

Lafford Homes Limited 2021/22 Annual Report



Summary

This document provides an overall summary on the progress of Lafford Homes Limited in its sixth year of successful operation. The Company was established by North Kesteven District Council for the purpose of investing in private sector housing with a focus on new housing as part of its strategy of escalating housebuilding in the district.

This report is submitted to the Annual General Meeting on 21 July 2022

This annual report covers:

Our Company Development:

- Establishing the company
- Strategy and business model

Our Business Operations:

- Achievements and progress to date
- Future developments
- Risk management
- Financial accounts

Our Governance:

- Governance review
- Audit report
- Lafford Board

Our Company Development

Establishing the Company

Housing demand in North Kesteven continues to be high for both market and affordable housing.

The Council's Local Plan identifies a significant need for new housing for a number of reasons including increased and ageing population, increase in inward migration with the potential for the economy to further expand with the working age population.

The Central Lincolnshire Strategic Housing Market Assessment (SHMA) covers an area that includes North Kesteven District Council (NKDC) highlights a need for between 1,432 – 1,780 dwellings per year throughout the period 2012 to 2036. A total of 270 additional dwellings per annum were identified in the district of North Kesteven alone.

Established on 4 August 2016, Lafford Homes was created to focus on supporting the delivery of homes across the local area. Through the delivery of high quality private rented accommodation and where scheme viability may permit the provision of affordable rented homes and new homes for sale.

Lafford Homes was not established to directly compete with existing private developers and landlords but rather to work with and support developers in achieving their schemes.

The Company does not have a directly employed workforce, it contracts with existing developers to identify and build out its schemes. It has a structure of three directors, with a service level agreement for the operational management and maintenance of its property portfolio.



Mission:

Lafford Homes Ltd is a profitable, sustainable, and flexible housing company that is focused on assisting North Kesteven District Council in achieving its objectives arising from the Central Lincolnshire Local Plan 2016 to 2036, and on helping to meet the housing demands of local people in North Kesteven by being an exemplar landlord.

Vision:

Lafford Homes Ltd will improve the quality and supply of housing in North Kesteven by being the major provider of quality properties for rent in the district.

Strategic Objectives:

Lafford Homes will:

- Make a profit for shareholders from the provision of market rental housing (both within and outside of North Kesteven) and potentially market sale housing.
- Provide market rental sector housing as an exemplar model for private landlords.
- Assist in the supply of affordable housing, as required under planning obligations, and as can be afforded by the company.

Our Business Operations:

This section of the annual report focusses on the ongoing management of the Company, and the Directors oversight.

Strategy and Business Model:

The aim of this annual report is to provide shareholders (ie North Kesteven District Council) with an overview of the performance of the Company against its strategy and business since its last AGM on 22 July 2021. The AGM this year corresponds with the accounting period which ended on 31 March 2022. The next Business Plan will be submitted for approval by the Council as part of its budget management process in the Autumn of 2022.

The key source of reference in this report is the 2020/2021 Business Plan approved by NKDC on 12 January 2022. This section of the report will review performance against that business plan and will also set out how the Company's Directors aim to build upon those achievements.

Summary of Achievements and Progress to date:

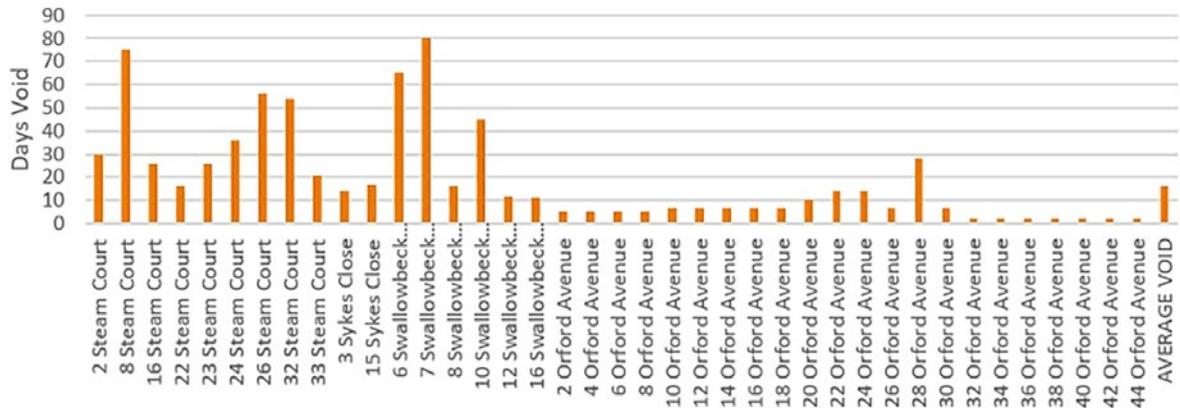
- Completion of Phases 1 and 2 of our flagship development at Orford Avenue, Waddington
- 12 new market rent lets and 11 affordable rent lets
- Substantial assurance as outcome of Audit on Income management

Key Performance:

- Rent balance report
- Rent arrears management
- Relet times
- Average repairs costs

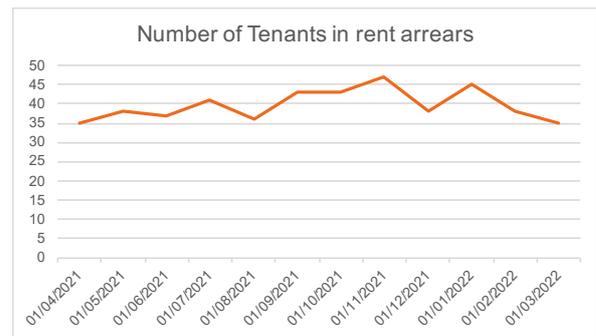
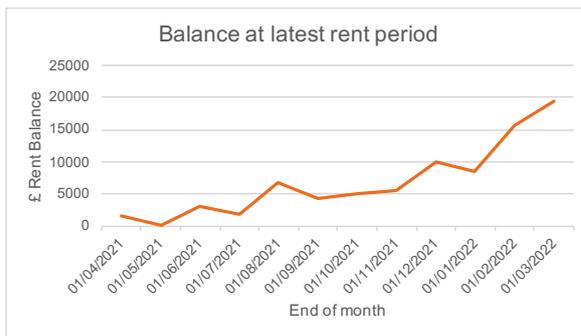


Void Times



Rent Management

New procedures are being implemented to improve rent management



Repair Costs

Total repair costs to properties 2021/22 was £12,183.62



The company's reputation is of utmost importance to the Lafford Homes Board and a performance management regime has been established. This includes housing performance measures relating to the management of rental income, voids and repairs. It also embraces more commercial data concerned with level of rents agreed with new tenants against expected rent levels for the property as well as other cost driven information. This approach has helped drive improvements in performance particularly in voids and repairs but the company is still looking at options to improve performance.

Audit Report

Assurance Lincolnshire provided an independent Audit to review the internal systems of Lafford Homes Ltd during 2021/22. The report indicated where improvements could be made to increase the efficiency of monitoring rent. An automated postings process is being implemented into the Housing Management system to ensure prompt rent payments, therefore indicating true balances. This will lead to the Escalation Policy being applied automatically.

Financial Accounts

- Lafford Homes Ltd have appointed Streets Chartered Accountants as its external auditors to audit the accounts for the period 1 April 2021 to 31 March 2022.
- This Process has been completed and an unqualified opinion has been issued by the auditors.
- The accounts are presented to Shareholders as part of a separate report to allow them to scrutinise them in more detail.

Statement on Viability

The Statement of Accounts show that the Company made an overall profit for 2021/22. This is largely a result of an increase in the value of its property portfolio. Furthermore, the underlying operating profit remains strong and growing and despite a difficult year due to the economy remaining in recovery mode. The Company's core business of providing rental properties continues to strengthen demonstrating higher levels of financial resilience.

	2022	2021
	£	£
Turnover	603,794	496,708
Cost Of Sales	135,681	106,945
Gross profit	468,113	389,763
Administrative expenses	338,737	259,107
Operating profit	806,850	648,870
Interest payable and similar expenses	350,999	318,517
Profit before taxation	455,851	330,353
Tax on profit	96,753	56,533
Profit for the financial year and total comprehensive income	359,098	273,820
Retained earnings/(losses) at the start of the year	222,383	51,437
Retained earnings at the end of the year	581,481	222,383

There has been further progress on a number of our other sites:



Orford Avenue Waddington

- Orford Close, Waddington. Work began on site 20th July 2020
- Phase 1 is complete and let. Phase 2 completed on 22nd Dec 2021
- Phase 3 due to be completed May 2022
- Phase 4 is well underway with completion due in Autumn 2022



Metheringham Depot

Ground work is due to commence 3rd May 2022 on a previously industrial site, to provide 20 units. 15 of which will be market rent and 5 providing much needed affordable rent units. We are looking forward to adding 2 and 3 bed houses, 1 bed flats and a 2 bed bungalow to our portfolio from April 2023.



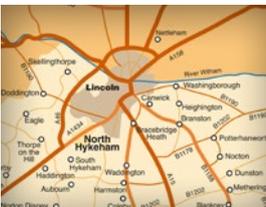
Sleaford

A three bedroom family home in a popular area of Sleaford was purchased at the end of the 2020/21 financial year. It was let within 16 days of purchase completion.



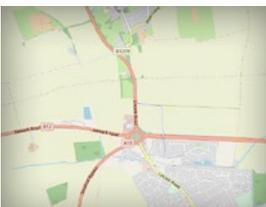
Hoplands Site, Sleaford

Another industrial site that Lafford Homes is proud to work in partnership with Lincolnshire County Council to develop up to 25 market rent units.



Site in North of the District

We continue to progress negotiations for the potential development of up to 59 units, which will also include some affordable units.



Holdingham, Sleaford

Build began 19 Nov 2021 and due to complete purchase early 2023. This will comprise of 6 3 bed semi-detached houses.

Looking Forward

Development opportunities being explored include:

- **Sleaford Town Centre renovation opportunity** – to convert existing premises into 16 apartments.
- **South East of Sleaford** – potential for between 60 and 120 Units across two sites.
- **North of Sleaford** – potential for the delivery of up to 206 units of market and affordable housing.

Due to the sensitive nature of development site opportunities means full site details must remain confidential until negotiations are complete, progress will be shared through the Project Board meetings when available.

For clarification the minimum financial criteria for consideration of a major scheme to ensure its viability is set out below:

Cash flow Profit	Achieved from the first full year of the scheme
Gross Rental Yield on Investment	5% /3.75% - Affordable rental scheme
Net Rental Yield on Investment	2%
Net Pay Back	40 years



Risks

The Board has in place an approved Risk Strategy, setting out the Company's approach and management of risks. Furthermore, Lafford Homes has maintained a risk register from its inception. This is contained within the CAMMS performance management system. A report on current risks are considered at each Board meeting as part of its key issues and performance framework.

The Company's overarching appetite towards risk is reviewed twice a year, taking into account current and anticipated market forces and operational performance. Risk reviews ensures a robust and comprehensive approach to new opportunities.

The Company closely monitors the operational and market environment, reflecting changes in the risk register. This dynamic approach ensures issues that may affect development activity are captured and reviewed, in conjunction with any influencing factors that may be identified through housing sector media, commentary and partnerships.

A current key issue is the shortage, delivery challenges and cost of building materials. This may affect scheme costs and timescales. Our constructor partners are ensuring we are fully aware as this issue develops. Current risks that have been identified include:

- Potential government policy changes.
- NKDC resources delivery capacity to meet increasing service demands.
- Higher than expected running costs.
- Meeting the challenging ambition of net zero carbon in new property designs.

Uncertainties

A strengths, weakness, opportunities and threats (SWOT) analysis was originally prepared following the Company's Strategic Options Appraisal, and has continued to be reviewed and used to horizon scan for potential impacts on the Company's strategic aims and operational delivery.

Last year the review drew heavily on the impact of COVID-19, both how the economy is emerging post pandemic and in the context of Lafford Homes customers perspective. Whilst there were some early impacts on the increase in rent arrears, extended period to relet vacancies and construction delays, these have been effectively managed to minimise operational impact. Tenants have been effectively supported in particular to address and reduce rent arrears.

Cost of borrowing is an area of caution. Whilst currently stable and relatively low, cost given the wider housing market, interest rates are to be monitored closely.

The final area of uncertainty is that of demand. Whilst the private sector market is currently buoyant with increasing market rents, there is no guarantee this will continue or maintain given the current national economic climate we are operating in. This will be reflected with caution in new site appraisals. The Board have also considered exit strategy for each site as mitigation, incorporating options for units for sale and not just for rent.

Even given these identified uncertainties, the current SWOT analysis affirms that Lafford Homes is a stable organisation with financial backing, good access to funds with strategic agility to react to changes within the wider market. This strength is moderated by the fact that the company relies on a single source of funding.

Financial Accounts

Lafford Homes have Streets Chartered Accountants appointed as its external auditors for this financial year 1 April 2021 to 31 March 2022. This process has been completed and an unqualified opinion has been issued. The accounts presented to Shareholders in conjunction with this Annual report, provides the opportunity to scrutinise in more detail.

The Company seeks to continue with Streets Chartered Accountants for 2022-2023, subject to Shareholder support at this AGM.

Our Governance

Lafford Homes is committed to a strong focus on, and robust approach to, governance. The following key arrangements demonstrates this:

- The Board takes collective responsibility for the operation and management of Lafford Homes. The quorum for Board meetings is two, although there continues to be full attendance at the majority of Board meetings
- Decision making is conducted through monthly Board meetings, with provisions to allow urgent decisions to be reached between Directors electronically
- The Board is responsible to Shareholders, North Kesteven District Council is the sole shareholder and a Shareholders Agreement is in place that governs the relationship between the Council and Lafford Homes. The Company's strategic direction is established through its business plans approved by the shareholders, covering investment and expansion plans
- Service Level Agreement with Council services covering the core operational management of the portfolio, setting out responsibilities and expectations to minimise risk of conflicts of interest.

The Council's Executive Board acts as the shareholders on behalf of the Council and attends the AGM as well as approves funding arrangements through the Business Plan.

Very early on, the Board commissioned Assurance Audit Lincolnshire in 2017 to undertake a governance review to establish best practice standards for arm's length companies. This has remained at the heart of its structure and operational delivery, and continues to be reviewed to ensure compliance. The last Assurance Lincolnshire, audit report to focus on governance was in 2020, on behalf of the Council, and concluded

“There is risk management strategy in place which clearly defines the risk management process, provides definitions of the various types of risk, sets out the Company's approach to risk, it is creative and aware, and details responsibilities for managing risks. The risk register on CAMMS system is a “live” document. It identified the types of risk with a clear description, an initial risk rating, existing controls to mitigate the risk and risk owners assigned to each.”

In December 2021, Assurance Lincolnshire undertook an audit of Lafford Homes income management. The outcome was substantial assurance

“Our critical review or assessment on the activity gives us a substantial level of confidence (assurance) on service delivery arrangements, management of risks and operation of controls and/or performance. There are some improvements needed in the application of controls to manage risks. However, the controls have been evaluated as adequate, appropriate and operating sufficiently so that the risk of the activity not achieving its objective is medium to low”

The Board welcomed this outcome, developing an action plan for those areas requiring improvement and is pleased to confirm all actions are underway, to be completed within the agreed timescales

Chairman's statement

Philip Roberts is the current Chairman of the Board of Directors.

The year 2021/22 has been another significant and successful year for Lafford Homes.

We are in the progress of completing 42 new homes at Orford Ave Waddington which will be our largest estate delivered to date. These homes will go a long way to meeting emerging local needs especially as 13 of the homes have been set aside as affordable homes to be let through the Councils housing register.

When I think back to the inception of Lafford Homes one of the key risks we identified was whether we would be able to let properties built exclusively for the private rented sector (PRS). That risk has rarely surfaced but Orford Ave has been a particular success story with all PRS properties let 'off plan' before construction work had been completed. This meant that as the properties were being completed we have been able to move tenants into their new homes quickly, to their benefit and of course ours because the properties are rarely empty for long.

One of the really positive stories to develop from this development concerns a trainee the council took on in the property services team. This colleague was given the opportunity to design one of the properties by themselves and I'm really pleased to say that property has been built and is already a successful family home. The colleague then went on to study architecture at university and is now a qualified architect. At Lafford Homes we are enormously proud to have given someone a first step on the ladder in the property profession and hope they go on to design many more new homes.

Orford Ave delivered our 100th property and our expansion continues to raise income levels which allows us to return funding back to the council through

interest payments and Service Level Agreement payments.

Our work rarely pauses and the Lafford Team are already working to secure development on a number of other sites. We have 20 homes currently being built in Metheringham and many more under development on the outskirts of Sleaford. There are 6 other additional sites which are actively being worked on in detail and a site in Sleaford currently progressing through the planning process.

The annual report offers a time of reflection and it's important to recognise the very difficult time that our customers are currently experiencing. The pandemic had wide ranging implications for so many people and we sympathise with all those who found it a difficult time. Whilst the direction of the pandemic has been positive over the last few months we are very mindful that we are constantly breaking new ground nationally and it remains possible that further waves of infection could impact our customers yet further and as a result the business is well.

We are also mindful of changes to the cost of living and the fact that many of our tenants will be experiencing genuine difficulties and possibly hardship. I would urge anybody in that position to make contact with the council's housing team who manage our properties so that we can offer early help and practical solutions. We acknowledge that there are some tough times ahead and will continue to think of practical ways that we can support customers and also opportunities to improve our finished homes through energy improvements.

I would like to place on record my sincere appreciation to North Kesteven District Council and particularly councillors who provide the company with a huge

amount of support and capital financing to enable the investment programme to be delivered. Lafford Homes are well supported by the council's officers within property services team, through our housing colleagues, and the councils finance team. There are also a number of colleagues who support planning, monitoring and administration of the business. The Board recognises and appreciates the contribution made by all of these teams and individuals.

Last but not least Jason Jarvis and Matthew Spittles, as my fellow directors, remain enormously positive and supportive colleagues within the business. Their hard work and expertise has enabled the company to expand and become profitable. With the ongoing developments and positive financial position 2022/23 it will be an exciting year and we look forward to presenting our next business plan in the autumn of this year as a statement of our future direction.



Philip Roberts

Lafford Homes Chairman

Company Directors

The Company has three director positions, all of whom are appointed in association with North Kesteven District Council. The existing Directors are:

Philip Roberts

Chairman

Also Deputy Chief Executive with North Kesteven District Council



Jason Jarvis

Company Secretary

Also Assistant Director of Finance with North Kesteven District Council



Matthew Spittles

Non Executive Director



The Board takes on a sizeable workload between a relatively low number of individuals and the Company will consider regular reviews for the most appropriate time to increase its director base. As an interim step Matthew Spittles has agreed to act as development champion to review progress on all new opportunities and to work closely with the property team on site delivery. A register of director's interests is maintained and is a matter referred to in the section on governance. The Board also take professional development seriously and a standard item on all agendas covers director training to ensure that such opportunities are identified and pursued.

Annual Report Approval

This report has been approved by the Directors of Lafford Homes Ltd:

Philip Roberts (Chairman)

Jason Jarvis (Company Secretary)



Lafford Homes

Unlocking More Choice

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Lafford Homes Limited is a registered company in England & Wales 10313301.

Registered office: Council Offices, Kesteven Street, Sleaford, NG34 7EF.

Lafford Homes Limited is a wholly owned Company of North Kesteven District Council.

Lafford Homes Limited is a member of the National Landlords Association - Membership number: 167924

Information Commissioner's Office (ICO) reference number: ZA531015