

**REQUEST FOR MAYORAL DECISION – MD1445**

**Title: First Steps Challenge Fund**

**Executive Summary:**

The Mayor is invited to approve the allocation of £180m funding to a new First Steps Challenge fund. The aim of the First Steps Challenge Fund is to deliver additional shared ownership homes. This funding will be used to support the delivery of at least 4,000 shared ownership homes by 31 March 2020. This fund will be launched as part of further funding opportunities related to the London Housing Bank.

**Decision:**

That the Mayor approves the allocation of £180m of funding is made available for the purposes of the First Steps Challenge Fund.

**Mayor of London**

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

**Signature:**

**Date:**

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1 London's population is currently increasing by around 100,000 people a year, equivalent to a new borough approximately every two and a half years and the fastest population growth in London's history. The Mayor is on target to deliver 100,000 new affordable homes by 2016, but despite this there remains significant demand for more homes of all tenures.
- 1.2 The mismatch between housing supply and demand has grown over the last decade, contributing to rising housing costs. As rents and house prices have risen, demand for affordable housing has increased. This is squeezing Londoners on middle incomes – those unable to afford rents in the private sector and those priced out of owner occupation, unable to raise a deposit because high rents reduce their ability to save, but who are not prioritised for affordable housing.
- 1.3 The First Steps Challenge Fund is part of the London Housing Bank, which was initially launched in September 2014. In the first phase of the London Housing Bank £200m recoverable investment was made available for bids for homes to be delivered at intermediate rent (80% of market rent). This second phase will provide an additional £180m to support delivery of shared ownership homes.
- 1.4 The aim of the First Steps Challenge Fund is to deliver additional shared ownership homes, to deliver these homes sooner than if they were produced for market sale and to attract additional investment from long-term funders. There are a number of institutional investors interested in the returns from shared ownership and this fund could help seed the required increase in scale.
- 1.5 Funding is proposed to be made available on a recoverable basis to support the delivery of at least 4,000 shared ownership homes in 2015-20. These should be additional to those that are expected to be delivered already within that period so would represent a net increase in supply.
- 1.6 It is proposed that the £180m made available through this Fund will comprise £70m reallocated from 2011-15 delivery and £110m from the 2015-18 Mayor's Housing Covenant.
- 1.7 At least 2,400 homes from this Fund are expected to deliver prior to March 2018, contributing to agreed affordable housing delivery targets in the London Housing Strategy (42,000) and with the Department for Communities and Local Government (DCLG) (40,700 - 8,700 homes through the Affordable Homes Guarantee funding to 2017 and 32,000 from the 2015-18 programme to 2018).
- 1.8 This will leave a minimum of 4,882 homes to be secured through continuous bidding to achieve the London Housing Strategy target of 45,000 affordable homes between 2015 and 2018 as per the table below, with an additional 3,000 homes to be delivered by the London Housing Bank Phase 1 during the same period.

<b>Source of homes</b>	<b>Number of homes to be delivered by March 2018</b>
Existing MHC Allocations (main programme)	7,655
Land and Property f'casts 15-18 (in addition to homes counted within MHC)	300
Existing MHC Allocations (care and support )	876
Additional DCLG reported homes (estimated)	2,100
MHC 2015-18 main programme allocations	17,197
Proposed MHC 2015-18 revolving fund allocations	590
Proposed Housing Zones	6,000
First steps challenge fund	2,400
Continuous Market Engagement (to be allocated)	4,882
<b>Subtotal</b>	<b>42,000</b>

- 1.9 DCLG have now agreed that 2,265 homes from the 40,700 target can be delivered in financial year 2018/19 and therefore the DCLG target number of new affordable homes to be delivered by March 2018 is 38,435. This will leave a minimum of 4,293 homes to be secured through continuous bidding in order to achieve the targets agreed with DCLG as per the below table. Whilst the target agreed with DCLG is lower, the Mayor's target remains 45,000 homes between 2015 and 2018.

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Existing MHC Allocations (main programme)	7,655
Land and Property f'casts 15-18 (in addition to homes counted within MHC)	300
MHC 2015-18 main programme allocations*	17,197
MHC 2015-18 revolving fund allocations	590
Housing Zones	6,000
First steps challenge fund	2400
Continuous Market Engagement (to be allocated)	4,293
<b>Subtotal</b>	<b>38,435</b>

- 1.10 In MD 1393 the Mayor approved the receipt of £200m funding from the Department for Communities and Local Government for the purposes of the initial phase of the London Housing Bank. This approval represents the next phase in the London Housing Bank. The first phase approved by MD 1393 provided funding for the delivery of affordable 'Rent to Buy' housing over a temporary period. A funding prospectus was published in September 2014 for these purposes.

## 2. Objectives and expected outcomes

- 2.1. The £180m will be made available on a recoverable basis, to deliver at least 4,000 shared ownership homes in 2015-20. The Prospectus will set out the nature of the funding available from the GLA, who can bid for this, the broad terms on which it will be provided, process for submission, receipt and assessment of bids. A draft of the Prospectus is attached at part 2 to this Mayoral Decision.
- 2.2. In order to build the scale and contribution of delivery in a way which is likely to be attractive to institutional investors, the minimum proposal that would be accepted for the fund is the delivery of

500 homes by 2020. It is expected that a minimum of 300 of these for each partner would be delivered by 31 March 2018.

- 2.3. In order to maximise the interest from organisations and the opportunity to test different funding arrangements, the GLA will not prescribe the form that the funding will take. However, it is likely that the investment could take two different forms; a low cost interest-bearing loan with a set repayment schedule, or equity investment. Proposals will be invited from any organisation able to deliver shared ownership homes. Bids will be welcomed from across the public, private and not-for-profit sectors and from new and existing GLA delivery partners.
- 2.4. In bidding for the fund, the GLA will require clear evidence that the homes to be delivered through this funding are additional to those that would be delivered normally through the market.
- 2.5. All homes delivered using this funding will be required to use the standard shared ownership lease. Leaseholders will be expected to purchase the maximum share that they can afford with an initial sale of between 25 and 75 per cent based on a percentage of the full market value of the property, with the initial rent on the remaining share capped at 2.75 per cent of the value of that remaining unsold share. The rent will increase by a maximum of 0.5 per cent more than the increase in retail prices. The Leaseholder will be able to purchase additional shares in the property until 100% of the property is owned.
- 2.6. All First Steps homes must be sold to households with incomes of no more than £66,000 (for one and two-bedroom properties) or £80,000 (for three-bedroom properties or larger), or as may be updated in future, in line with the London Plan thresholds for intermediate affordable housing.
- 2.7. It will be a requirement of the funding that all homes must be advertised on the First Steps portal and will be immediately available to any households meeting the London-wide criteria. Local eligibility or prioritisation criteria will not be applied to this funding.
- 2.8. GLA funding will only be awarded to organisations whom the GLA is confident will be able to repay the funding independently of the project in question. GLA officers will initially assess the financial position of bidders, in line with normal processes for existing programmes. Where appropriate, this will be supplemented by commissioning bespoke financial analysis.

### **3. Equality comments**

- 3.1. The First Steps Challenge Fund contributes to the aim of increasing housing supply as set out in the Mayor's London Housing Strategy. In January 2014 the GLA published an integrated impact assessment ("IIA"), including an equalities impact assessment, of that strategy. The policies related to increasing housing supply were covered by the Integrated Impact Assessment (IIA) for the Further Alterations to the London Plan.
- 3.2. The IIA concluded that updating housing projections and targets would support the delivery of sufficient housing and may help stabilise housing prices, supporting equal opportunities throughout communities.
- 3.3. The Prospectus and the process for assessing bids will be formulated taking into account equalities issues, which will also be taken into account when assessing specific bids for funding proposals and entering into loan and funding agreements.

### **4. Other considerations**

- a) *Key risks and issues*

- 4.1. There is a risk to the GLA in relation to non-repayment of investments allocated through this fund. This will be mitigated by investing only in financially sound organisations, obtaining robust security cover to the value of the GLA's loan where appropriate and monitoring delivery.
- 4.2. There is a risk that the loan funding will not be attractive to the market and therefore there will be a low take up of the funding, which will have an impact on delivery of early outputs by March 2018. In order to encourage take-up of the funding, information will be provided at an early stage to GLA contacts and various briefing sessions will be held to promote the fund. A period of 3 to 4 months will be provided for bidders to respond with proposals.

*b) Links to Mayoral strategies and priorities*

- 4.3. The Mayor has recognised the importance of meeting Londoners' home-ownership aspirations. Through his 'First Steps' initiative, the Mayor has launched an ambitious intermediate housing programme that has delivered 27,000 intermediate homes and helped 42,000 Londoners gain a foothold on the housing ladder since 2008 as part of a target to assist 50,000 Londoners into home ownership. In September 2012 the Mayor launched a new 'Housing Covenant', which set out plans to spend £100m to fund up to 10,000 intermediate homes for working Londoners. This funding aimed to help first time buyers onto the property ladder in an affordable and sustainable manner.
- 4.4. In June 2014 the London Housing Strategy set out an ambition to build on the success of the First Steps programme and the Housing Covenant by doubling the number of intermediate homes by 2020, and doubling this again by 2025, aiming to help an estimated 250,000 Londoners get on the housing ladder.
- 4.5. The Mayor's Housing Covenant for the 2015-18 investment round set out how it would direct funding for these years to support the ambition set out in the Strategy. It was proposed that the proportion of First Steps homes delivered in the programme increase to 40%, compared to 26% in the previous 2011-15 Affordable Homes Programme. This was largely achieved in the initial allocations where 39% of homes were for flexible home ownership.
- 4.6. The proposals for a London Housing Bank and increasing the delivery of social housing are policies contained in the Mayor's London Housing Strategy which, as detailed in MD1331, was subject to consultation with the public and a whole range of relevant organisations from November 2013 – February 2014.

*c) impact assessments and consultations.*

- 4.7. In January 2014 the GLA published an integrated impact assessment ("IIA"), including an equalities impact assessment and health impact assessment, of the London Housing Strategy, which included policies for the London Housing Bank, and increasing the delivery of affordable housing. The IIA concluded that delivering new housing, including affordable housing, is likely to have broadly positive benefits in relation to social and economic sustainability objectives such as improving health, reducing inequalities, increasing accessibility, and economic development. That IIA also cross-referred to the IIA conducted in respect of Further Alterations to the London Plan, which included a sustainability assessment, strategic environmental assessment, and equality impact assessment of the Mayor's proposals to increase levels of affordable housing in the Greater London.
- 4.8. The IIA was subject to public consultation alongside the London Housing Strategy from January 2014. The maximum income caps that apply to First Steps housing, which will apply to homes delivered under the London Housing Bank, were addressed by the Integrated Impact Assessment of the 2010 London Housing Strategy. This found that the provision of a separate cap for families "strengthens the beneficial impact of this suite of policies in relation to many social issues and recognised the challenges faced by many families in London".

## 5. Financial comments

- 5.1. It is proposed that a £180m fund is set up to make recoverable investments to deliver shared ownership homes in London.
- 5.2. The fund will operate from 2015-2020 and has a target of delivering at least 4,000 shared ownership homes. This is an average investment of £45,000 per home.
- 5.3. The work will be funded by £70m underspend in the 2011-2015 Mayor's Housing Covenant budget and £110m available within the 2015-2018 Mayor's Housing Covenant budget.
- 5.4. Any profit-sharing or equity-type arrangements will need to be considered within the context of the overall loan profile for the programme and also across GLA and GLAP. This may necessitate accounting for some transactions in GLAP should they be deemed by their nature to be captured by the Specified Activities Order.

## 6. Legal comments

- 6.1. 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.
- 6.2. Given the above, the GLA's housing and regeneration functions contained in Part 7A of the GLA Act and section 34 of that Act, which allows the Mayor to do anything which is calculated to facilitate, or is conducive or incidental to, the exercise of any of his functions (including his functions under section 30), the GLA is empowered to provide financial assistance, including by way of loan, for the purpose of the recipient providing social housing.
- 6.3. "Social housing" includes "low cost home ownership accommodation", which is accommodation that is made available in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market and includes accommodation that is made available for occupation under a lease which is (a) granted on payment of a premium calculated by reference to a percentage of either the value of the accommodation or the cost of providing it, and (b) provides that the tenant (or the tenant's personal representatives) will or may be entitled to a sum calculated by reference to the value of the accommodation.
- 6.4. The First Steps Challenge Fund will fund the delivery of shared ownership accommodation. Provided that the new homes are provided on the basis set out in this report and that the funding is given on condition that homes delivered under the programme will be made available in accordance with the GLA's income eligibility criteria (which is designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market), the funding provided will constitute social housing financial assistance, as defined under section 333ZE(2)(b) of the GLA Act.
- 6.5. In determining whether or how to exercise the power conferred by section 30(1) of the GLA Act, the Mayor must:

- (i) have regard to the effect that his decision 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);
- 6.6. As noted in section 4 above, in January 2014 the GLA published an integrated impact assessment ("IIA"), including an equalities impact assessment, of the London Housing Strategy. That IIA also cross-referenced an IIA of Further Alterations to the London Plan, which included a sustainability assessment, strategic environment assessment, and equality impact assessment of proposals to increase levels of affordable housing; identifying broadly positive impacts.
- 6.7. The Prospectus will need to be formulated having regard to the Public Sector Equality Duty, and the matters set out in section 30(3-5) of the GLA Act detailed above. These matters will also need to be taken into account when assessing specific bids for funding proposals and entering into funding agreements.
- 6.8. In addition to the above, where the Mayor is proposing to use the power conferred in section 30(1) of the GLA Act, the Mayor must consider consulting in accordance with section 32 of the GLA Act. The Mayor will need to consult in accordance with section 32 of the GLA Act, as appropriate, prior to entering into any loan agreements.
- 6.9. The legal implications of Section 34A of the GLA Act and the Greater London Authority (Specified Activities Order) 2013/973 will need to be considered. They require that the GLA can only carry out certain activities if done so through a company that is a subsidiary of the GLA. Those activities are the "management and exploitation (which includes acquisition, disposal, development and holding) of land on a commercial basis with a view to the realisation of a profit in connection with the GLA's housing, regeneration and economic development functions under the GLA Act." To the extent any of the proposals involve loans secured by legal charge or involve the acquisition or disposal of land by the GLA, such activities will need to be reviewed in order to assess whether they are required to be carried out by GLA Land and Property Limited rather than the GLA.
- 6.10. Shared ownership is, in State Aid terms, social housing; and, provided those eligible to be leaseholders of new homes meet the GLA criteria for income eligibility, then the programme should be capable of being implemented in compliance with State Aid rules. The funding arrangements, incorporating relevant security for GLA recoverable investment, will need to be established in a State Aid compliant manner and also in a way which complies with the GLA's fiduciary duty to use its public funds prudently and in a manner which affords value for money.
- 6.11. The award of GLA funding under the First Steps Challenge Fund is not a procurement, and is not therefore subject to the requirements of the Public Contracts Regulations 2006. This notwithstanding, the GLA is still subject to the overarching duties of fairness and transparency.
- 6.12. Legal advice should be sought on any documentation that the GLA proposes to use, before the GLA starts to administer and operate the funding programme, and enters into any such

agreements and to advise on specific legal issues arising. It is recognised that specialist legal advice will be required.

## **7. Investment & Performance Board**

The draft prospectus was discussed at the HIG meeting in January 2015. Comments received from the Group will be incorporated into the final published version.

## **8. Planned delivery approach and next steps**

<b>Activity</b>	<b>Timeline</b>
Prospectus launched	February 2015
Closing date for bids	May 2015
Due diligence process	Jun- Aug 2015
Announcement of investment decisions	September 2015
Contracts signed	October to December 2015
Completions (earliest)	March 2016
Completions (latest)	March 2020

## **Appendices and supporting papers:**

### **Appendix 1 – Draft London Housing Bank Prospectus**



**Public access to information**

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FOI Act) 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 approval 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 manage publication of the final funding prospectus.

Until what date: (a date is required if deferring) 28 February 2015.

**Part 2 Confidentiality:** Only the facts or advice considered to be exempt from disclosure under the FOI Act should be in the separate Part 2 form, together with the legal rationale for non-publication.

**Is there a part 2 form – No**

**ORIGINATING OFFICER DECLARATION:**

Drafting officer to confirm the following (✓)

**Drafting officer:**

Alison Murray 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.

✓

**Sponsoring Director:**

David Lunts has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

**Mayoral Adviser:**

Richard Blakeway has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**EXECUTIVE DIRECTOR, RESOURCES:**

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

**Signature**

**Date**

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor

**Signature**

**Date**