

REQUEST FOR DIRECTOR DECISION – DD2530

Title: Garratt Lane – Atheldene Road Regeneration Site Loan

Executive Summary:

MD2396 approved the receipt of £486m of funding from Government to help unlock and accelerate housing delivery in London through land assembly, infrastructure investment and provision of gap funding.

MD2396 also approved a delegation to the Executive Director of Housing and Land in consultation with the Deputy Mayor for Housing and Residential Development, to approve the allocation of funding, in accordance with the terms associated with the programme and in pursuit of the Mayor's housing ambitions.

Following consideration and endorsement by the Land Fund Investment Committee (LFIC), this Director's Decision requests approval for the provision of an interest-bearing loan facility of up to £23.5m to Higgins Homes PLC from GLA Land & Property (GLAP) to enable the delivery of 193 homes at the Atheldene Road Regeneration site. Of these, 45% (on a habitable room basis) will be genuinely affordable housing.

Decision:

That the Executive Director of Housing and Land approves, in consultation with the Deputy Mayor for Housing and Residential Development:

The allocation of £23.5m by way of an interest-bearing loan facility from GLA Land and Property Limited (GLAP) under the Land Assembly, Small Sites and Accelerated Construction Funds (MD2396) to Higgins Homes plc to provide land and development finance to deliver 193 homes on the Atheldene Road Regeneration site, to be funded via an interest-bearing loan of up to £23.5m to GLAP from the GLA.

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: Rickardo Hyatt

Position: Executive Director, Housing and Land

Signature:



Date:

2 March 2021

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

The Land Fund

- 1.1. On 27 November 2018, the Mayor's Decision (MD) 2396 approved £486 million of funding from the Ministry of Housing, Communities and Local Government (MHCLG) to help unlock and accelerate housing delivery in London through land assembly, infrastructure investment and provision of gap funding. The Memorandum of Understanding (MoU) between the MHCLG and the GLA for this funding is aimed at unlocking sites capable of delivering 8,000 housing completions in London by 2030.
- 1.2. MD2396 provides a standing delegation to the Executive Director of Housing and Land to approve, via Director Decisions Forms, the allocation of this funding in accordance with the terms associated with the programmes and in pursuit of the Mayor's housing ambitions.
- 1.3. The Mayor's Decision (MD) 2207 established the governance arrangements for the £250 million commercial strand of the Land Fund including an Investment Committee. Where funding under MD2396 is to be deployed through GLAP, the Land Fund Investment Committee governance structure is also used to provide oversight and consistency. The Land Fund Investment Committee currently applies an integrated Land Fund Investment Strategy covering both funding under MD2207 and MD2396 (see MD2615).
- 1.4. In the Land Fund Investment Strategy, funding under MD2396 is available to inject financial support towards the cost of land and infrastructure for schemes where additional affordable housing may be possible or where acceleration of delivery of that affordable housing may be achieved. The allocation of the funding seeks to prioritise investments that are recoverable, to support the principle of a revolving fund.
- 1.5. The evaluation methodology for the use of the funding in accordance with the Land Fund Investment Strategy is based on Benefit Cost Ratio (BCR) metrics.
- 1.6. On 09 February 2021, the GLA's Land Fund Investment Committee considered this proposal and endorsed the loan facility subject to commercial due diligence and external legal advice.

Higgins Homes PLC

- 1.7. Higgins Homes PLC is a subsidiary, and the direct development arm of Higgins Group PLC. Higgins Group PLC also holds two other main subsidiaries: Higgins Partnerships PLC, which carries out a mix of joint-ventures and main contractor work with housing associations and local authorities; and Higgins Investments PLC which holds properties for investment purposes (e.g. the commercial elements of mixed-use projects, as well as a business park).
- 1.8. Higgins Group PLC is a medium-sized and family owned main contractor and developer with no outside shareholders. It is domiciled in the United Kingdom. The Group, and its main subsidiaries (Higgins Homes PLC and Higgins Partnerships PLC), have significant experience in developing complex regeneration and infill sites in London.
- 1.9. A full Know Your Customer (KYC) check, in accordance with the GLA's Anti Money Laundering Policy, has been carried out and did not reveal any issues of concern.
- 1.10. Current Higgins Homes projects in London include Stratford works (London Borough (LB) of Newham, 100 units, fully reserved), and White & Green (LB Tower Hamlets, 144 units, 98% sold).

- 1.11. Other projects within Higgins Partnerships include the regeneration of King's Crescent Estate phase 1 (RIBA award winner, LB Hackney), and the Colville Estate (Housing Design Awards, LB Hackney).

The Atheldene Road Regeneration site (Garratt Lane):

- 1.12. Higgins Homes PLC has entered into a development agreement with Wandsworth Borough Council. The development agreement allows them to purchase and develop this residential led mixed-use scheme of 193 homes.
- 1.13. LB Wandsworth's ("LBW") proposed approach to the regeneration of the Garratt Lane area was approved by the Council's Executive Committee in October 2013 and December 2014. The Council conducted a pre-qualification process in 2015 to select potential bidders for the role of developer partner for the Garratt Lane Regeneration Project. Five bidders were shortlisted to participate in the first stage of the competitive dialogue. The Final tenders were submitted in July 2016. Higgins Homes PLC was selected as LBW's Preferred Bidder at the end of this process and is now in contract with the council.
- 1.14. The site is split into 4 parcels of land covering a total area of 1.34ha which all fall within the control of LB Wandsworth. It is located approximately 800 metres north of Earlsfield station and around 1.5km south of Wandsworth Town station (Public Transport Accessibility Level (PTAL) 4-5), and within walking distance from Wandsworth High Street, Southside Shopping Centre, the green spaces of King George's Park and Wandsworth Common.
- 1.15. The southern sites, (Phase 1), are arranged across three parcels of land and comprise:
- the former Waverton Road Children's Centre;
 - a terrace of council houses; and
 - the former Sherwood Lodge care home.
- 1.16. The northern site (phase 2) is a standalone land parcel which comprises:
- the existing Brocklebank Health Centre; and
 - a pharmacy and retail units with residential above.
- 1.17. The surrounding area is predominantly residential, consisting of traditional Victorian terraced houses and two to three storey post-war housing developments. The site contains a number of post-war buildings of limited architectural merit, all of which have fragmented, incoherent layouts. The redevelopment provides an opportunity to address these issues and restore the traditional urban grain.
- 1.18. The site benefits from full planning permission covering both phases and is subject to a s106 agreement signed on the 31st of July 2020.
- 1.19. The planning submission initially included 20% affordable housing (by habitable room) with a 60/40 split in favour of affordable rented housing. GLA Planning Officers carried out a detailed viability review which led to the developer and council agreeing a revised affordable housing offer of 38% (by habitable room) with a 70/30 split in favour of intermediate housing.
- 1.20. This threshold is below 50% as not all of the site is publicly owned, with 2 x Waverton Road owners in Phase 1 (which form part of the land assembled by LBW for this development). The resulting figure of 38% represented a pro-rata of affordable housing requirements under the London Plan across the public and non-public land. Higgins then increased the level of affordable housing provision to 40% so Octavia (the selected Registered Provider) could access grant under the developer-led route in the Homes for Londoners: Affordable Housing Programme (2016-2023).

Proposed Intervention:

- 1.21. The funds will be drawn from the Small Sites Fund (MD2396) and provided from GLA to GLAP by way of an interest-bearing loan.

- 1.22. The senior debt loan from GLAP to Higgins Homes plc provides a maximum facility size of £23.5m, which comprises two separate tranches for each phase of the development. A phase 1 tranche of a maximum of £17.3m, and a phase 2 tranche with a maximum £23.5m – structured such that, should the two loans be drawn simultaneously, the maximum GLA commitment will be £23.5m.
- 1.23. The facilities will be applied to fund the private and commercial land and development costs of the project, subject to compliance with loan covenants and the provision of security as detailed in part 2 of this decision document. The affordable housing element of the project will be funded by a selected registered provider – Octavia Housing Association are in advanced contract negotiations with Higgins on this site. As a condition precedent to any draw down of the tranches, the borrower will be required to enter into a funding contract with a registered provider with respect to the delivery of the affordable housing for the site, and demonstrate compliance with the fully funded phase test set out in part 2 of this decision document.
- 1.24. The interest rate applied to this loan has been calculated in line with the Land Fund Investment Strategy (MD2615) and recommended by the Interest Rate Setting Board and Land Fund Investment Committee. A commercial report has also been prepared by external consultants which supports the interest and loan terms applied as market facing.

2. Objectives and expected outcomes

- 2.1. This facility will enable the delivery of a site which is ready for development, whilst increasing the proportion of affordable housing on site, and providing market facing returns to the GLA. Additionally, Higgins are an SME which aligns with the aims of diversifying the housebuilding industry set out in the Land Fund Investment Strategy (MD2615).

Outcomes

- 2.2. Providing the loan facility would enable the development to move to delivery quickly:
- the land is in contract;
 - Higgins Homes Plc have a strong track record of delivering complex London sites;
 - planning permission is fully in place;
 - the site is hoarded and vacant possession is imminent;
 - phase 1 has achieved RIBA Stage 4 (detailed design post-planning); and
 - the phase 1 sub-contractor packages are market tested and ready for procurement.
- 2.3. The development would ensure the regeneration of a number of disused assets on public land, improvements to the local high street, and the provision of good quality homes in a sustainable location. It provides the following:
- 193 new homes with private gardens or balconies and landscaped communal amenity space;
 - a new health centre on Garratt Lane, replacing the existing Brocklebank Centre;
 - a pharmacy and other shops fronting on to Garratt Lane;
 - ‘Rowan Row’ a new public pedestrian and cycle path; and
 - improvements to public realm and landscaping.
- 2.4. The loan stretches the affordable housing provision on the site from 40% to 45% per habitable room, as additionality was required as a condition to this loan. To provide some context, the initial planning submission for this site included 20% affordable housing (by habitable room). GLA Planning Officers carried out a detailed viability review of the proposal which led to a revised affordable housing offer of

38% (by habitable room). The developer then agreed to round up the affordable housing offer to 40% (by habitable room) on the basis that the selected registered provider would then be able to access Affordable Housing Programme grant under the developer-led route. An additional 5% affordable housing (by habitable room) was made a condition to this loan proposal, bringing the total affordable housing quantum to be delivered to 45% by habitable room.

3. Equality comments

- 3.1. Section 149(1) of the Equality Act 2010 provides that, in the exercise of their functions, public authorities must have due regard to the need to: eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010; advance equality of opportunity between persons who share a relevant protected characteristic 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.
- 3.2. The protected characteristics under section 149 of the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status.
- 3.3. The housing shortage in London disproportionately affects people with certain protected characteristics. Increasing the supply of housing, and in particular affordable housing, will help to achieve positive impacts in line with the 'three needs' outlined above.
- 3.4. The delivery of new and additional homes will help to implement the Objectives of the Mayor's Equality Diversity and Inclusion Strategy "Inclusive London" (May 2018). This includes working with housing associations, councils, developers, investors and government to help increase the supply of homes that are genuinely affordable to buy or rent. This will help to tackle the inequalities experienced by certain groups of Londoners most affected by the city's shortage of affordable homes.
- 3.5. The allocation of the funding is from the Land Fund, which is aimed at implementing the Mayor's policies set out in the London Housing Strategy. In September 2017, the GLA published an impact assessment, including an equalities impact assessment, of that strategy. Policies related to increasing housing supply and delivering affordable housing, to which this programme will contribute, were also covered by the Integrated Impact Assessment (IIA) for the Draft London Plan, published in November 2017.
- 3.6. The IIA concluded that the cumulative impact of these policies combined with policies for flexible housing mix, inclusive design and accessible housing would contribute to creating inclusive communities, relieve housing pressures that disproportionately affect lower-income groups and ensure the needs of diverse groups are considered in housing delivery and design.
- 3.7. The facility agreement is expected to contain a model clause including a general requirement to comply with equality and diversity legislation and to promote equality of opportunity in respect of access to dwellings, and a specific requirement to have a Diversity and Inclusion Policy, supported by a Diversity Action Plan for its business, so that the GLA can monitor and secure compliance with the general requirements under the terms of the agreement.

4. Other considerations

a) Key risks and issues

- 4.1. Key risks to the success of this project include sales risk and construction cost inflation risk; further information is included in part 2 of this decision.

b) Links to Mayoral strategies and priorities

- 4.2. The London Housing Strategy sets out the policy rationale for the GLA to take a more interventionist approach in London's land market, with the aims of: building more social rented and other genuinely affordable homes, and accelerating the speed of building, including on public land. This intervention is focused on land which has been assembled, and largely owned by the London Borough of Wandsworth.
- 4.3. The London Housing Strategy also seeks to diversify the housebuilding industry by increasing support to medium and small housebuilders. Higgins are a medium sized housebuilder (ranked 63 out of the top 150 housebuilders and contractors in the UK)¹.
- 4.4. The New London Plan also sets a strategic target of 50% of all new homes being affordable. This intervention increases the quantum of affordable housing by 5% against the 40% originally planned for delivery. 50% was not possible to achieve due to viability constraints for the developer, albeit the increase in affordable housing on this site provides assistance in reaching this target at a strategic level.

c) Impact assessments and consultations

- 4.5. The GLA has engaged with Higgins Homes PLC in relation to this proposal which is the subject of this report. It is not considered it necessary or appropriate to consult any persons or bodies including those specified in section 32(1) of the Greater London Authority Act 1999.

d) Know Your Customer

- 4.6. The "Know Your Customer" (KYC) due diligence process under the GLA's Anti-Money Laundering Policy has been completed and did not reveal any issues of concern.

e) Declarations of Interest

- 4.7. 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 which might, or might be seen to, conflict with this Director's Decision.

5. Financial comments

- 5.1. This decision requests approval for an interest bearing loan of up to £23.5m to Higgins Homes plc to deliver 193 homes on the Atheldene Road regeneration site in Wandsworth. The loan will be funded from the £486m Land Fund received from MHCLG.
- 5.2. Further comments on the terms of the loan are set out in Part 2 of this document.

6. Legal comments

- 6.1. Under section 30(1) of the Greater London Authority Act 1999 (as amended) ("GLA Act"), the GLA has the power to provide the loan funding for the project explained above, provided that doing so will further one or more of the GLA's principal purposes of: promoting economic development and wealth creation, social development, and the improvement of the environment in Greater London. The project will deliver housing, including affordable housing, and it is open to the GLA to take the view that funding it will promote both social and economic development, and is therefore within its power contained in section 30(1) of the GLA Act.
- 6.2. In exercising the power in section 30(1), the GLA must have regard to the matters set out in section 30(4-6A) of the GLA Act, and also the Public Sector Equality Duty in section 149 of the Equality Act 2010. Reference should be made to section 3 above in this respect.

¹ <https://www.building.co.uk/top-150-contractors-and-housebuilders-2019-the-tables/5100456.article>

- 6.3. In addition to the above, where the GLA is proposing to use the power conferred in section 30(1) of the GLA Act, the GLA must consider consulting in accordance with section 32 of the GLA Act. As noted at paragraph 4.5 above, GLA officers have engaged with the proposed borrower in relation to the project which is the subject of this Director Decision. GLA officers have confirmed it is not considered necessary or appropriate for the GLA to consult with any other persons or bodies including those specified in section 32(2) of the GLA Act for the purposes of this Director Decision.
- 6.4. The provision of the loan facility at a market rate of interest is likely to constitute a specified activity, as defined under section 34A of the GLA Act and the Greater London Authority (Specified Activities) Order 2013/973. Accordingly, it will need to be provided by a subsidiary company of the GLA, as is proposed. GLA Land and Property Limited (GLAP) is a subsidiary of the GLA.
- 6.5. External lawyers are advising GLA officers in relation to the form of facility agreement and security documentation between the GLA and Higgins Homes PLC and in relation to subsidy control compliance.
- 6.6. The arrangements are being structured to be subsidy control compliant on the basis that it will be provided on market terms with a market interest rate applied.
- 6.7. Further legal comments are set out in Part 2.

7. Planned delivery approach and next steps

Activity	Timeline
Execution of the facility agreement	March 2021
Anticipated Start on Site (phase 1)	June 2021
Anticipated Practical Completion (Phase 1)	December 2023
Anticipated Start on Site (phase 2)	December 2023
Anticipated Practical Completion (phase 2)	March 2026.

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 either be published 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 maintain the confidentiality of the transaction until it is completed.

Until what date: 31 July 2022.

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under 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:

Marc Jacquemond has drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service:

Rachael Hickman 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.

✓

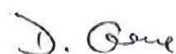
Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 22 February 2021.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature



Date

2 March 2021