains necessary that certain properties and tenancy arrangements continue to operate outside of the Council, in particular to support the provision of temporary accommodation.
- 1.4. Therefore it is necessary that a new interim Business Plan for Lewisham Homes as well a new management agreement and associated schedules between the Council and Lewisham Homes are in place to ensure that these operations and activities can be delivered and to ensure the long term sustainability of Lewisham Homes.

## **2. Recommendations**

- 2.1. Mayor and Cabinet are recommended to:
- 2.2. Approve the interim Business Plan for the Lewisham Homes legacy company for the period 1 October 2023 – 31 March 2024;
- 2.3. Note the development of the management agreement and associated schedules between the Council and Lewisham Homes;
- 2.4. Note the amended Articles of Association for Lewisham Homes;
- 2.5. Approve the appointment of the Council officers Simon Williams, Head of Housing Finance, and Fenella Beckman, Director of Strategic Housing, as directors of Lewisham Homes with effect from the company's Annual General Meeting (AGM) on 29 September 2023;
- 2.6. Delegate any necessary finalisation of arrangements and the implementation of the interim Business Plan and the management agreement and associated schedules to the Executive Director for Housing in consultation with the Executive Director for Corporate Resources and the Director of Law and Corporate Governance

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### 3. Policy Context

- 3.1. This report aligns with Lewisham's Corporate Priorities, as set out in the Council's [Corporate Strategy \(2022-2026\)](#):
- Cleaner and Greener
  - A Strong Local Economy
  - Quality Housing
  - Children and Young People
  - Safer Communities
  - Open Lewisham
  - Health and Wellbeing
- 3.2. In particular, this report is closely aligned to priority of quality housing as it ensures that those homes remaining within Lewisham Homes will continue to be able to provide quality homes for our residents.

### 4. Background

- 4.1. Following a review of the way that housing management is delivered in the borough, Lewisham Council took the decision in December 2022, to terminate its management agreement with Lewisham Homes and to directly manage and deliver its housing services to its over 19,000 homes within the borough.
- 4.2. In February 2023 responsibility for the delivery of new homes returned, with finance, IT, Tenants Management Organisations (TMO) and temporary accommodation (TA) services returning in May 2023.
- 4.3. The remainder of all transferring services will take place on 1 October 2023.
- 4.4. Whilst Lewisham Homes has agreed, published and implemented its annual Business Plan for 2023/24, due to this significant change a new interim Business Plan for the period 1 October 2023 – 31 March 2024 is required for those homes not transferring back to the Council but remaining in Lewisham Homes.
- 4.5. There are 153 properties previously purchased (with £40m of loans from the Council) by Lewisham Homes which will remain within the ownership and control of Lewisham Homes, plus 50 properties which it will manage on behalf of the Council under existing lease arrangements. The Council is also undertaking an acquisitions programme some of which properties may also be

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- leased to Lewisham Homes to be used for temporary accommodation purposes.
- 4.6. It is for the management of these properties that the Interim Business Plan, management agreement and associated schedules have been drafted.

## **5. Interim Business Plan 1 October 2023 – 31 March 2024**

- 5.1. To support the delivery of the Business Plan there will be a management agreement in place between the Council and Lewisham Homes to cover the services that the Council will provide to Lewisham Homes after 1 October 2023.
- 5.2. The management agreement will set out the services that will be retained by Lewisham Homes, the services that will be provided by the Council and the charges that the Council will make. It will also include the agreement between the parties in respect of handover arrangements following termination of the previous management agreement, requirements in relation to the updating of the Business Plan, how changes to service provision will be agreed and general working arrangements.
- 5.3. It will have separate schedules for the various services that will be provided by the Council including, management of Lewisham Homes' owned properties, central support (legal, finance, IT) and secretariat services, etc.
- 5.4. The legacy company will continue as a wholly owned subsidiary of the Council to perform housing related services. The company will have; a) a number of operating functions, and b) range of residual transitional activities to complete.
- 5.5. The operational functions will include but are not limited to the following: -
- Fulfilling the landlord obligations as owner of the properties purchased with £40m of loans from the Council.
  - Ensuring the company's assets are managed and tenanted appropriately to cover the landlord costs / obligations and repay the outstanding debt.
  - Leasing properties from the Council to be let under short term assured tenancies for private market or temporary accommodation purposes;
  - Setting and collecting rents for those properties under its ownership or management;
  - Ensuring commercial arrangements are in place for the maintenance of these properties by the owner (the Council) to maximise their value to the Council.
  - Being available to consider future commercial arrangements to enable the company to expand its property portfolio in line with the Council's objectives.
  - Responding to the Council's business plan asks of the company as the relationship between Council and company continues to evolve.
- 5.6. The transitional activities will include but are not limited to the following: -

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- Contract managing any active third-party relationships in respect of contracts not novated to the Council by the 1 October transfer date.
  - Completing the novation of any contracts or leases to the Council where their terms permit and/or suppliers are amenable to varying them.
  - Managing contractual liabilities for work completed by Lewisham Homes prior to the 1 October – for example defect periods on completed developments.
  - Preparing the half year accounts and then moving to an operational model rightsized for the legacy company for the remainder of 2023/24 and onwards.
- 5.7. To perform the above operational functions and transition activities a number of agreements or service level arrangements are being put in place. The company will operate without staff and will procure from the Council or other third-party providers if necessary the operational support necessary to conduct its affairs. This will be recorded in the closing and opening profit and loss and balance sheet statements, including reserves and related cashflow, to be prepared for the company.
- 5.8. The specific services to be provided by the Council to the legacy company include advice and support in respect of: legal and company secretariat; financial – accounting, tax, treasury and insurance; housing management and maintenance; development activities; and procurement. To assist with this the Council will ensure that separate accounting arrangements are in place, utilising the current Lewisham Homes finance systems until the 31 March 2024 and then transferring to a commercial product which will enable robust, accurate and transparent accounting records to be maintained. This will ensure all transactions and recharges are kept separate and the company retains a separate bank account and independent external audit arrangements. In addition, the company's financial activities will continue to be consolidated into the Council's financial statements as a wholly owned subsidiary.
- 5.9. The interim Business Plan for the legacy company business broadly mirrors those of the current Lewisham Homes operating model and contractual commitments per property. For example; the rental income, operating costs – financing, management, maintenance, repairs etc.. This will be kept under review for the six months to March 2024 and a new full year business plan will then be proposed for April 2024 to align with the Council's financial year.
- 5.10. The interim Business Plan and associated management agreement schedules are appended to this report.

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## **6. Appointment of Company Directors**

- 6.1. The current Board of Directors of Lewisham Homes will step down from their roles at the company's AGM on 29 September 2023. The Council will be required to appoint replacement directors as the company will continue to operate, albeit fulfilling limited functions, post transfer on 1 October 2023.
- 6.2. It is recommended to Mayor & Cabinet that Simon Williams, Head of Housing Finance, and Fenella Beckman, Director of Strategic Housing, be appointed as company directors of Lewisham Homes with effect from the company's AGM.
- 6.3. Appropriate arrangements will be put in place regarding training, conflict of interest management and secretarial & governance support to the company post 1 October 2023.

## **7. Articles of Association**

- 7.1. Given the majority of the functions of Lewisham Homes will sit with the Council with effect from 1 October 2023, the Articles of Association of the company have been reviewed to ensure they are fit for purpose.
- 7.2. The revised articles have been approved by the current Board of Directors on behalf of Lewisham Homes and by the Director of Law & Corporate Governance and (former) Executive Director of Resources on behalf of the Council.
- 7.3. Mayor & Cabinet is asked to note the revised articles, attached as Appendix 2 for ease of reference.

## **8. Financial implications**

- 8.1. The company will have a new balance sheet, profit and loss account and cashflow set up for 1 October 2023.
- 8.2. The company will continue to pay the required interest payments to the Council on the £40m of loans advanced to it to purchase the 153 properties remaining under its management. The accounts will include the necessary depreciation charge for the assets.
- 8.3. The company will purchase almost all of its services from the Council, which will be considered to be VATable services. The company will also pay corporation tax on any profits.

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- 8.4. The draft Business Plan financial accounts have been based on agreed cost models used previously between Lewisham Homes and the Council or market assumptions where appropriate.
- 8.5. The company is forecast to remain cash positive by circa £400k per annum, however the inclusion of the depreciation charge means that an annual deficit of circa £220k will be shown in the accounts after corporation tax. The £400k per annum will be retained to meet lifecycle costs as they arise and is considered sufficient and appropriate for this purpose. This position will be monitored, tested and adjusted appropriately based on actual costs arising.
- 8.6. The Company will report on performance against the business plan via annual audited accounts and the Council, as sole shareholder, will be able to set new or revised priorities and objectives including new financial expectations should the assumptions above need varying over time.
- 8.7. The 153 properties owned by Lewisham Homes have recently been valued at £47.6m, therefore this gives a positive balance sheet balance of circa £7.6m.
- 8.8. From 1 April 2024 the properties will be revalued on an annual basis, which with capital appreciation is expected to offset most of the depreciation charge each year. Therefore it is forecast that the Company will be a going concern and it is not expected to require financial support from the Council, other than continuing with the arrangements for the £40 million of loan agreements that are existing arrangements.
- 8.9. For audit purposes the Council will need to provide a letter of support each year including confirmation that it does not intend to call in the £40m loan, which is standard practice for subsidiary Companies.
- 8.10. The forecast cashflow also considers the impact of the transitional arrangements and activities and it is estimated that in undertaking these either on behalf of itself, the Council or jointly, that the Council will need to make a monthly cash advance of up to £1.5m . At the end of each month all costs will be reconciled, any costs falling to the Council will be netted off against the cash advance, with any costs attributable to the company and any unspent funds returned. The level of this cash advance may require review in the event that it is necessary for Lewisham Homes to continue to pay for more services on behalf of the Council than currently envisaged.

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## **9. Legal implications**

9.1. All relevant legal matters have been addressed in the main body of the report.

## **10. Equalities implications**

10.1. There are no specific equalities implications arising from this report. The interim Business Plan and management agreement and schedules mirror those of the current Business Plan and management agreement and all of the implications associated with those remain.

## **11. Climate change and environmental implications**

11.1. There are no specific climate change and environmental implications arising from this report. The interim Business Plan and management agreement and schedules mirror those of the current Business Plan and management agreement and all of the implications associated with those remain.

## **12. Crime and disorder implications**

12.1. There are no specific crime and disorder implications arising from this report. The interim Business Plan and management agreement and schedules mirror those of the current Business Plan and management agreement and all of the implications associated with those remain.

## **13. Health and wellbeing implications**

13.1. There are no specific health and wellbeing implications arising from this report. The interim Business Plan and management agreement and schedules mirror those of the current Business Plan and management agreement and all of the implications associated with those remain.

## **14. Background papers**

14.1. Agenda item 8: [Lewisham Council - Agenda for Mayor and Cabinet on Wednesday, 7th December, 2022, 6.00 pm](#)

14.2. [Our Business Plan 2023/24 - Lewisham Homes](#)

<https://www.lewishamhomes.org.uk/our-business-plan-2023-24/>

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## 15. Glossary

| Term | Definition                                 |
|------|--|
| ALMO | <b>Arms Length Management Organisation</b> |
| VAT  | <b>Value added tax</b>                     |
| SDLT | <b>Stamp duty land tax</b>                 |
|      |  |

## 16. Report author(s) and contact

- 16.1. Katharine Nidd, Interim Director of Finance and Jeremy Chambers, Director of Law and Corporate Governance.
- 16.2. Comments for and on behalf of the Executive Director for Corporate Resources
- 16.3. Katharine Nidd, Interim Director of Finance.
- 16.4. Comments for and on behalf of the Director of Law and Corporate Governance
- 16.5. Jeremy Chambers, Director of Law and Corporate Governance

## 17. Appendices

- 17.1. Appendix 1 – draft Interim Business Plan
- 17.2. Appendix 2 – Articles of Association

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