

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2066

Title: London Housing Bank Allocation – Atrium Point, London Borough of Ealing

Executive Summary:

The London Housing Bank provides low cost loans to accelerate the pace of development and provide homes at below market rent for an initial period of at least 7 years. Initial allocations were approved in January 2015 in MD1442 which also re-opened the fund to Continuous Market Engagement. MD1666 delegated authority to approve remaining allocations to the Executive Director – Housing and Land, subject to detailed due diligence and available resources. This Director's Decision approves an allocation of £21,037,590 for Network Homes Limited to provide 270 homes for intermediate rent at Atrium Point in Ealing.

Decision:

That the Executive Director Housing and Land agrees that the outcome of due diligence, detailed in this report, demonstrates it is appropriate for the GLA to contractually commit loan funding of £21,037,590 from the London Housing Bank Programme to Network Homes Limited to fund the provision of 270 intermediate rent homes at Atrium Point in the London Borough of Ealing.

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: David Lunts

Position: Executive Director Housing and Land

Signature:



Date:

20/03/17

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 In September 2014 Mayoral Decision (MD) 1393 approved the first phase of the London Housing Bank (LHB) offering £200m of loan funding to deliver up to 4,000 affordable homes. The London Housing Bank aims to accelerate the pace of development and bring forward additional housing supply, particularly on large sites, by enabling rapid market absorption. Funding is made available in the form of a fully recoverable low cost loan with funding made available from the Department for Communities and Local Government (DCLG) specifically for this purpose. Interest is payable at 1%, rising by 0.25% per annum from year 9. The longstop date for final repayment of the loans is the earlier of (i) 16 years from the date of drawdown of the loan, (ii) the date the entire property is sold or refinanced, or (iii) 31 March 2032. Homes funded by the London Housing Bank must be let at below market levels for so long as the GLA loan is outstanding but subject to an initial period of at least seven years.
- 1.2 In accordance with MD1442 and Director's Decision (DD) 1326, the GLA entered into a facility agreement with DCLG in March 2015 to receive £200m from DCLG as a repayable loan to finance this first phase of the London Housing Bank.
- 1.3 Progress with the LHB has been slower than originally anticipated, largely because the commercial lending environment has eased since its launch. An earlier application of more than £50m was made but has subsequently been withdrawn but the programme has remained open to bids up to the programme total of £200m. A funding proposal has been submitted by Network Homes Limited for £21,037,590 to provide 270 homes at intermediate rent not exceeding 80% of market rent.
- 1.4 Network Homes Limited is a Registered Provider, regulated by the Homes and Communities Agency. It has been awarded the top rating for financial viability and business governance by the Social Housing Regulator. Network is one of London's largest housing associations, managing over 20,000 homes, in 36 local authority areas, mainly in London and the Home Counties. The funding will enable Network to acquire 270 units at Atrium Point in the London Borough of Ealing. By reducing Network's borrowing costs, the London Housing Bank will enable these homes to be made available to Londoners at sub-market rents until September 2025, when the loan will be repaid in full and without this lending the scheme will not proceed as an affordable housing offer.
- 1.5 MD1666 delegated authority to the Executive Director of Housing and Land to approve the remaining allocations of the London Housing Bank programme, subject to detailed due diligence and available resources. The Executive Director is now asked to approve that the outcome of the assessment detailed in this report demonstrates it is appropriate for the GLA to contractually commit loan funding of £21,037,590 from the London Housing Bank Programme to Network Homes Limited to fund the provision of intermediate rent homes at Atrium Point in the London Borough of Ealing.

Assessment

- 1.6 The assessment process involved two stages i) assessment of the bid's eligibility and deliverability completed by GLA Housing and Land and ii) a financial assessment completed by GLA Finance on the creditworthiness of the bidding organisation. The assessment guidance was agreed by the Senior Management Team on 10th November 2014.

Value for Money

- 1.7 Network Homes Limited is seeking loan funding of £21,037,590 to provide 270 homes. In accordance with the London Housing Bank Prospectus, the funding requested does not exceed 30% of Total Scheme Costs.

Affordability

- 1.8 The units will be let at intermediate rents, with a minimum discount of 20% to market rent (inclusive of any service charges), for a minimum period of 7 years from the date upon which they are first let or, if longer, until all the GLA loan funding has been repaid and no obligations on the part of Network Homes Limited under the loan agreement remain outstanding. The rents are considered to be affordable to households on a range of incomes from £30,000 up to £48,500 per annum. The London Borough of Ealing is supportive of the scheme and the principle of the development coming forward as intermediate market rent for seven years. Due to the proximity of Northwick Park hospital, the scheme is well positioned to provide homes for staff working in the National Health Service.

Deliverability

- 1.9 Network Homes Limited exchanged contracts with Laverne Holdings Limited on 15 November 2016 to acquire the freehold interest in Atrium Point, Greenford, London UB6 0JA under a Sale and Development Agreement. Full planning approval is in place to convert the former IBM Office building into 270 homes. Works have commenced and are on track to complete in September 2017, with Network Homes Limited due to acquire the homes upon practical completion, subject to all conditions being met by the vendor.
- 1.10 Once the development has reached practical completion and ownership has transferred to Network, the units will be prepared for letting. The scheme is scheduled to be ready for occupation in December 2017.

Strategic Fit

- 1.11 This scheme is the first phase in the development of a 3.25 Hectare site. Capacity for 200 additional homes has been identified (subject to planning permission). By enabling full market absorption for phase 1, the London Housing Bank funding is expected to accelerate delivery of the remaining phases.
- 1.12 Atrium Point is situated less than 2 miles from Northwick Park Village which was developed by Network in 2001 in partnership with London North West Healthcare Trust. The Village is located on a hospital campus and Network's allocations policy for self-contained units prioritises NHS key workers. Network is currently developing a masterplan in partnership with neighbouring landowners that identifies opportunities for development and intensification on the site. To support Network's development strategy, hospital workers and residents at Northwick Park Village will be a priority target group for lettings in the Atrium Point scheme, helping to unlock a potential further 1400 new homes. Network proposes to provide a shuttlebus service to support hospital key workers.
- 1.13 The Atrium Point scheme is a conversion of a former office building under permitted development rights. It will provide 270 homes including 106 studios, 118 one bedroom and 46 two bedroom apartments. Where London Housing Design Guide space standards are not met, units have been reclassified to ensure appropriate occupancy levels.

Financial Assessment

- 1.14 Network Homes Limited are a GLA Investment Partner. As such they are not required to undergo a separate assessment of financial standing. A copy of their latest audited accounts has been provided and an Experian credit report obtained. It should be noted that the credit report is in respect of Network Housing Group, which was consolidated into Network Homes Limited (a charitable housing association) in 2016. The documents have been assessed by GLA Group Finance.

- 1.15 A report summarising the project and creditworthiness assessment was considered by the GLA's Interest Rate Setting Board on 15th November 2016. The London Housing Bank loan offer to Network was agreed to be consistent with the terms set out in the paper.
- 1.16 Further details regarding the proposed loan and the security offered are set out in Part 2 of this report.

Conclusion

- 1.17 Network Homes Limited has entered into a binding contract with Laverne Holdings Limited for the Sale and Development of 270 residential units on the understanding that loan funding will be made available by the GLA via the London Housing Bank Programme. Without the GLA loan of £21,037,590, the Atrium Point scheme could not be made available to Londoners at sub-market rents.

2 Objectives and expected outcomes

- 2.1 The London Housing Bank seeks to deliver up to 3,000 affordable homes. The funding will be used to accelerate additional housing completions and assist in delivering the target of 45,000 affordable homes in 2015-18, as set out in the London Housing Strategy.
- 2.2 The Atrium Point scheme will provide 270 homes for intermediate rent, creating more opportunities for Londoners to access good quality, well managed affordable rented homes.

3 Equality Comments

- 3.1. The London Housing Bank initiative implements 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, to which the Atrium Point scheme will contribute, 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. 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 delivery of new and additional homes will help to implement Objectives 1, 2, 3 and 4 of the Mayor's Equalities Framework "Equal Life Chances for All" (June 2014) through the creation of new homes, housing products and well-designed housing schemes.
- 3.4. In order to draw down funding Network will be required to enter into a contract with the GLA. The agreement places the following obligations on Network in respect of the Equality Act 2010:
- The Developer shall comply in all material respects with all relevant Legislation, including but not limited to legislation relating to health and safety, welfare at work and equality and diversity, and will use reasonable endeavours to enforce the terms of the Scheme Project Documents to which it is a party to ensure compliance with this clause.
 - The Developer has, and is in full compliance with, a policy covering equal opportunities designed to ensure that unfair discrimination on the grounds of colour, race, creed, nationality or any other unjustifiable basis directly or indirectly in relation to the Works is

avoided at all times and will provide a copy of that policy and evidence of the actual implementation of that policy upon request by GLA.

3.5 For further equalities comments see Section 4 (c) below.

4. Other considerations

a) key risks and issues

- 4.1. The primary risk to the GLA is in relation to non-repayment of loans allocated through the London Housing Bank. This is mitigated by investing only in financially sound organisations, obtaining robust security cover to the value of the GLA's loan, monitoring delivery and isolating the financial risks to GLA Housing and Land. The Funding Agreement with Network includes, as a pre-condition for the release of funding, that the GLA has a first fixed charge over property to provide full security cover for the GLA's loan.
- 4.2. The GLA has carried out 'know your customer checks' to verify the party with which it is contracting. Network Homes Limited is a Charitable Registered Society no. 7326 under the Co-operative and Community Benefit Societies Act 2014. Network Homes Limited is a Registered Provider and is regulated by the Homes and Communities Agency (registration code: 4825). It has been awarded the top rating for financial viability and business governance by the Social Housing Regulator. Network is a member of the G15 group of London's largest housing associations and manages over 20,000 homes, in 36 local authority areas, mainly in London and the Home Counties. GLA officers obtained the consolidated financial statements for Network Housing Group and its subsidiary undertakings for the year ended 31 March 2016, which listed its Directors and Chief Officers (in April 2016 the Network Housing Group was consolidated into Network Homes Limited). They checked the FCA's Mutuals Public Register and confirmed Network Homes Limited's status is "registered" and that it remains active (it last submitted its Annual Returns and Accounts on 29 November 2016). GLA officers also verified the identity of the main officer they were dealing with in relation to this transaction.
- 4.3. Network Homes Limited exchanged contracts with Laverne Holdings Limited in November 2016 to acquire the freehold interest in Atrium Point under a Sale and Development Agreement. It will be a condition to the drawdown of any London Housing Bank funding that the GLA is provided with satisfactory confirmation of Network's acquisition of the land.
- 4.4. The Sale and Development Agreement will offer suitable protections for Network Homes Limited including a 10 year Building Guarantee, contractor and design warranties and 12 months defect liability period. Network has agreed a forward funded payment structure which reflects the acquisition of the site at practical completion. The Sale and Development Agreement includes a longstop date of 30 September 2018. The GLA will seek to mitigate the risk of delays in the delivery programme, by incorporating a defined availability period for each tranche of funding. The initial funding (99%) will be available until 30 September 2017 and subsequent funding (1%) until 31 October 2018.

b) links to Mayoral strategies and priorities

- 4.5. The purpose of the London Housing Bank is to accelerate the pace of development, generate additional housing supply and contribute towards the target of 45,000 completions by March 2018. This proposal will support the aim in the Further Alterations to the London Plan to deliver at least 42,000 homes a year by accelerating the pace of development on the Atrium Point and Northwick Park Village sites.
- 4.6. The Atrium Point scheme is a conversion of a former office building under permitted development rights. It will provide 270 homes including 106 studios, 118 one bedroom and 46 two bedroom apartments. Where London Housing Design Guide space standards have not been met due to constraints posed by the existing built form, units have been reclassified to ensure that occupancy levels are appropriate.

c) impact assessments and consultations.

4.7. The GLA has engaged with the counterparty to this proposed intervention, as it has considered appropriate. It is not considered necessary or appropriate to consult any other persons or bodies including those specified in section 32(1) of the Greater London Authority Act 1999 for the purposes of this Director Decision.

4.8. The proposals for a London Housing Bank and increasing the delivery of affordable 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 range of stakeholder organisations from November 2013 to February 2014.

4.9. 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 supporting economic development. That IIA also cross-referred to the IIA conducted in respect of the 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 Greater London. The IIA was subject to public consultation alongside the London Housing Strategy from January 2014.

5 Financial comments

- 5.1 This a London Housing Bank loan of £21,037,590, to be used to partly fund the purchase of Atrium Point by Network Homes Limited a registered provider number 4825.
- 5.2 Atrium Point is a conversion of an office block into flats, this does not require planning permission under the permitted uses order, therefore the 270 units that are becoming affordable rented accommodation are all additional units. Flats will be rented at up to 80% of market rent.
- 5.3 Network Homes Ltd is not an SPV, it is the amalgamation of the four main operating housing associations and the group parent which previously formed the Network Housing Group, and therefore the GLA is contracting with a Registered Provider with substantial assets.
- 5.4 This loan was given approval by the Interest Rate Setting Board on the 15th November 2016, subject to the Director's sign off as per this document.
- 5.5 This loan is secured by assets off site to the value of 143% of the loan, therefore there is a maximum loan to value of 70%.
- 5.6 The interest rate is as per the LHB prospectus, at 1% for 7 years and increasing thereafter. The loan also does not represent more than 30% of the total scheme costs of Atrium point as per the LHB prospectus.
- 5.7 Network Homes Limited is classed as G1 for governance and V1 for financial viability by the Homes and Community Agency.
- 5.8 This allocation of £21,037,950 is from the London Housing Bank pot of £200m, therefore leaving £178,962,050

6. Legal comments

- 6.1 Under section 30(1) of the GLA Act 1999, the GLA has the power to provide the loan funding for the project explained above, on the basis that to do so will further one or more of the GLA's principal purposes. In exercising the power in section 30(1), the Mayor must have regard to the matters set out in section 30(4-6A) of the GLA Act. Those matters have been taken into account as considered appropriate by the GLA in respect of the London Housing Bank Programme (see MD1393 and MD1666) and, in respect of this funding proposal, as detailed in this report.
- 6.2 The GLA has engaged external lawyers to advise on the terms of the funding agreement, which includes provisions to enable the funding to be provided in a state aid compliant manner.
- 6.3 Further legal comments are set out in Part 2.

7. Planned delivery approach and next steps

Activity	Timeline
Contract Signed with Vendor	November 2016
Practical Completion and Site Acquisition	September 2017
Final Cost	December 2017
Repayment to GLA	September 2025
Repayments to DCLG	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 (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 allow for completion of the Funding Agreement with Network Homes Limited

Until what date: (a date is required if deferring) 1 April 2017

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:

Judith Carlson has drafted this report in accordance with GLA procedures and confirms that:

✓

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.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

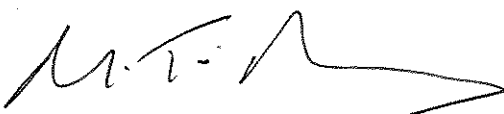
Corporate Investment Board:

The Corporate Investment Board reviewed this proposal on 20 March 2017.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature



Date

20.03.17

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE