

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2160

Title: Northolt Road, Heart of Harrow Housing Zone (LB Harrow)

Executive Summary:

This Director Decision signs off due diligence undertaken in respect of the Northolt Road Scheme in the Heart of Harrow Housing Zone, LB Harrow and agrees to contractually commit £25.3m to the scheme as detailed in this report. The Heart of Harrow Housing Zone was originally designated by MD1457. The Northolt Road scheme was subsequently included in the Housing Zone by MD2139, which also indicatively allocated £25.3m to the scheme subject to due diligence.

Decision:

That the Executive Director, Housing and Land and the Executive Director, Resources, in consultation with the Deputy Mayor for Housing and Residential Development, agree that:

- the outcome of due diligence, detailed in this report, demonstrates it is appropriate for GLA Land and Property Limited (GLAP) to contractually commit loan funding of £25,336,956 to fund the Northolt Road intervention specified below within the Heart of Harrow Housing Zone.

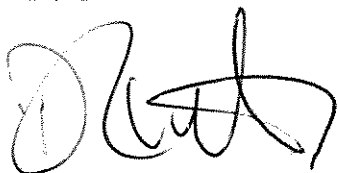
AUTHORISING DIRECTORS

We have reviewed the request and are satisfied it is correct and consistent with the Mayor's plans and priorities. It has our approval.

Name: David Lunts

Position: Executive Director Housing and Land

Signature:



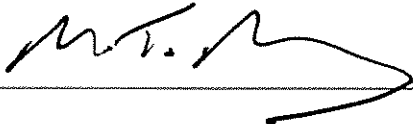
Date: 26.9.2017

Name: Martin Clarke

Position: Executive Director Resources

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE

Signature:



Date: 25.09.17

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The Northolt Road proposal was included in the Heart of Harrow Housing Zone by Mayoral Decision MD2139. Funding of £56.7m was indicatively allocated to Heart of Harrow Housing Zone, (subject to the outcome of legal and financial due diligence) to unlock and/or accelerate housing by MD1457 & MD2139.
- 1.2 The LB Harrow will retain oversight of the delivery across the Housing Zone by implementing governance arrangements outlined in the Overarching Borough Agreement with the GLA dated 30 September 2015.
- 1.3 Due diligence has now been undertaken in respect of this proposed intervention. The outcome of this is set out below and in Part 2 of this Director Decision.

Summary

The intervention is located at the Northolt Road site, which is owned by the counter parties to the funding intervention. Access to the GLA loan finance provided the counter parties with the ability accelerate the development in that project finance does not now need to be negotiated with a high-street lender. It also augments the existing financial resources of one of the counter parties who is a Registered Provider, thereby enabling other affordable schemes to be brought forward that might otherwise have to wait for additional financial capacity to be made available.

Proposition

- 1.4 The project will contribute towards regeneration and the need for additional housing supply in the Heart of Harrow Housing Zone and will unlock and/or accelerate the delivery of a minimum of 116 new homes by March 2020. Northolt Road received planning permission on the 6th July 2016 to deliver 116 new homes. The tenure mix for the development is 40% affordable (47 units) and 60% market sale (69 units). The affordable comprises both London Affordable Rent and Shared Ownership. However, the affordable rents are on average 65% of market rent, rather than 80% of market rent.

Funding

- 1.5 This Directors' Decision contractually commits two interest bearing loans to deliver the intervention described above:
- Loan 1 – South Harrow LLP (comprising Origin Housing Developments Limited and Hill Residential Limited) (the Joint Venture): £15,250,000; and
 - Loan 2 – Origin Housing Limited (the Registered Provider): £10,086,956.

The total of both loans is £25,336,956.

Stakeholders / Contractual Arrangements

- 1.6 The counterparty in respect of Loan 1 is a Joint Venture (JV) between Origin Housing Developments Limited (a non-asset owning development company wholly owned by Origin Housing Limited) and Hill Residential Limited. Loan 2 is to Origin Housing Limited, a Registered

Provider (RP). GLAP will enter into separate Development Facility Agreements for each of the two loans. It is further proposed that GLAP enters into a number of associated contractual agreements in order to formalise the security for the two loans.

- 1.7 Paragraph 1.6 above sets out the correct factual information, whereas the fine details of the counterparties in MD2139 was, strictly speaking, incorrect. MD2139 identified 'Origin Housing Limited' as a partner in the JV when in fact the relevant partner was 'Origin Housing Developments Limited'. The decision also identified the counterparty to Loan 2 as 'Origin Housing Association' which should have been referred to as its legal identity 'Origin Housing Limited'. Despite the labelling discrepancy the fundamentals of the intervention were accurately expressed i.e. the counterparty to Loan 1 is the JV and the counterparty to Loan 2 is the RP parent entity.

Appraisal

- 1.8 Project due diligence and an assessment of creditworthiness were undertaken by Lambert Smith Hampton (LSH) and GLA Group Finance respectively. The JV and the RP's cost and value assumptions were broadly in line with LSH's expectations (further comment is made in Part 2). The creditworthiness assessment did not report any factors that would prevent GLAP funding the JV or the RP.
- 1.9 A report summarising the project and creditworthiness assessment was considered by the GLA's Interest Rate Setting Board on 2 February 2017. Guided by the methodology in the European Commission's communication in relation to setting reference rates and in accordance with State Aid rules, including consideration of the JV and RP's credit rating and the security being offered, the Interest Rate Setting Board determined the interest rate to be offered for both loans (further comment is made in Part 2). This offer has been made on the basis that it is equivalent to a market rate and is subject to contract.

Project Milestones

- 1.10 A planning application was submitted on 12 May 2015 for demolition of existing buildings and redevelopment of the site to provide 116 residential flats including affordable housing within a building ranging from 6 to 9 storeys in height. Early works on site were completed in March 2017 with main contract works having commenced in April 2017.
- 1.11 The funding agreement contains a number of key performance milestones with dates in order to ensure the timely progression of the works. The milestones dates will be monitored by the appointed monitoring surveyor to ensure the milestones are completed before drawing down funding.

Governance

- 1.12 GLAP will enter into two separate loan agreements, the first with the JV (Loan 1) and the second with the RP (Loan 2). A monitoring surveyor will provide monthly progress reports and will sign off monthly construction valuations in order to release funding in compliance with loan covenants. Post contract management will also involve quarterly progress meetings with the counter parties. The meetings will be managed by a designated officer from GLA's Housing and Land Directorate with oversight from the Housing and Land Senior Management Team. The loan agreements will also place reporting obligations on the counterparties linked to project milestones.

Conclusion

- 1.13 The GLA investment in the Northolt Road site involves two interest bearing loans amounting to a total of £25,336,956. The Northolt Road scheme is an important project for LB Harrow and will assist with continuing development in the area, providing much needed housing supply. The Housing Zone loans will provide development finance to accelerate and/or unlock the delivery of the project, which would either not progress or progress more slowly in the absence of the funding.

2. Objective and expected outcomes

- 2.1 Housing Zone investment ensures that housing can be provided earlier than if other sources of funding had to be secured. The delivery of the site will ensure the completion of Northolt Road, delivering an expected 116 homes and is expected to lead to enhanced values and increased confidence in relation to the delivery of surrounding schemes in the Heart of Harrow Housing Zone.

3. Equality comments

- 3.1. The Heart of Harrow Housing Zone is aimed at 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, to which the intervention 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. The designation of a Housing Zone within an area is designed to identify a site or sites as an area for housing growth and delivery within London, often partnered with a series of funding streams and non-financial assistance to deliver these new homes, and therefore this decision will facilitate these goals and ultimately ensure that the needs of different groups are taken into account in the design and development of housing.
- 3.5. In order to access funding counterparties are required to enter into agreements with the GLA/GLAP to deliver the interventions. With regard to project delivery the agreements will place the following obligations on the parties in respect of the Equality Act 2010:
- They shall comply in all material respects with all relevant Legislation relating to health and safety, welfare at work and equality and diversity.
 - They have, and are 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 GLAP.

4. Other considerations

a) key risks and issues

- 4.1 In line with appropriate due diligence processes for Housing Zone funding, payment of loan funding in respect of the Northolt Road site will be subject to conditions set out in the contract. The schemes will be subject to monitoring to ensure agreed delivery milestones are achieved. In the event of serious default the GLA shall be entitled to terminate the Development Facility Agreements and recover loan funding paid.
- 4.2 The GLA has carried out 'Know Your Customer' checks to verify the party with which it is contracting under this proposed transaction. The counterparty in respect of Loan 1 is South Harrow LLP, which is a JV between Origin Housing Developments Limited (a non-asset owning development company of Origin Housing Limited) and Hill Residential Limited. Loan 2 is to Origin Housing Limited, an RP. The GLA has engaged with the parties 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.
- 4.3 Officers have worked very closely with LB Harrow in the development of the Housing Zone proposals. Officers have also consulted and worked with the other parties relevant to the intervention. It is not considered necessary or appropriate to consult any other persons or bodies specified in section 32(2) of the Greater London Authority Act 1999 for the purposes of this Mayoral Decision.
- 4.4 The GLA will engage with the parties to the 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 Mayoral Decision.

b) links to Mayoral strategies and priorities

- 4.5 The purposes of the Housing Zone programme are to increase housing supply by accelerating and unlocking development to deliver over 75,000 homes by 2026. In addition, providing 90,000 new starts by 2021. The Northolt Road site will contribute towards this objective.

5. Finance comments

- 5.1 This decision requests approval for the GLA to contractually commit loan funding of £25m to the Northolt Road intervention to accelerate the delivery of a minimum of 116 new homes by March 2020. Satisfactory due diligence has been obtained prior to reaching this decision.
- 5.2 The total indicative allocation for the Northolt Road Housing Zone is £25m (MD2139) and this decision will commit this allocation in full. The commitment will be made as a loan funding, and is repayable based upon conditions listed in Part 2 (Section 1.5) of the decision. Funding will be split into two Loan Agreements between Joint Venture of Origin Housing Developments Limited and Hill Residential Limited receiving £15m, as well as Origin Housing Association (Origin Housing Limited), a Registered Provider and the parent of Origin Housing Developments Limited, receiving £10m.
- 5.3 Financial Transaction funding is currently over forecast by almost £59m against the £200m budget. It should be noted, however, that only £160m (exclusive of the current commitment) has actually been committed, on four interventions.

5.4 Additional comments included in Part 2.

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 intervention 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 these Housing Zones (see MD1457) and, in respect of this intervention, as detailed in this report.
- 6.2 The provision of the proposed loan on market terms is likely to constitute a specified activity, as defined under section 34A of the GLA Act and the Greater London Authority (Specified Activities) Order 2013/973. Accordingly, it will need to be provided by a subsidiary company of the GLA, as is proposed. GLA Land and Property Limited (GLAP) is a subsidiary of the GLA.
- 6.3 Further legal comments are set out in Part 2.

7. Planned delivery approach and next steps

Activity	Timeline
Director's Decision	September 2017
Completion of Due Diligence by LSH	August 2017
Completion of Development Facility Agreement x 2	September 2017
Start on Site (Early Works)	April 2017
Practical Completion	Quarter 1 2019/2020
Final Repayment of Housing Zone Funding	Quarter 1 2019/2020

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

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:

Shaun Stephens has drafted this report in accordance with GLA procedures and confirms that:

✓

Head of Service:

Nick Taylor 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.

✓

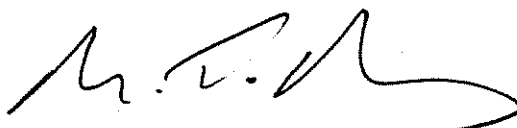
Corporate Investment Board:

The Corporate Investment Board reviewed this proposal on 25 September 2017

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature



Date

15-09-17

TOM MADDETON ON BEHALF OF MARTIN CLARKE

