

REQUEST FOR DIRECTOR DECISION – DD2665

Title: Community-led housing – Naked House

Executive summary:

Naked House was set up as a not-for-profit community interest company in 2013, aiming to unlock small underused sites in London to build genuinely affordable homes for those on moderate incomes. In March 2020, Director's Decision (DD) 2456 approved loan funding of £3,261,596, capital grant of £550,705, and revenue grant of £181,791 from the Community Housing Fund (CHF), to support Naked House's delivery of 22 affordable community-led homes across three sites owned by the London Borough of Enfield.

This DD seeks approval for an additional capital grant allocation of £1,628,494 to Naked House to maintain the project viability, given the recent market downturn; and unlock the land, the construction contract and development finance required to allow these affordable homes to be built.

Mayoral Decision 2372 delegated authority to the Executive Director to approve funding allocations from the CHF.

Decision:

That the Executive Director of Housing and Land approves:

- an additional capital grant allocation of £1,628,494 to Naked House to support the delivery of 22 affordable community-led (custom build) homes, taking the total grant to £2,360,990, equivalent to a grant of £107,318 for each affordable home delivered
- the advance of a second tranche of the capital grant of up to £178,000, which is included in the project's total capital funding envelope, to assist Naked House's cash-flow position, subject to approval of the additional funding as above.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: Tim Steer

Position: Executive Director, Housing and Land

Signature:



Date:

01/11/2023

PART I – NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

Community Housing Fund

- 1.1. The London Housing Strategy sets out the Mayor's commitment to increasing the supply of community-led housing; and enabling Londoners to play a role in building their communities. In 2018, the Mayor secured £38m from the Department for Levelling Up, Homes and Communities to start 500 community-led homes by 2023 (subsequently extended to 2024 and then to 2026).
- 1.2. The £38m is split between £7.1m revenue and £30.7m capital. Revenue funding is generally repayable to the GLA at the point at which project costs can be capitalised (i.e., when a start on site is achieved). If a project fails to reach start on site, the revenue funding is not repayable to the GLA as it is a sunk cost.
- 1.3. The worsening economic landscape is putting significant pressure on community housing delivery, which is disproportionately impacted by market shocks. This is due to a lack of resilience within the sector; less favourable lending conditions; and an inability to twin-track delivery (due to the linear tranche payments inherent to the Community Housing Fund (CHF)). Since the CHF was established, the economy has been affected by the pandemic and an inflationary crisis, both of which have had a significant impact on community-led developers directly and on the partner landscape that enables community-led delivery.

Naked House

- 1.4. Naked House was set up as community builder in 2013, through a not-for-profit community interest company, to unlock small, underused sites in London for the phased construction of genuinely affordable dwellings for those on moderate incomes. Naked House allocates homes based on income, with all purchasers required to have intermediate household incomes as defined in the London Plan Annual Monitoring Report; priority is given to those on lower incomes. The allocations and eligibility processes are in line with the London Borough of Enfield's (LB Enfield's) intermediate housing policy.
- 1.5. Naked House's housing model is based on an initial build comprising a smaller 'no-frills' dwelling with fewer fixtures and fittings than a new build open market home, and incomplete internal finishes (aka a 'naked house'). All homes will have full services (heating, lighting, plumbing, etc); a working kitchen and bathroom; and a full external envelope. They will be sold freehold with new-build warranties; and mortgageable with high street mortgage providers. In addition, features such as structural lintels are installed to allow easy adaption into a larger home. These additions and future flexibility provide the inherent value that compensates for the initial lack of fixtures and fittings, and internal finishes. The price of these homes will be formally capped at 80 per cent of open market value or less, and this discount is based on a similar-specification home.
- 1.6. In March 2020, DD2456¹ approved recycled loan funding of £3,261,596, capital grant of £550,705, and revenue grant of £181,791 from the CHF, for Naked House. This was to support the delivery of 22 affordable community-led homes (custom build) across three sites owned by the LB Enfield.
- 1.7. The grant-funding agreement was completed on 23 October 2020. The development facility loan agreement was completed on 27 October 2021. A deed of variation of the grant agreement was executed on 13 April 2022 (to allow the conversion of revenue grant to capital grant and to update the delivery milestones), followed by a deed of variation of the loan agreement on 20 January 2023 (to vary the milestone and loan drawdown dates).
- 1.8. The three sites in LB Enfield are:

¹ GLA, [DD2456 Community-led housing – Naked House](#), Tuesday 17 March 2020

- the Garages, Meyer Green, Enfield EN1 4NG, for nine two-storey terraced dwellinghouses
 - the Car Park, Raynton Road, Enfield EN3 6BP for five terraced dwellinghouses (up to three storeys)
 - the Garages 1 to 26, Ordnance Road, Enfield EN3 6BN, for five terraced dwellinghouses (up to two storeys) and three self-contained flats within a three-storey block.
- 1.9. The planning applications for the sites were submitted in August 2021, as part of the Enfield Custom Build Homes Scheme² to deliver basic-specification homes for local first-time buyers (at a market discount) that can be self-finished. Planning permission for the homes on each site was granted on 31 October 2022. The buildings will have an 'A' rating for environmental performance – a high achievement for affordable housing under the current requirements.
- 1.10. Naked House is working with LB Enfield to discharge the pre-commencement planning conditions; and to satisfy the appropriation, vacant possession and clean title conditions precedent (CPs) for the transfer to it of the sites. This is pursuant to its agreement with LB Enfield, which was conditional upon the grant of planning permission.
- 1.11. All the applications to discharge the pre-commencement planning conditions were submitted by Naked House in August 2023. It has entered into a planning performance agreement (PPA) with LB Enfield to expedite the applications, and is awaiting LB Enfield's timetable for discharging the conditions. LB Enfield's resourcing of the PPA remains a key risk – one that will be monitored regularly by Naked House's planning consultants and GLA officers.
- 1.12. Because of delays in obtaining the planning permission and securing legal interest in the site, there was not a substantial start on site by 23 June 2023. As a result, the proposed construction needed to be redesigned to comply with the new building regulation requirements.
- 1.13. The key changes from the above redesign are as follows:
- electrical heating system replaced with wet radiator system and higher-specification heat pump to ensure compliance with Part L – Dwelling Primary Energy Rate
 - inclusion of electric-vehicle charging points to achieve Part S.
- 1.14. All these changes and updated calculations have been submitted to the building control authority and the local planning authority. The additional redesign costs associated with these changes have also been factored into the additional funding request set out in this paper.
- 1.15. Alongside the additional funding request, Naked House is seeking an immediate advance of a second tranche of the capital grant, of £178,000, to assist its cash-flow position. This is set out in more detail in Part 2 of this DD.
- 1.16. The Naked House additional funding request has been assessed by officers and senior management in the Housing and Land Directorate, in line with the decision-making processes in place for the CHF. Approval for this funding is sought through a Decision by the Executive Director, in line with the policy in MD2372, which delegates authority to the Executive Director to approve funding allocations from the CHF.

2. Objectives and expected outcomes

- 2.1. This additional and advance funding would bridge the funding gap to make the project viable; and to unlock the land, the construction contract and the development finance to allow the affordable homes to be built. As a result, Londoners on modest incomes will be enabled to sustainably customise

² Enfield Council, [Cabinet meeting: Custom Build, and Self-Build Programme in Enfield](#), 15 June 2016

their own genuinely affordable homes, among the 22 being developed; and contribute to the community they live in.

- 2.2. This funding will also enable the growth of a new housing provider, building on smaller sites; and a viable model for new homes that can be followed by others to accelerate the delivery of more affordable community-led housing.

3. Equality comments

- 3.1. The GLA complies with the public-sector equality duty in designing and delivering the CHF. By encouraging and facilitating community-led housing that meets the needs of local communities, the GLA hopes to create a positive impact in equalities terms; and to advance equality of opportunity for those with protected characteristics who are currently disadvantaged by the housing situation in London.
- 3.2. As a community land trust, communal areas on the sites will be community-owned and managed. This will give a wide and representative cross-section of the local community a genuine opportunity for meaningful control over community assets, in a way that is commensurate with GLA's equality, diversity and inclusion requirements.
- 3.3. Naked House has sought to ensure that diverse views inform the project, through an in-person workshop to choose the architect. There have also been pre-planning community workshops, reaching a wide cross-section of the local community. This approach will continue through to the design of the community garden at Raynton Road.
- 3.4. The allocations of the homes will be based on a system that ensures that those most in need are prioritised, regardless of race, gender, disability, sexual orientation, religious belief or age. Naked House's social impact monitoring partner – the London South Bank University – will monitor the profile of purchasers.
- 3.5. Naked House is governed by a diverse board, with equality, diversity and inclusion policies of its own. Three places on the board are open to members of the local community, offering another avenue for genuine inclusivity of the local community.
- 3.6. In accordance with the Public Sector Equality Duty, equality impact assessments were undertaken as part of the consideration of the planning applications for the sites. They concluded that the proposals would not disadvantage people who share one of the nine protected characteristics (as defined by the Equality Act 2010), compared to those who do not have those characteristics.
- 3.7. To access the grant and loan funding, Naked House entered into agreements with the GLA, which placed the following obligations on Naked House:
- to comply, in all material respects, with all relevant legislation, including but not limited to legislation relating to health and safety; welfare at work; and equality and diversity
 - to have, and fully comply with, a policy covering equal opportunities designed to ensure that discrimination that is prohibited by the Equality Act 2010, or is made on any other unjustifiable basis, is avoided at all times.

Naked House will also provide a copy of that policy, and evidence of the actual implementation of that policy, upon the GLA's request.

- 3.8. There are equalities implications associated with all potential outcomes. If the project does not come forward, there is a loss of affordable housing that would have advanced equality of opportunity for those with protected characteristics, and helped to meet the pressing need for affordable housing within the borough. Alternative schemes will be eligible to bid for the funding associated with the

uplift proposals that may replace the loss; but this could be over a longer time frame, and not in Enfield.

4. Other considerations

Declaration of interest

- 4.1. The officers involved in the drafting or clearance of this form do not have an interest to declare in accordance with the GLA's policy on registering interests that might, or might be seen to, conflict with this Director's Decision (DD).

Key risks and issues

- 4.2. This project is a ground-up and fully new-build development of two garage sites and a car park with vacant possession. The sites have planning permission and agreed shadow section 106 agreements. Naked House has procured a build price, and has a desk-top valuation to support the sale-value assumptions. It has several years of experience in progressing this project, and is supported by an appropriate team of advisers. The risk is considered similar across all three sites, as they are covered by the same contract.
- 4.3. Subject to the additional funding proposed, Naked House's experience, team and evidence-based assumptions mean GLA officers consider the project low risk. However, in the absence of the additional funding, it is unlikely to proceed. This increases the risk profile of advancing funding, as detailed below.
- 4.4. The grant agreement originally provided for the capital grant to be paid on the start-on-site date, or such other date as the GLA agrees in writing. In the deed of variation of the grant agreement, the GLA agreed that the first tranche of the capital grant would be paid once planning permission is granted and the second tranche of the capital grant requested by Naked House would be paid once GLA officers are satisfied as to: the details of the claim; and Naked House having a secure legal interest in the sites. The revised proposals set out in this paper would be subject to the grant agreement being varied to incorporate an additional capital grant of £1,628,494 to be allocated to the project, a second tranche of capital grant of up to £178,000 to be paid to Naked House in advance of it having a secure legal interest in the sites, and to update the subsidy control provisions.
- 4.5. The early capital grant payments come with increased risk – i.e., that start on site does not happen when the GLA has already paid a percentage of its capital grant, which it may then not recover because it has no security over the sites. The GLA will manage this risk by limiting the grant that is paid out ahead of the project starting on site; and through careful monitoring of the key milestone dates that need to be met ahead of the works starting. These milestones include completing on the land transfer, and contracting with the selected building contractor.

Links to Mayoral strategies and priorities

- 4.6. Policy 3.3b of the Mayor's London Housing Strategy includes the following proposals:

"The Mayor will work with councils and Government to provide a package of support for small- and medium-sized builders. This will include:

4.6.1.1. making more small sites available through the presumption in favour of development and the new Small Sites, Small Builders programme, beginning with a pilot on TFL sites;

4.6.1.2. setting out clearer policies, design guidance, and other support for small sites and small builders; and

4.6.1.3. amending the Mayoral Community Infrastructure Levy (CIL) instalment policy so that small- and medium-sized builders can pay less upfront, and, where local CIL instalment policies exist, encouraging councils to do the same."

4.7. Policy 5.3a of the Mayor's London Housing Strategy includes the following proposals:

"Working with councils and others, the Mayor will support Londoners to be involved in planning and delivering new homes. This will include:

4.7.1.1. setting a target to identify a pipeline of community-led housing schemes by 2021, with capacity to deliver at least 1,000 homes;

4.7.1.2. supporting the expansion of community-led housing schemes through a new Community-Led Housing Hub for London;

4.7.1.3. investing in community-led housing schemes and lobbying Government for a share of the national Community Housing Fund."

4.8. Policy H2 of the London Plan proposes that small sites should play a much greater role in housing delivery. It also states that boroughs should proactively support well-designed new homes on small sites, through both planning decisions and plan-making, in order to support those wishing to bring forward custom-build housing and community-led housing projects.

Consultations and impact assessments

4.9. The GLA has engaged with Naked House, the subject of this report. It is not considered necessary or appropriate to consult any other persons or bodies including those specified in section 32(1) of the Greater London Authority Act 1999 for the purpose of this DD.

5. Financial comments

5.1. The Decision is seeking approval for an additional capital grant in the amount of £1,628,494 to be paid to Naked House. The additional funding is required to fund the viability gap in the development of 22 homes across three small sites in LB Enfield. The decision is also seeking approval for £178,000, which will be used to support Naked House's working capital requirements ahead of secure legal interest. The advance will be funded from the project's total capital funding envelope, comprising the current £550,000 capital grant allocation and the £1,628,494 uplift, subject to approval.

6. Legal comments

6.1. The provision of financial assistance (including grant funding) to facilitate community-led housing is permissible under sections 30(1) and 34 of the Greater London Authority Act 1999 (the GLA Act), if the GLA considers that doing this will further one or more of the GLA's principal purposes of: promoting economic and social development in Greater London and improving the environment in Greater London. The foregoing sections of this report indicate that it is open to the Director to take the view that the provision of additional grant to Naked House will promote economic and social development in Greater London.

6.2. In determining whether or how to exercise the power conferred by section 30(1) of the GLA Act, the GLA must:

- (i) have regard to the effect that these decisions will have on the health of persons in Greater London, health inequalities between persons living in Greater London, the achievement of sustainable development in the United Kingdom and climate change and its consequences (sections 30(3-5) of the GLA Act);
- (ii) pay due regard to the principle that there should be equality of opportunity for all people (section 33 of the GLA Act); and
- (iii) have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to

advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and persons who do not share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010).

- 6.3. In this respect regard should be had to section 3 above.
- 6.4. Officers must ensure that all necessary and appropriate steps are taken and a suitable agreements entered into with Naked House to formalise the provision of the grant and other variations to the existing grant agreement, including requirements regarding subsidy control compliance, before committing to the same.

7. Planned delivery approach and next steps

- 7.1. These proposals, if approved, will require further variations to the grant and loan agreements, which will be undertaken by external lawyers on the GLA's behalf.
- 7.2. If the proposals set out in this DD are agreed, the revised milestones for the project, the availability period and drawdown programme for the GLA's funding will be finalised with Naked House. It is expected that the start-on-site date will be in the first quarter of 2024, with a build programme of 15 months followed by sales within six months.

Activity	Timeline
Agree the revised milestones, availability period and drawdown programme	November 2023
Instruct external lawyers to draw up the variations to the grant and loan agreements to implement the proposals	November 2023
Advance a second tranche of capital grant of up to £178,000	November 2023
Start on site of 22 affordable homes	By 31 March 2024
Completion of homes	By 31 March 2025
Homes sold and repayment in full of the loan facility (if not recycled before payment date)	By 31 September 2025

Appendices and supporting papers:

None

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note:** This form (Part 1) will be published either within one working day after it has been approved or on the defer date.

Part 1 – Deferral

Is the publication of Part 1 of this approval to be deferred? YES

If YES, for what reason: To allow time for the recipient to obtain secure legal interest and enter contract.

Until what date: 1 March 2024

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under the FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – YES

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Charli Bristow, Grace Richardson and Peter Carney have drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service:

Heather Juman has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

Corporate Investment Board

A summary of this decision was reviewed by the Corporate Investment Board on 30 October 2023.

✓

INTERIM CHIEF FINANCE OFFICER:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature:



Date:

01/11/2023