

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD1054

Title: Mayor's Housing Covenant other product allocations

Executive Summary:

To approve the selection of Mill Group and Pocket Homes, following their bids for funding made under the Mayor's Housing Covenant having successfully passed financial due diligence, subject to further detailed legal due diligence in line with MD1174.

Decision:

1. That the Executive Director of Housing and Land approves the selection of Mill Group and Pocket Homes for the allocation of funding under the Mayor's Housing Covenant, to deliver a total of 489 homes at up to £26.9m funding, as set out in part two of this Director Decision form and in accordance with the delegation agreed in MD1174, subject to the proviso below.

Proviso

2. The final decision is subject to the successful completion of detailed legal due diligence regarding the proposed products. Once legal due diligence has been concluded and the terms of all agreements finalised, further approval will be sought to enter into the legal agreements governing the funding proposals. For the avoidance of doubt, this decision does not constitute a commitment to fund as this will require:

Mill Group:

3. Agreement to an equity loan contract and suitable legal structure to cover potential issues in relation to the contract with Lang O'Rourke, debt financing and subsequent sales and management.

Pocket Living:

4. Agreement to a suitably drafted contract and procuring a suitably qualified and financially stable Joint Venture Partner.

AUTHORISING DIRECTOR/HEAD OF UNIT

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 David Lunts

Position Executive Director of Housing and Land

Signature 

Date 1/5/13

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The funding prospectus for the Mayor's Housing Covenant was published on 28 September 2012 following decision by the Mayor (MD 1065 27 September 2012).
- 1.2 The funding prospectus invited organisations to bid for funding to deliver one of, or a combination of, the following options with a deadline for bids of noon on 30 November 2012:
 - A flexible affordable home ownership product - which will flex between a rent to save option, shared ownership or equity loan according to the financial circumstances of the purchaser. Providers who wish to only offer one of these options could do so. In each case, the property would need to be transferred to an RP at the point of completion.
 - FirstBuy, using almost identical terms and conditions as the current programme.
 - Other affordable home ownership options which have a track record of success with customers and retail mortgage lenders.
- 1.3 In total bids requesting £209m of GLA funding were received, which proposed to deliver 7,558 homes.
- 1.4 Announcements in relation to the flexible product and for FirstBuy in 2013-15 were made on 13 February 2013, following decisions by the Mayor pursuant to MD 1145 (12 February 2013). These initial allocations totalled £78m to deliver 3,026 homes.
- 1.5 It was agreed by the Mayor on 25 March 2013 (MD1174) that the overall funding for this programme could be increased to £118m. This Mayoral Decision also approved allocations totalling £1.3m from this programme to two organisations in respect of other affordable home ownership options.
- 1.6 At the same time the Mayor delegated authority to approve the final set of bids, subject to detailed due diligence, to the Executive Director of Housing and Land, in consultation with the Deputy Mayor for Housing, Land and Property.
- 1.7 The bids from Mill Group and Pocket Homes were considered by Housing Investment Group on 21 March 2013 and received support from that group.

Mill Asset Management Group

- 1.8 Mill Group are proposing to develop out a phase of RAF Ruislip, a stalled site in Ickenham, Hillingdon, with Laing O'Rourke for their co-ownership model (a form of shared ownership that requires no mortgage). They have requested GLA investment in the form of equity, which would be returned or recycled once the development was sold onto an investor. Their modelling suggests that the GLA would be due an uplift on the initial investment. The remainder of the development cost/value would come from Mill Group equity and borrowing.
- 1.9 Mill Group have now confirmed that they are willing to contract on the basis of an equity-based loan (using Get Britain Building documentation as a starting point) and for the equity in the project to be split 50:50 between GLA and Mill Group.

- 1.10 Mill Group are planning to access the Government Private Rented Sector debt guarantee. If successful they would need a minimum of 20% equity compared to the purchase price of the properties from Lang O'Rourke. If Mill Group are unsuccessful in accessing the Government Private Rented Sector debt guarantee they would raise traditional development finance. They have in principle offers of funding at an equity level of 30% of total costs. For this reason the proposed GLA allocation is given as a range.
- 1.11 The allocation is proposed subject to contract and suitable legal structure and subject to completion of detailed legal due diligence to the GLA's satisfaction. In particular this will need to cover potential issues in relation to the contract with Lang O'Rourke, debt financing and subsequent sales and management. It will also need to appropriately cover the project cashflow at development and lettings stage and how this is shared with the GLA.

Pocket Living Limited

- 1.12 Pocket are proposing a revolving loan from the GLA, which would not benefit from interest but which would be repayable after ten years. Pocket would commit to reinvest all of their profits over the ten year period alongside the GLA to grow the number of homes delivered significantly above the initial number proposed. The loan and proceeds would be placed in a GLA-charged bank account with draw-down for land-purchase, over which GLA would hold a charge. Once development finance is in place the GLA's charge over the land would be subordinated to that lender.
- 1.13 Pockets' model is based on providing smaller, cheaper homes. Despite this fact the homes constructed will still meet the full space standards set out in the London Housing Design Guide (LHDG). The one bed homes meet the LHDG minimum for one-person units and the two-bed homes will meet the LHDG minimum for 3-person units.
- 1.14 The Joint Venture does not change the structure of the deal or recycling but considerably improves the financial strength and construction capability, compared with Pocket acting alone. Based on this position, on the basis of the due diligence carried out so far, the level of allocation proposed to the Pocket Joint Venture is considered appropriate.
- 1.15 Pocket are currently working up arrangements for debt finance. It is likely that this will not be completed before a GLA investment decision but would be a condition of funding and would need to be in place before any funding was drawn down.
- 1.16 The allocation is proposed subject to contract and financial standing of the Joint Venture as a whole and subject to completion of detailed legal due diligence of the GLA's satisfaction. In particular this will need to cover the operation of the Joint Venture, access to debt financing, safeguarding GLA's funding, exit routes and recycling processes.

2. Issues for consideration

- a) Links to strategies and Mayoral and corporate priorities

The allocation of this funding delivers on the 2012 Mayoral Manifesto commitment to extend First Steps to assist Londoners who are currently locked out of home ownership. These funding allocations will deliver 489 homes.

- b) Impact assessments and Consultation

The availability of this funding was announced with the publication of the funding prospectus and the placement of a voluntary notice in the Official Journal of the European Union. This ensured the widest possible audience for the funding opportunity.

The policy changes linked to this funding stream were outlined in an accompanying paper which invited consultation responses up until 19 December 2012. The results of these responses are currently under consideration.

c) Risk

Dramatic changes to the housing market in London, up or down, could negatively impact upon this programme. Price falls could render schemes financially unviable for providers and increases could move homes out of reach of the target audience. The housing market will be monitored on an ongoing basis.

There is a general development risk that schemes proposed to us by partners will not be delivered on time. This has been mitigated by a careful review of deliverability of all schemes, particularly those completing in 2015/16. Scheme progress will be monitored on an ongoing basis as part of contract management.

The other product bids present a variety of new challenges in terms of the way they are funded and the products proposed. These will be examined as part of the detailed due diligence process to be carried out for all other product proposals.

3. Financial Comments

- 3.1 The proposed additional allocations of up to £26.9m are within the programme approval of £118.2m.
- 3.2 Officers from Finance have been involved in the detailed due diligence process and endorse the recommendations in the main text of this report.
- 3.3 Finance should be consulted before arrangements with either party are finalised.

4. Legal Comments

Section 30 of the Greater London Authority Act 1999 (as amended) ("GLA Act") gives the Mayor a general power to do anything which he considers will further one or more of the principal purposes of the GLA. The principal purposes, as set out in section 30(2), are:

- (a) promoting economic development and wealth creation in Greater London;
- (b) promoting social development in Greater London; and
- (c) promoting the improvement of the environment in Greater London

and, in considering the allocations in respect of which a decision is sought, officers confirm they have complied with the GLA's related statutory duties to:

- pay due regard to the principle that there should be equality of opportunity for all people;
- consider how the proposals will promote the improvement of health of persons in Greater London, promote the reduction of health inequalities between persons living in Greater

London, contribute towards the achievement of sustainable development in the United Kingdom and contribute towards the mitigation of or adaptation to climate change in the United Kingdom; and

- consult with appropriate bodies..

Previously the GLA was prohibited from using this general power to incur expenditure in providing any housing. This prohibition was, however, removed by section 186 of the Localism Act 2011, which came into effect on 1 April 2012.

Section 34 of the GLA Act allows the Mayor to do anything which is calculated to facilitate or is conducive or incidental to the exercise of any of his functions.

The foregoing sections of this report indicate that the decision requested falls within the above statutory powers of the GLA exercisable by the Executive Director of Housing and Land, in consultation with the Deputy Mayor for Housing, Land and Property (pursuant to the delegated authority granted under MD1174).

The funding arrangements in relation to these allocations will need to be established in a way that is compliant with both state aid laws and the GLA's fiduciary duty to use its public funds prudently. Officers must also ensure that the funding is distributed in a manner which affords value for money in accordance with the GLA's Contracts and Funding Code. These considerations will need to be addressed on a case by case basis and form part of the detailed legal due diligence exercise.

In relation to the proposed allocation to Pocket Living Limited, legal advice should also be sought in relation to whether any or all of the legal documentation must be entered into by GLA Land and Property Limited, rather than the GLA, pursuant to Section 34A of the GLA Act.

External legal support will be required in relation to the legal due diligence, drafting and negotiation of the associated legal agreements and this will be procured via TfL Legal.

5. Investment & Performance Board

This decision was considered and supported at Housing Investment Group on 21 March 2013.

6. Background/supporting papers

MD1065, MD1145 & MD1174

Public access to information

Information in this form is subject to the Freedom of Information Act 2000 (FOI Act) and other legislation. Information on this decision will be included in the Mayor's report and decision list. The form will be available publically from then. Any facts and advice that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would compromise the implementation of the decision being approved.

Is the publication of this approval to be deferred? YES

If yes, for what reason:

To enable the GLA to manage announcements with partners in relation to the allocations.

Until what date: 01/08/2013

Is there a part 2 form – YES

ORIGINATING OFFICER DECLARATION:

Tick indicates
approval (✓)

Drafting officer:

Reena Owen has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision:

✓

Assistant Director/Head of Service:

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

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Executive Director, Resources

I have been consulted about the proposal and confirm that financial and legal advice have been taken into account in the preparation of this report.

Signature



Date

1. 5. 13