

# GREATER LONDON AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD2171

**Title: Kingston Housing Zone, Royal Borough of Kingston**

### Executive Summary:

The Kingston proposal was designated a Housing Zone by MD1632 (March 2016). The indicative funding allocation was £46.2m: £35.45m of affordable housing grant and £10.75m of recoverable grant. This allocation was subject to the outcome of the GLA's due diligence.

The due diligence has now been undertaken and this decision form asks the Director to approve the commitment of £19.6m of affordable housing grant and £26.6m of recoverable grant in the Kingston Housing Zone, as well as the related delivery timescales, outputs and spend profile.

### Decision:

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

1. the contractual commitment of £19.6m of affordable housing grant and £26.6m of recoverable grant in the Kingston Housing Zone, in light of the due diligence that has been completed; and
2. the re-profiled start on site, completion dates for the delivery of the housing outputs, and timing for funding payments as detailed in this report.

### 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:**

5/10/17

**Name:** Martin Clarke

**Position:** Executive Director Resources

**Signature:**



**Date:**

2.10.17

## PART I - NON-CONFIDENTIAL FACTS AND ADVICE

### Decision required – supporting report

#### 1. Introduction and background

- 1.1 The Kingston proposal was designated a Housing Zone by MD1632 on 17<sup>th</sup> March 2016. There was an indicative allocation of funding, which was £46.2m in total: £35.45m of affordable housing grant and £10.75m of recoverable grant. This was subject to the outcome of the GLA's due diligence.
- 1.2 The overarching borough agreement (principles document) was signed on 20<sup>th</sup> December 2016, the GLA's due diligence is completed and Royal Borough of Kingston upon Thames (RBK) is now ready to enter into funding contracts for the grant allocated. There will be an affordable housing grant agreement (AHGA) and, for the recoverable grant, there will be a borough intervention agreement (BIA). Signing of the agreements will create funding commitments, which will mean that the allocation will no longer be indicative or provisional. However, the BIA will have conditions precedent to be signed off before the funding can be released.

#### 2. Outputs

- 2.1 This housing zone has a completions deadline of 31 March 2026. The principal focus of RBK's proposal is regeneration of its Cambridge Road estate by means of demolition and rebuilding, so the vast majority of the outputs by that date will be the 853 new homes on this estate. Development will continue after the 2026 deadline, and the ultimate total will be approximately 2000 new homes, replacing the 832 existing homes. The intention is like-for-like replacement in terms of the total number of social rent homes. That means that, of the 2000 new homes, 653 will be social rent to replace the 653 social rent homes prior to demolition. This project is being taken forward in a manner that is consistent with the Mayor's draft regeneration good practice guide.
- 2.2 There are other direct housing outputs from RBK's own development programme of garage and other infill sites, and there are indirect outputs from affordable housing sites in the borough. Table 1 below has the start on site profiles for all of these outputs: the total is 1,000 homes, 938 provided directly by RBK and 62 indirectly by other providers. Table 1 indicates that RBK's 938 direct homes include 359 affordable rent and 65 intermediate or shared ownership. The latter are the homes that will be funded by the GLA's housing zone affordable housing grant. The 2016-21 column in table 1 has 165 affordable rent homes and 88 intermediate homes, which means that the forecast is for a total of 253 affordable homes to start on site by 31/03/2021, contributing to the Mayor's target of 90,000 affordable housing starts during 2016-21.

Table 1 Cambridge Road and RBK garage sites starts on site profile				
Tenure	Direct or indirect	2016-21	2021-26	Total
Affordable rent homes	Direct	165	194	359
	Indirect	0	0	0
Intermediate	Direct	26	39	65
	Indirect	62	0	62
MARKET SALE homes	Direct	124	390	514
	Indirect	0	0	0
Sub-totals	Direct	315	623	938
	Indirect	62	0	62
TOTAL homes		692	623	1000

### **3. Resources and changes to the Kingston HZ**

- 3.1 Total funding allocated to the Housing Zone through MD1632 remains unchanged, but the components were varied at RBK's request in October 2016. The affordable housing grant allocation reduced to £19.57m, which will enable the delivery of 424 affordable units across the Cambridge Road and RBK garage sites and the recoverable grant increased to £26.6m, delivering 514 market sale units across both sites, as detailed in Table 1. These changes constituted 'Tier-2' pre-contract variations and were agreed through the Housing Zones Change Management process (DD1485), which required Housing Zones Steering Group review followed by agreement in principle by the Assistant Director – Programme Policy and Services. This change occurred mainly for two reasons.
- (a) The original bid had assumed affordable housing completions beyond the 31/03/2026 deadline which applies to housing zones. Removing these ineligible later completions reduced the grant requirement.
- (b) Larger than expected early demand for leaseholder buy-backs was emerging, which meant a larger than expected requirement for recoverable grant to fund these early buy-backs.
- 3.2 The delivery of direct affordable units is above the required 35% SPG threshold, with 49% of the direct units delivered through the funding being affordable.
- 3.3 The £26.6m of recoverable grant funding will be used by RBK to purchase estate properties from their owners. Most of the owners are leaseholders, but there are some freeholders as well.
- 3.4 Getting the Cambridge Road project underway has required a significant contribution by RBK. The council has also been allocated £660,000 of DCLG regeneration funding, and £80,000 of GLA housing zone revenue funding (half for 2017/18 and half for 2018/19).

### **4. Cambridge Road regeneration proposal**

- 4.1 RBK's intention is to demolish and rebuild the Cambridge Road estate, replacing 832 homes with approximately 2000. RBK's growth committee approved this as a regeneration project on 16<sup>th</sup> March 2017. This allowed RBK to suspend the right to buy and open negotiations to purchase owner-occupied properties. RBK has appointed architects who have produced a strategic development brief. This featured in the OJEU developer procurement exercise, which started in July 2017 with publication of the selection questionnaire. The objective is to appoint a joint venture partner by May 2018. The developer would be responsible for master-planning and obtaining planning consent in time for starts on site in 2019-20. The developer would undertake detailed design work and produce a phasing plan.
- 4.2 The objective is to provide better quality housing at higher density, and the purposes of the affordable housing grant include to enabling delivery of sufficient affordable housing at an accelerated pace to provide homes for decants. Without the grant, there might be less affordable housing in total; affordable housing delivery would certainly be delayed and decanting would take significantly longer
- 4.3 Leaseholder and freeholder buy-backs need to happen before demolition and rebuilding can start, so they are an initial cost item that cannot yet be funded by income from the development. The purpose of the recoverable grant is to provide that initial funding, which can be repaid once completions and housing sales start to come through. Without this grant, it would be necessary to

make the developer responsible for funding buy-backs, delaying them until after the conclusion of the OJEU procurement and taking value out of the scheme which would in turn reduce the affordable housing content.

- 4.4 This regeneration proposal complies with the GLA's 2017 draft estate regeneration good practice guide.

## **5. Appraisal**

- 5.1 Cushman and Wakefield (C&W) were commissioned to provide a due diligence report on the recoverable grant requirement which forms the basis of the BIA. The report, which is summarised in Part 2 of this Director's Decision, confirms the need for this grant and supports the recommended repayment profile.
- 5.2 The GLA's value for money assessment of the affordable housing grant requirement is also summarised in part 2, and confirms that the level of funding recommended is acceptable.

## **6. Project Milestones**

- 6.1 RBK have completed one buy-back purchase and have offers agreed for four more, so the aim is to enter into the BIA by September 2017 and allow RBK to start drawing down the recoverable grant as soon as conditions precedent are discharged. The AHGA is on a similar timetable, but there is less urgency as there will have to be starts on site before it can be claimed, and the first of those are due in 2019/20. The following is a summary of expected milestones

<b>Activity</b>	<b>Timeline</b>
Complete borough intervention agreement (BIA)	October 2017
Discharge BIA conditions precedent	October 2017
Complete affordable housing grant agreement	October 2017
Appoint development partner	December 2018
Complete master-planning & obtain planning consent	October 2019
First starts on site	December 2019
Completion of housing zone outputs	March 2026
Completion of remaining homes	March 2030

## **7. Governance**

- 7.1 The GLA will contract with RBK and manage the relationship through the governance structure which has operated since approval of the original bid. This involves GLA representation at RBK's monthly regeneration officer board meetings and GLA attendance at every third or fourth of RBK's monthly regeneration cabinet board meetings

## 8. Risks

- 8.1 Key risks for the GLA relate to outputs if the regeneration project fails to proceed or is delayed. RBK's own risk evaluation identifies planning and physical constraints as potential causes of delay. RBK have a robust mitigation strategy for these risks, with an experienced consultancy advising on technical matters and with the head of planning chairing the monthly officer regeneration group.
- 8.2 Difficulties obtaining vacant possession could also cause delays. The GLA's recoverable grant can help to address this issue with early buy-backs. RBK is viewing compulsory purchase orders (CPOs) as last resort; recent experience of other boroughs suggests that, if CPOs are needed, it will be difficult to predict how much time these will take.
- 8.3 Cushman & Wakefield's due diligence report evaluates risks for the recoverable grant and recommends mitigation measures. There is further information on this in part 2 of this report.

## 9. Equality comments

The GLA's *Integrated Impact Assessment (IIA) of Further Alterations to the London Plan* (March 2015), included an equalities impact assessment of policies for increasing housing supply, which is one of this housing zone's principal objectives. The IIA concluded that provision of housing, including maximising the delivery of affordable housing, would complement other objectives of the London Plan (e.g. Policy 3.5), ensuring that housing design takes account of needs of different groups.

- 9.1 Delivery of new and additional homes can help achieve Objectives 1, 2, 3 and 4 of the Mayor's Equalities Framework "Equal Life Chances for All" (June 2014) through provision of new homes which are well designed, and new housing products.
- 9.2 This report recommends entering into agreements with RBK, and those will place obligations on RBK in respect of the Equality Act 2010.
- Complying 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.
- 9.3 RBK has undertaken its own equalities impact assessment of the Cambridge Road regeneration project. There will be a housing needs survey which is partly intended to identify housing needs of different groups. It will inform subsequent engagement with and support for potentially vulnerable groups, particularly older people (RBK estimate that 15% of estate residents are aged 65 or over). Initial research suggests that provision of new and better quality housing would be important here given that the proportion of estate residents with health problems is greater than the proportion for Kingston as a whole, and that there are indications of disproportionately high levels of deprivation on the estate.

## **10. Know your customer**

- 10.1** The GLA has carried out 'know your customer' checks to verify the party with which it is contracting under these proposed transactions. RBK is a statutory body, formed in 1965 by the London Government Act 1963. It is required by statute to produce a statement of accounts each year and to have these audited. Its primary address is: Guildhall 2, High Street, Kingston upon Thames, KT1 1EU. GLA officers have confirmed from an official government website that the authority exists; they have also confirmed that the lead officer involved in the proposed transactions at the authority works within the department of the relevant executive officer.

## **11. Finance comments**

- 11.1** This decision requests approval to contractually commit £19.575m of affordable housing grant and £26.625m of recoverable grant with Royal Borough of Kingston for the Cambridge Road Housing Zone. Satisfactory due diligence has been obtained prior to reaching this decision.
- 11.2** The total indicative allocation for the Cambridge Road housing zone is £46.2m, with £35.45m of affordable housing grant and £10.75m of recoverable grant. (MD1632). Although the total funding allocated to the Housing Zone through that MD remains unchanged, its components were varied at RBK's request in October 2016 and approved through the Housing Zones Change Management process (DD1485). As a result, the affordable housing grant allocation reduced to £19.57m, which will enable the delivery of 424 affordable units across the Cambridge Road and RBK garage sites and the recoverable grant increased to £26.6m, delivering 514 market sale units across both sites, as detailed in Table 1 above. The total number of socially rented homes will be unchanged at 653. Recoverable grant is repayable upon conditions listed in Part 2 of this decision (Section 1.4).
- 11.3** Grant/Recoverable Grant funding is currently over forecast by approximately £274m against the £400m budget. It should be noted, however, that only £96m (exclusive of the current commitment) has actually been committed, on nine interventions.

## **12. Legal comments**

- 12.1** 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 the proposed interventions 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 interventions will accelerate and unlock the delivery of housing and 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.
- 12.2** 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 7.3 of the legal comments of MD1457. As is noted in paragraph 7.4 of MD1457, the current London housing strategy, which included a policy for Housing Zones, has been subject to an Integrated Impact Assessment, and GLA officers consider that the delivery of new and additional homes within the Housing Zones programme will help to implement Objectives in the Mayor's Equalities Framework "Equal Life Changes for All." (See also sections 4 and 5 of MD1457).

- 12.3 The GLA has engaged with RBK in relation to the intervention which is the subject of this Director 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 Director Decision.
- 12.4 The GLA funding for the interventions is grant funding. It is not being provided on a commercial basis and is not therefore a specified activity under section 34A of the GLA Act that is required to be provided through GLA Land and Property (GLAP).
- 12.5 External lawyers have advised GLA officers in relation to State Aid rules, and have been instructed to prepare and negotiate the funding contract for the GLA, including the incorporation of any provisions required to ensure compliance with State Aid rules. These clauses include provisions which ensure that no funding will be paid out unless, amongst other requirements, RBKs solicitor has provided an opinion (satisfactory to the GLA) as to the State Aid treatments of the interventions. Further, if there is found to have been any unlawful State Aid, and the interventions cannot be restructured so as to be compliant, LBE must repay the unlawful State Aid following a written demand for repayment by the GLA.

**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:**

Mick Breheny & Andrew Welsh have drafted this report in accordance with GLA procedures and confirms that:

✓

**Assistant Director/Head of Service:**

Heather Juman 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 2 October 2017.

**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

*2.10.17*