

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD1425

### Title: Mayor's Housing Covenant 2015-18: Revolving Fund Allocations

#### Executive Summary:

The Mayor's Housing Covenant 2015-18 programme prospectus was launched in December 2013 inviting expressions of interest from housing providers proposing innovative ways of delivering affordable housing through a Revolving Fund. Proposals were received in March 2014 and following Mayoral Decision (MD1379) in July 2014 a short list of projects were taken to stage 2 due diligence.

Approval is sought for the selection of Big Issue Invest and Gentoo Genie Limited following their bids having successfully passed the second stage of due diligence, subject to final contract negotiations as described in this Mayoral Decision form.

#### Decision:

It is recommended that the Mayor:

- **APPROVES** the selection of Big Issue Invest and Gentoo Genie Limited for the allocation of up to £50m funding under the Mayor's Housing Covenant 2015-18 to deliver a total of 590 homes in 2015-18 and up to a further 1,810 homes by March 2027, subject to the following proviso:

The final decision is subject to the successful completion of contract negotiations regarding the proposed products, as described in this Mayoral Decision form. Once these negotiations have been concluded and the terms of all agreements finalised to the satisfaction of the GLA, 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 agreement to a suitably drafted contract for each proposal.

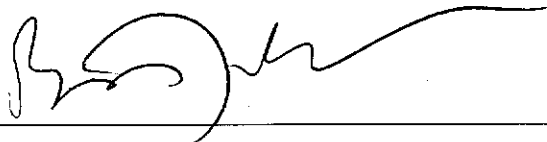
- **DELEGATES** authority to the Executive Director of Housing and Land in consultation with the Deputy Mayor for Housing, Land and Property to approve entry into legal agreements with Big Issue Invest and Gentoo Genie Limited following the satisfactory conclusion of the final contract negotiations.
- **APPROVES** expenditure in respect of legal advice for the Mayor's Housing Covenant 2015-18 Revolving Fund proposals of up to £120,000.

#### 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: 5.1.2015

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

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

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

- 1.1 The Mayor's Housing Covenant 2015-18 investment round was launched in December 2013 as part of the Mayor's Housing Covenant programme of work to maximise delivery of affordable housing in London. The round invited offers from housing providers to develop affordable homes for rent and flexible home ownership, as well as expressions of interest for innovative ways of delivering affordable housing through a Revolving Fund.
- 1.2 For the Revolving Fund, housing providers were invited to submit expressions of interest for funding to deliver homes to complete by March 2018. The Revolving Fund makes further provision to allow initial investment drawn down in 2015-18 to be recycled to deliver additional affordable homes after March 2018 in accordance with the terms and conditions agreed with the GLA. The capital sums invested by the GLA will be recovered and paid back to the GLA at the end of the agreed fund term, typically a ten year period.
- 1.3 The first stage of due diligence concluded at the end of May 2014, with MD1379 approving five proposals for taking forward to a second stage of due diligence. The second stage of due diligence addressed commercial, technical, legal, and regulatory matters. The second stage concluded at the end of September 2014. Two bids (Big Issue Invest and Gentoo Genie) were selected to enter into final contract negotiations while the remaining three bids that were approved to proceed to the second stage due diligence are not progressing further.
- 1.4 Further details of the bidding requirements are set out in the bidding prospectus and MD1379, which are available on the Greater London Authority (GLA) external website.

#### **2 Objectives and expected outcomes**

- 2.1 Following the conclusion of the second stage of due diligence, it is recommended that the Big Issue Invest and Gentoo Genie Ltd proposals are allocated funding of up to £50m in total, subject to conclusion of the final contract negotiations to the GLA's satisfaction.

a) Big Issue Invest: Social Enterprise Investment

Big Issue Invest aims to provide access to development finance for social sector organisations to deliver new supply affordable homes that create jobs and skills for the most disadvantaged. They have requested GLA investment in the form of an interest-free revolving loan for on-lending to social sector organisations undertaking affordable housing-related projects with full repayment of the facility by March 2027. During the term of the facility funds from the repayment of sub-loans would be placed in a specific bank account for recycling by Big Issue Invest to increase the number of homes delivered. The GLA would have a first priority charge over this account. It should be noted that further due diligence is required regarding this proposal in relation to:

- i. EU State Aid compliance confirmation; and
- ii. A Deed of Priority agreed to the satisfaction of GLA Head of Finance.

b) Gentoo Genie Ltd: Home Purchase Plan

Gentoo Genie are proposing to provide Home Purchase Plans, a low cost home ownership product that requires no mortgage or deposit. They are proposing a revolving loan from the GLA, which would not benefit from interest but which must be repaid in full within ten years. It is intended that profits from the disposal of the initial units built would be reinvested in further

schemes to deliver significantly more homes than the initial number proposed. It should be noted that further due diligence is required regarding this proposal in relation to:

- i. Robust evidence of strategic relationships with key stakeholders in London that would enable delivery on the scale proposed;
- ii. EU State Aid compliance confirmation; and
- iii. Stamp duty land tax treatment of Home Purchase Plans.

## **Budgets**

### Capital

- 2.2 The Revolving Fund budget is part of the £1.25bn secured by the GLA for affordable housing delivery in London for the 2015-18 period.

### Revenue

- 2.3 The GLA did not incur any expenditure up until the start of the second stage of due diligence. Specialist legal advisers were selected from the TfL legal panel framework to provide legal advice to the GLA at the second stage of due diligence in respect of the preparation and negotiation of heads of terms and state aid analysis for the Revolving Fund bids. It is expected that legal fees in respect of the Revolving Funds, including fees already incurred at the second stage of due diligence and for the drafting of bespoke funding agreements, will be in the region of £120,000.

## **Affordable Housing Target**

- 2.4 The Mayor's London Housing Strategy sets out a commitment to deliver 45,000 affordable homes across London in the 2015-18 period. Homes completed through the Revolving Fund, outlined in Part 2 of this Mayoral Decision form, in this timeframe will contribute towards this commitment.

## **3 Equality comments**

- 3.1 The programme of proposed allocations for the Revolving Fund are implementing the Mayor's policies 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, of which this paper relates, were covered by the 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. Furthermore, the provision of housing, including maximising the delivery of affordable housing would be in line with other policies of the Plan (e.g. Policy 3.5), ensuring that the needs of different groups are taken into account in the housing design.
- 3.3 The two investments address two separate areas of need across the capital. Gentoo Genie investment addresses the need within the market place for a home ownership product targeted at those within the Mayor's household income ranges but those that would not be able to access shared ownership as they do not have a deposit. This enhances the GLA's product range and makes the suite of intermediate housing products more equitable and more applicable to the thousands without deposits, keeping many households in the capital as the access point to the home is more achievable.
- 3.4 Big Issue Invest will look to target their loan finance at small to medium businesses, mostly community based groups that cannot access finance from mainstream lenders. These organisations

focus their business on bringing empty properties back into use whilst engaging with some of the capital's most marginalised individuals that may have experienced continued periods of unemployment and or long term homelessness. By engaging with these groups that would otherwise not get a chance to learn a skill assisting with the refurbishment and then have the potential of housing at the end, address some of the Mayor's core objectives and creates more opportunities for those who may be unemployed or homeless to be treated equally within society.

#### **4 Other considerations**

- 4.1 Risk: Housing providers fail to deliver the homes forecast in the proposals.

Mitigation: Strong programme management arrangements including formal quarterly funding agreement reviews with delivery partners. Pipeline sites and substitutes will be managed to ensure that slippage or non-delivery is mitigated with viable replacement schemes.

- 4.2 Risk: Long-term management and recovery of investment.

Mitigation: Robust legal agreements in place to govern how parties manage investment for the duration of the fund term, including how and when investment is drawn down against project costs. Clear reporting and monitoring arrangements to proactively track and manage investment, supported by appropriate security packages to mitigate risk against event(s) of default.

#### **5 Financial comments**

- 5.1 The funding of these proposals will be made available from existing housing capital budgets. There does not appear to be any potential to generate revenue funding directly from these proposals as both of the recommended bids are seeking interest-free loans.
- 5.2 The revenue cost is expected to be £40k in 2014/15 and a further £80k in 2015/16. This can be met from the Housing and Land legal budget in 2014/15 and will be contained within the central Housing and Land budget in 2015/16.
- 5.3 Adequate security would be required in each case.

#### **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), of the GLA Act are:
- 6.1.1 promoting economic development and wealth creation in Greater London;
  - 6.1.2 promoting social development in Greater London; and
  - 6.1.3 promoting the improvement of the environment in Greater London
- 6.2 and, in considering the allocations described in this Mayoral Decision form, officers confirm they have complied with the GLA's related statutory duties to:
- 6.2.1 pay due regard to the principle that there should be equality of opportunity for all people;
  - 6.2.2 consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
  - 6.2.3 consider consulting with appropriate bodies.
- 6.3 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.

- 6.4 Given the above, Section 34 of the GLA 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), and the Mayor's powers (under Section 38 of the GLA Act) to delegate to any GLA member of staff functions of the GLA that are exercisable by him, the foregoing sections of this form indicate that the Mayor has the power to proceed as set out above.
- 6.5 Specialist legal advice has been sought at the second stage of due diligence to advise upon the proposed funding arrangements and to review the state aid advice provided by the bidders' legal advisers. External legal support will also be sought to draft and negotiate the associated legal agreements and to ensure that the funding arrangements are established in a way that is compliant with state aid laws.
- 6.6 Legal advice should also be sought in relation to whether any 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.
- 6.7 Officers must ensure that no legally binding commitment to the award of funding is given until the appropriate funding documentation is put in place between and executed by the GLA and recipients.

## **7 Housing Investment Group**

- 7.1 This paper was presented to the Housing Investment Group on 4<sup>th</sup> November. HIG noted the due diligence, the heads of terms agreed with the bidders and the expenditure profile. HIG also endorsed the proposed funding decisions that seek to allocate £50m to deliver 590 homes in 2015-18 and up to a further 1,810 homes by March 2027

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

<b>Activity</b>	<b>Timeline</b>
Bidding organisations obtain GLA investment partner status	End of Dec-14
Further due diligence and legal discussions are complete; Directors Decision approving entry into legal agreements and bidders enter into funding agreement with the GLA.	End of Mar-15
Revolving Funds start to operate, draw down of funding, ongoing management of funds by GLA.	Start of April-15
GLA strategic review of Revolving Fund principles and progress to determine success and replicability to further deliver the Mayor's strategic objectives.	End of Mar-16
Revolving Fund investment fully recovered.	End of Mar-27

**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 – YES**

**ORIGINATING OFFICER DECLARATION:**

Drafting officer to confirm the following (✓)

**Drafting officer:**

Owain Roberts 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:**

Nick Taylor 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**

*M. J. Llee*

**Date**

*24.12.14*

**CHIEF OF STAFF:**

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

**Signature** *Approved electronically by Edward Lister.*

**Date**

*24/12/14.*