

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2335

Title: Grant funding to deliver modular homes via the Pan-London Accommodation Collaborative Enterprise (PLACE)

Executive Summary:

This decision seeks the Executive Director of Housing & Land's approval of a bid submitted to the Homes for Londoners Affordable Homes Programme Innovation Fund. The Director has delegated authority to give approval through the provisions in Mayoral Decision-Making in the GLA because expenditure is from the budget approved by MD2125 (Affordable Homes Programme 2016-21).

The proposal is to provide capital grant funding of a maximum of £11,000,000 to help meet the cost of acquisition by a special purpose vehicle, Pan-London Accommodation Collaborative Enterprise Limited (PLACE), of modular homes to be supplied to London Boroughs to provide affordable rented temporary accommodation on meanwhile sites primarily for homeless households. Funding will be drawn down by the London Borough of Tower Hamlets, who will in turn pass the funds on to PLACE to procure and supply the modular units. London boroughs will become members of the special purpose vehicle in order to participate in and benefit from the programme.

This initiative is intended to provide a solution to help accommodate homeless households, primarily families, across London. Funding will be managed by a central Special Purpose Vehicle (SPV), PLACE, created to purchase modular units to supply to London boroughs for use on identified meanwhile sites.

Decision:

That the Executive Director Housing & Land approves:

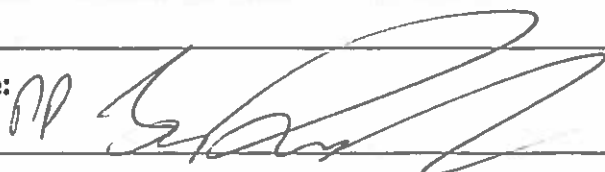
1. The commitment by the GLA of a maximum of £11,000,000 of non-recoverable grant, on a pro rata basis, to the London Borough of Tower Hamlets to be advanced to Pan-London Accommodation Collaborative Enterprise Limited for the purchase of up to 200 modular units. The modular units are to be supplied to London Boroughs to provide affordable housing, primarily to accommodate homeless households.
2. Additional funding under the same terms, subject to budget availability across the programme and further approval by the Executive Director Housing & Land by record in writing.

AUTHORISING DIRECTOR

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:

12/3/19.

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 MD2125 was signed on 13 June 2017 and approved a total programme budget of £3.25bn for the *Homes for Londoners: Affordable Homes Programme 2016-21*. MD2282, signed on 2 May 2018, increased this budget to £4.92bn.
- 1.2 The Innovation Fund, drawing on £300,000,000 of this funding, was launched as part of the Homes for Londoners: Affordable Homes Programme 2016-21 on 29 November 2016. The Funding Guidance invited providers to submit proposals which sought to deliver affordable housing using GLA investment in innovative ways. A template 'Expression of Interest' (EOI) form was published on 2 December 2016 and providers were invited to complete and return the form by the closing date of 13 April 2017.
- 1.3 MD2125 states that homes delivered through the Innovation Fund route should offer a similar level of affordability as the three tenure products in the mainstream funding programme, there is an existing expectation that Innovation Fund bids would involve complex financial commitments and/or bespoke agreements (to be managed by a Director's Decision), and that innovation fund proposals would be unlikely to be Novel, Contentious or Repercussive. This proposal utilises grant funding, and meets the above expectations in line with MD2125, so is not considered to require a Mayoral Decision.
- 1.4 An Expression of Interest (EOI) to deliver modular homes primarily to accommodate homeless households was submitted by London Councils, and assessed on 4 May 2017, scoring 15.1 of a possible 25 according to the criteria for the Innovation Fund, as set out in the Homes for Londoners: Affordable Homes Programme 2016-21 Funding Guidance, and carried forward into a due diligence phase. It was decided during due diligence (via the London Housing Directors Group) that the London Borough of Tower Hamlets would be the partner receiving Greater London Authority grant. As this offers security of GLA funding via the financial strength of the borough, and their status as both a Greater London Authority Investment Partner and Registered Provider of Social Housing with the Regulator of Social Housing, this is viewed as a positive move.
- 1.5 Following due diligence, it is recommended that the GLA commits to invest capital grant funding through the Innovation Fund of a maximum of £11,000,000 to help meet the cost of acquisition of up to 200 modular homes to be supplied to London Boroughs to provide affordable rented temporary accommodation on meanwhile sites. This will primarily be for homeless households (the GLA will have discretion under the grant agreement to approve other client groups who may be housed in these units where it would be consistent with mayoral policies). This proposed funding amount is in line with the EOI submission.
- 1.6 This initiative is intended to provide a solution to help accommodate homeless households, primarily families, across London. Funding will be managed by a central Special Purpose Vehicle (SPV), Pan-London Accommodation Collaborative Enterprise Limited (PLACE), created to purchase modular units to supply to London boroughs for use on identified meanwhile sites, creating short-term use of sites until they can be brought back into permanent use. Funding will be drawn down by the London Borough of Tower Hamlets, who will in turn pass the funds on to PLACE to procure and supply the modular units to participating London boroughs for provision as affordable housing. London boroughs will become members of the SPV in order to participate in and benefit from the programme.
- 1.7 A working group of boroughs from across London, chaired by Tower Hamlets, is proposing this collaborative approach to acquiring units, manufactured in a factory, that will be installed on

“meanwhile” sites and moved from site to site as they become available, for the life of the units. These homes will provide homeless households and boroughs with a cheaper and better quality alternative to Bed & Breakfast and some other forms of temporary accommodation.

1.8 The EOI submitted by London Councils meets the criteria of the Innovation Fund:

- It supports innovation in a number of ways, notably the following:
 - It builds on work by the London Boroughs of Lewisham and Ealing to place precision-manufactured homes on meanwhile sites not otherwise being used to help meet housing need to meet a pressing need for good quality, local accommodation for homeless households for whom boroughs have a duty to provide accommodation that is more affordable to boroughs and homeless households than most alternative forms of temporary accommodation. It seeks to open up this approach to a greater number of London boroughs, including those who may not have a pipeline of sites that allows them to procure units directly.
 - It uses demountable precision-manufactured units on sites that are available in the short or medium term and will thereby help to demonstrate the scope for relocating such homes.
 - It uses sites that might previously have stood empty for a number of years to help meet pressing housing need.
- It is in keeping with a number of the Mayor’s strategic priorities:
 - First, it demonstrates his commitment, outlined in his London Housing Strategy, to help boroughs improve the options that they can offer to the growing number of homeless households they are obliged to accommodate. For boroughs who deploy them and the homeless households who live in them, these precision-manufactured homes will provide a more affordable alternative to the private rented accommodation in which the majority of homeless households accommodated by boroughs are placed. These homes will be made available in the local area and of good quality. They represent a better option than the Bed and Breakfast accommodation used for a small but significant number of homeless households accommodated by London boroughs and will enable more homeless households to be accommodated in their local area. (At present, more than a third of homeless households accommodated by London boroughs are accommodated outside the area of the local authority accommodating them. A body of research demonstrates that such placements can often disrupt childcare, education, and support networks, with serious impacts for families’ health and wellbeing, and children’s life chances, as well as making it more difficult to sustain employment.) The homes will also relieve some of the cost pressures that boroughs are facing as a result of covering growing shortfalls between welfare benefits available to rising numbers of homeless households, spending longer periods in temporary accommodation, and the costs of providing that accommodation for them. London boroughs’ expenditure on temporary accommodation in 2014/15 was estimated to be £663m per year, of which just over one quarter came from their General Funds. A more recent assessment found that their spending had increased to £733.7 million by 2017/18.
 - Second, it reflects a considerable degree of collaboration between London boroughs in securing accommodation for homeless households – something the Mayor pledged to support in his election manifesto and has also taken forward by supporting boroughs’ work to establish a vehicle for shared procurement of private rented accommodation for homeless households. While individual boroughs have sourced precision-manufactured units and placed them on meanwhile sites, this collaborative approach promises economies of scale, both in procuring units and sharing lessons learnt, and opens up this option to

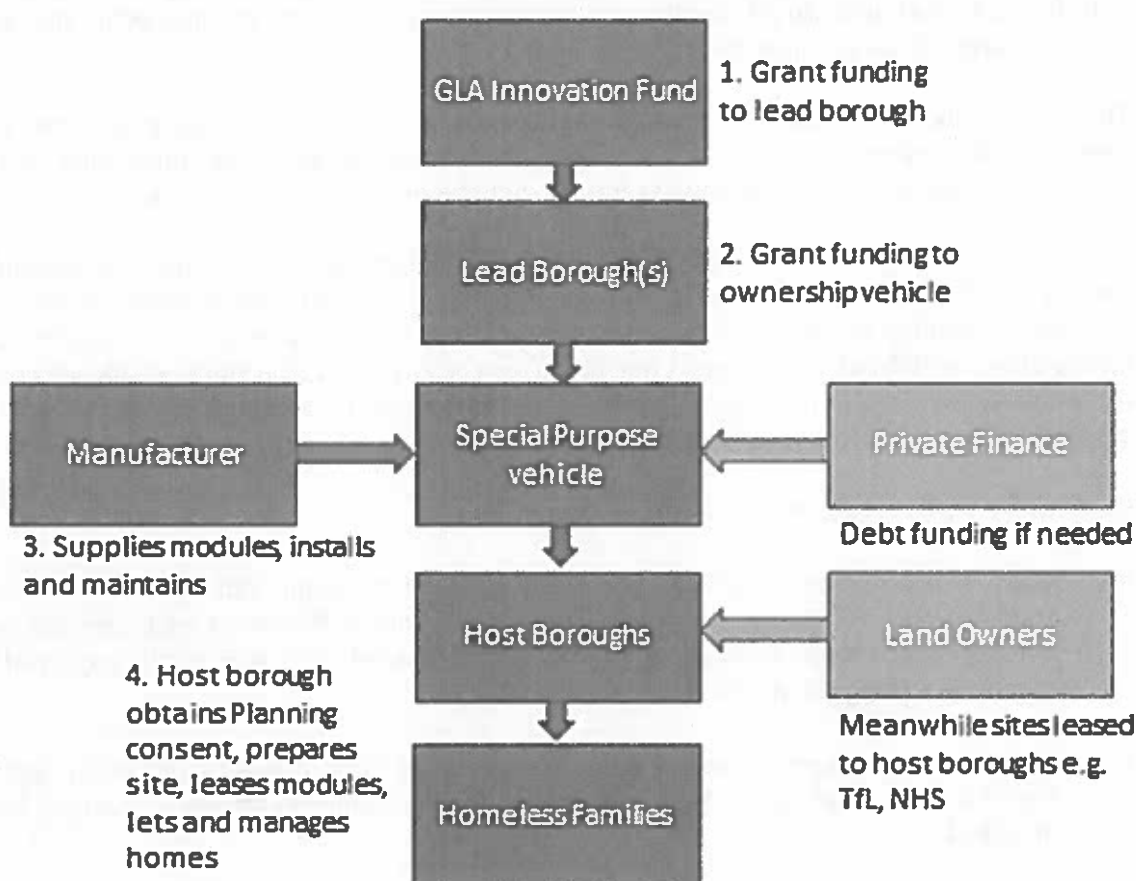
boroughs who may not have a pipeline of meanwhile sites that means they can be confident that they will be able to deploy the units over a sufficient period of time to cover their costs.

- Third, it will encourage the use of land to meet housing need, including small sites, that might otherwise have stood empty for some time. While permanent development of these sites may seem preferable to the temporary placement of precision-manufactured homes that can be moved, precision-manufactured homes can be available on site more quickly than permanent homes and sites that cannot, for different reasons, be permanently developed – including those that will be developed for purposes other than housing – can be put to use to help meet housing need. The disruption to residents that may result when homes need to be moved to another site to allow for permanent development means that it makes most sense to use them for groups such as homeless households, whom local authorities are accommodating on a temporary basis. Thus, this initiative is in line with the commitment to densification and use of small sites expressed in the London Housing Strategy and draft London Plan. London Plan Policy H4 says: “To make efficient use of land that would otherwise be left vacant, boroughs are encouraged to identify sites that are suitable for residential occupation to be used for meanwhile housing including land in both public and private ownership. Opportunities for the meanwhile use of land for housing on large-scale phased developments should be identified during the planning process.” And “meanwhile housing can be provided in the form of precision-manufactured homes. This can reduce construction time and the units can potentially be reused at a later date on another site.”
- Boroughs are encouraged to identify opportunities for the meanwhile use of sites for housing to make efficient use of land while it is awaiting longer-term development.
- It could readily be scaled up to contribute further to new housing supply. The initial funding allocation for delivering a minimum of 200 homes is £11 million, which is seed funding for PLACE to grow and expand as a business model.

- 1.9 The proposal is being led by the London Borough of Tower Hamlets. Croydon have also been instrumental and other London boroughs involved in the Working Group chaired by Tower Hamlets are invited to participate in PLACE, which will manage funding. London Councils and Ernst & Young have been involved in setting up PLACE, the latter through its London Ventures partnership with London Councils.
- 1.10 London Councils procured financial consultancy support to model the viability of providing modular temporary accommodation via PLACE. Financial modelling was based on soft market testing relating to production, installation and relocation costs. As well as management and maintenance costs, the modelling also took into account variations in the rates of Local Housing Allowance that residents receiving welfare benefits will be able to claim to assist with their rent in different areas. The analysis demonstrated that the proposed approach can be made viable on a pan-London basis, assuming sound decision-making by PLACE.
- 1.11 A number of sites across several boroughs have already been identified as potential options for first placements of units. This has involved boroughs contributing options and some background viability work to establish whether sites can come forward, either through this process or independently.
- 1.12 The business model works on the basis that London Boroughs will purchase the supply from PLACE of a specified number of modular units for a fixed period of time for a specific site. At the end of this period the units will then be removed and reassembled on the next identified site, with the relevant borough entering into a service level agreement for the supply of units with PLACE. The minimum

term that the units will be supplied for in respect of any one site is stipulated in the agreement as “5 years”, any shorter term proposed will need to be agreed in advance by the GLA.

- 1.13 The business model anticipates that all surpluses generated by PLACE are used to drive the delivery of additional homes for this purpose. This will include purchasing further units where there is site demand, and replacing existing units at the end of their lifespan. This model, rather than creating a “one off” solution, creates a long-term delivery model with potential to expand and recycle incomes to scale up delivery of homes.
- 1.14 Proposed pan-London modular Temporary Accommodation organisational flow chart



2. Objectives and expected outcomes

Expected Outcomes

- 2.1 Investment into PLACE is a good match for the GLA’s strategic objectives and the criteria set for its Innovation Fund, as outlined in section 1 above. It will achieve both a social impact and potential for PLACE deliver up to 200 good quality affordable homes that can be used to accommodate homeless households.
- 2.2 The EOI submitted by London Councils meets the criteria of the Innovation Fund, through using meanwhile sites to meet a pressing need for affordable, good quality, local accommodation for homeless households for whom boroughs have a duty to provide accommodation.
- 2.3 The GLA is providing funding to meet a specific need, rather than to meet a general need for affordable housing. On the basis that the majority of Local Housing Allowance (LHA) rates available

for temporary accommodation (at 90 per cent of January 2011 levels) are less than 80% of current market rents, the rents for these homes will be capped at the lower of 80% of market levels (inclusive of service charge) and the relevant LHA rate for an equivalent property.

- 2.4 The GLA will reserve the right to be updated on delivery of homes on sites on request, and PLACE will be required to have a voids strategy in place to sensitively manage moving tenants on from homes on each site.
- 2.5 The GLA investment of up to £11,000,000 will be paid to the London Borough of Tower Hamlets, in arrears, upon receiving evidence of costs incurred. This funding will be capital in nature. The London Borough of Tower Hamlets will be the recipient of the funding.
- 2.6 Funding will be made available and attributed to individual units at a pro rata rate of £55,000 per unit, for up to 200 units, to be supplied as affordable housing for use on meanwhile sites primarily to accommodate homeless households.
- 2.7 The GLA's rationale for investment is explained in section 1, relating to helping boroughs meet a pressing and growing need for decent, local accommodation for homeless households, and encouraging the use of meanwhile sites for the purpose of meeting housing need.
- 2.8 The value for money assessment for these homes shows that the level of funding is appropriate to provide an affordable rented housing product. Homes will be let at a range of rent levels in accordance with Local Housing Allowance levels in the area of placement, and this will be capped contractually at 80% of market levels (including service charge). Local Housing Allowance rent levels represent a financially better option in many cases to the cost to boroughs of alternative accommodation used to house homeless families.
- 2.9 As a not for profit entity, PLACE may seek to:
 - Make unviable schemes possible and create supply in boroughs where it could not otherwise come forward. For example, in areas where Local Housing Allowance rent rates are very low, a borough would seek to pay a lower than average amount to PLACE for the supply of the units, therefore making the project viable; or
 - Use surpluses to purchase additional affordable units without grant input being required from the GLA. This could lead to future delivery of further (indirect) affordable housing being unlocked.
- 2.10 If homes are sold during the minimum use period of 30 years, PLACE will be required to repay GLA grant funding. After this period, GLA funding will be fully or partially repaid from the remaining value of any unit for disposal.

Operation of the SPV

- 2.11 Innovation Fund money is passed to PLACE, via the London Borough of Tower Hamlets.
- 2.12 Given that London boroughs intend PLACE to be not for profit and desire a fairly straightforward method of becoming and ceasing to be a member, PLACE has been established as a Company Limited by Guarantee, on a not for profit basis. As explained above, surpluses generated from its activities can be reinvested back into those activities to increase housing supply.
- 2.13 Boroughs can choose to become members of PLACE if they decide individually to participate in the collaborative procurement and ownership approach.

- 2.14 PLACE will supply the modular homes to London boroughs, which will generate an income to maintain the business model, whilst boroughs are able to provide homes and receive rental incomes to help cover the cost of the supply agreement with PLACE.

3. Equality comments

- 3.1 This initiative will have a positive impact on individuals and families with a range of protected characteristics who disproportionately experience homelessness. These include:

- Londoners with BAME backgrounds: 40 per cent of Londoners identify themselves as coming from BAME groups¹, whereas 68 per cent of homeless households whom London authorities assisted during 2016/17 did so².
- Women:
 - Lone parent households in which the parent was female accounted for 37 per cent of homeless households accommodated in temporary accommodation by London boroughs at the end of 2016/17³, compared to eight per cent of all London's households⁴.
 - Five per cent of the homeless households London authorities assisted during 2016/17 became homeless as the result of violence from a partner⁵, something more likely to be experienced by women.
- Those who identify as LGBT+: There is some evidence, mainly concerning young people⁶, that this group may be at greater risk of homelessness and that they are subject to discrimination in the housing market that is likely to increase their risk of homelessness⁷.

4. Other considerations

a) key risks and issues

- 4.1 Risks associated with this proposal are detailed below:

- A pipeline of sites will need to be in place so that PLACE can situate all units in the first instance, and then continue to place the units on meanwhile sites each time a supply agreement for a particular site expires with a borough. The project Working Group is already developing a pipeline of potential sites for initial placement, and the number of homes to be purchased in the first instance will be in accordance with firm demand, mitigating the risk of voids. London Councils continues to engage with boroughs and encourage new membership to expand the scope of the model.
- Delivery of first placement of units within the programme by the agreed Milestones in the contract. PLACE officers have reviewed the definitions in the contract and are comfortable that they will be able to achieve Start on Site for all funded homes within the required timescales for every initial Named Project. All initial projects will be Named Projects.
- Boroughs will need to secure planning permission for placing units on meanwhile sites. The draft London Plan includes a policy that supports meanwhile use of sites to help meet housing need, and this should provide some reassurance to boroughs. Because boroughs are working

¹ Greater London Authority. London Plan Integrated Impact Assessment Scoping Report. 5.3.3. 2017.

² Ministry for Housing, Communities and Local Government. PIE data on statutory homelessness.

³ *Ibid.*

⁴ Office for National Statistics. Labour Force Survey. Q2 2016.

⁵ Ministry for Housing, Communities and Local Government. PIE data on statutory homelessness.

⁶ See, for example, Crisis. Sexuality and Homelessness. April 2005.

⁷ Stonewall. LGBT in Britain – Hate Crime and Discrimination. September 2017.

collaboratively, they will be able to share lessons learnt in securing planning permission for units. GLA's contract with the London Borough of Tower Hamlets will specify that the units must meet the space standards outlined in the London Plan, and homes are expected to substantially meet all design requirements of the New London Plan (2018) – something that should help with securing planning permission.

- The financial viability model of PLACE works on the basis of a pan-London approach, which means that it will be able to absorb the impact of some sites proving loss-making. By having a wide scope to place units, it is possible to prioritise projects which break even to ensure the financial security of the entity. Cost consultant reports have suggested that the PLACE approach to delivery is viable as a business model. The GLA has agreed a "letter of reliance" with PLACE's viability consultants relating to the information provided in the report. The letter will be executed as a deed, giving GLA the ability to rely upon the information provided in the report. GLA officers have also reviewed the report and are satisfied that PLACE is able to deliver viable schemes on a Pan-London basis.
- By providing grant funding to the London Borough of Tower Hamlets, GLA will make that borough responsible for delivery of affordable homes. Failure to achieve milestones will result in repayment of grant funding to the GLA. The financial strength of the borough as a grant recipient mitigates the risk of non-repayment of GLA grant in the event of non-delivery of the affordable housing.

5. Financial comments

- 5.1 This decision requests approval for up to £11m of capital grant funding to provide up to 200 demountable modular homes (£55,000 per home) on meanwhile sites to be leased as affordable housing for homeless households.
- 5.2 The grant will be funded from the £300m Innovation Fund. The funds will be drawn down by the London Borough of Tower Hamlets and passed onto a newly established SPV. London Boroughs will pay the SPV a lease fee to construct the homes for a period on meanwhile sites. The Boroughs benefit as the lease fee will be lower than private rented accommodation.
- 5.3 Surpluses generated by the SPV will be ploughed back into additional modular homes. Cost consultant reports have suggested the SPV business model to be viable on a pan London basis.
- 5.4 If homes are sold, GLA grant will be fully or partially repaid where applicable.

6. Legal comments

- 6.1 Detailed legal comments in respect of the Affordable Homes Programme 2016-21 (including the Innovation Fund) are set out in MD2125.
- 6.2 Under section 30(1) of the Greater London Authority Act 1999 (as amended) ("GLA Act"), the GLA has the power to provide the funding for this modular housing project provided that doing so will further one or more of its principal purposes of: promoting economic development and wealth creation, social development, and the improvement of the environment in Greater London. The project will deliver 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.
- 6.3 In exercising the power contained in section 30(1) of the GLA Act, the GLA must have regard to the matters set out in sections 30(3-5) and 33 of the GLA Act, and also the Public Sector Equality Duty

in section 149 of the Equality Act 2010, which are explained in paragraph 6.3 of the legal comments of MD2125. In this respect, the Mayor should have particular regard to section 5 of this report.

- 6.4 Further, In September 2017 the GLA published an impact assessment, including an equalities impact assessment, of the London Housing Strategy. Policies related to increasing housing supply and delivering affordable housing, to which this project will contribute, were also covered by the Integrated Impact Assessment (IIA) for the Draft London Plan, published in November 2017.
- 6.5 The provision of modular units by PLACE with financial assistance from the Innovation Fund will help to implement objectives in the Mayor's Equalities Framework "Equal Life Chance for All."
- 6.6 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. The GLA has engaged with LB Tower Hamlets in relation to the project which is the subject of this Mayoral 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 Mayoral Decision, noting that London Boroughs have been engaged in this process by London Councils and PLACE to ensure a collaborative approach to delivery of this model.
- 6.7 External lawyers have advised GLA officers in relation to the form of funding agreement between the GLA and LB Tower Hamlets.
- 6.8 For state aid purposes, GLA should seek further legal advice if PLACE's membership is ever expanded to include bodies other than local authorities or if it carries out any activities other than affordable housing provision.

7. Planned delivery approach and next steps

- 7.1 The next steps are summarised below and relate to the placement of all the 200 funded units in the first instance. These deadlines will be contractual obligations, and failure to deliver against them will result in a Default Event. After first placements a maximum void period has been included in the grant agreement will help ensure delivery of continued placement of units across future sites:

Activity	Timeline
Start of installation works for all initial sites	19 February 2021
All 200 units installed on initial sites	17 December 2021
Initial Occupation of all 200 units	31 March 2022

Appendices and supporting papers:

None.

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? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

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:

Richard Cawser has drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service:

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

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 11 March 2019.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M.D. Allen

Date

11.3.19