

PART 2 – CONFIDENTIAL FACTS AND ADVICE

MD1393

Title: London Housing Bank

Information may have to be disclosed in the event of a request under the Freedom of Information Act 2000. In the event of a request for confidential facts and advice, please consult the Information Governance team for advice.

This information is not for publication until the stated date, because:

The document is still in draft and subject to a process of agreement with the Department for Communities and Local Government (DCLG). Once the document is finalised and agreed this document will be published.

Date at which Part 2 will cease to be confidential or when confidentiality should be reviewed: **15 April 2015**

Legal recommendation on the grounds of keeping the information confidential:

It is recommended that the information below is kept confidential until the review date specified above or until the final version of the text has been agreed between the GLA and DCLG, whichever is the sooner. It is recommended that the information is withheld under section 22 of the Freedom of Information Act 2000 (FOIA). The information is intended for future publication and, given that its contents are the subject of ongoing discussions and negotiations between the GLA and DCLG, it is considered that it is reasonable in all the circumstances and is in the public interest to withhold that information until it is agreed in final form.

Legal Adviser - I make the above recommendations that this information should be considered confidential at this time

Name: Steve Gee

Date: 5 August 2014

Confidential decision and/or advice:

Below is a copy of a draft of the GLA's Assurance Statement for the London Housing Bank, to be agreed with DCLG, and which is to remain confidential until so agreed.

DRAFT GLA ASSURANCE STATEMENT

Bidding

1. The opportunity to bid will open in [August] 2014 and be open to a range of private sector organisations including Registered Providers and developers. All bidders will need to ensure that the landlord of the homes, for the period of the GLA's loan, will be a Registered Provider.
2. Bidding will be through the GLA's Investment Management System (IMS). The bidding portal in IMS will open in [August] and close in [mid-October TBC]. Providers will bid for an annual profile of funding, starts and completions on named schemes.
3. Bidders will also submit details of their intended exit strategy which they will use to repay the funding by their stated timetable.

Assessment process

4. The assessment process has been developed building on the GLA's experience of assessment for a range of housing programmes. The initial assessment will be carried out by an allocated Housing and Land Area Manager, before being tested through a process of moderation and approval. An outline of the process can be found at appendix one. Further explanation is outlined below.
5. A cross-functional project team will be set up to undertake a moderation process of bids including representatives from GLA housing and finance teams. The Assistant Director for Policy, Programme and Services will chair the meeting and be accountable for recommendations made during the assessment process.
6. Allocation recommendations will be presented for a further moderation to the Senior Management Team (SMT) of Housing and Land. Final funding proposals will be presented to the Housing Investment Group (HIG). Following a HIG recommendation, a Mayoral Decision will be sought for the final approval of the funding propositions. The Mayoral Decision will enable GLA officers to proceed with implementation of the London Housing Bank.
7. Alongside the financial assessment (see below), the assessment will comprise of three elements i) assessing the bids to confirm eligibility ii) identifying areas for stress-testing and negotiation and iii) deliverability. The assessment will be completed against a standard evaluation matrix to ensure consistent scoring for all bids.
8. The initial scoring by teams, will determine whether the bid is eligible or flag potential areas for concern (see below on Eligibility assessment) against criteria 1-4 below. Where the bid fails to meet any criteria the GLA will reject the offer. A full assessment will be completed on the organisation's ability to deliver against the deliverability assessment (see below) with a focus on organisations who will deliver early starts in 2015/16 and completions by March 2018.

Eligibility

9. All bids will be required to meet all of the eligibility criteria outlined below. Bids, or parts thereof, that are not eligible will not be taken further in the assessment process.
- The site must have, or can confidently be expected to obtain, an implementable planning permission by Summer 2016;
 - The site must either be delivering a total of over 250 homes or have a clear and plausible statement of how the London Housing Bank will accelerate overall delivery.
 - The applicant must be classified to the private sector.
 - The applicant/partnership must be in a position to take physical control of the site by Summer 2016.
 - Construction must be able to commence by 30 September 2016.
 - The site is in London.
 - The proposals must offer the realistic prospect of full recovery of the GLA's investment. This is generally defined to be a 95% probability of repayment under a central set of assumptions.
 - The GLA's funding can make-up no more than 30% of the Total Scheme Costs of the development in question.

Deliverability Assessment

10. Eligible bids will be assessed against four 'deliverability' criteria. These are:
1. Highest certainty of early completion
 2. Track record of delivery partner
 3. Greatest acceleration of delivery
 4. Value for money – to allow maximisation of the number of units

Financial assessment

11. Bids to the London Housing Bank are primarily expected to be from financially strong Registered Providers, but other private-sector organisations, which are financially sound and offer a strong track record of delivery are also eligible to bid. (NB. Financially strong RPs are defined as those that have at least a AA credit rating).
12. The GLA will only allocate funding to organisations that the GLA assesses are able to repay the loan as defined in 9 above, have the resources to deliver the schemes proposed (or access to said resources) and have a robust exit strategy in place to ensure repayment to the proposed milestones.
13. Where a bidding organisation cannot demonstrate sufficient strength of covenant, the organisation will be deemed ineligible for funding. The GLA will utilise its existing access to reporting facilities and experienced staff to analyse publicly accessible data on proposed counter-parties credit-worthiness (e.g. Dunn and Bradstreet reports, published accounts, credit ratings, etc.).
14. Where appropriate this would be supplemented by commissioning bespoke credit rating analysis of proposed counter-parties, from the GLA's Treasury advisor, Capita.. This may include an assessment of the ability of the counter-party to repay the loan in say 7 years' time and an annual review of the financial standing of that counter-party. In addition, Housing and Land staff would utilise their in-depth working knowledge of Registered Providers as a qualitative overlay to quantitative data supplied by the GLA's finance function. This mix of

quantitative and qualitative data would lead to an overall assessment by a cross-functional team of GLA staff.

15. Bidders linked to the public sector will be required to certify, by their Chief Finance Officer, that the organisation is a private sector entity and none of its debt appears on the public sector body's balance sheet. This will be a condition of funding, with a change of accounting treatment to bring the funding onto the public sector body's balance sheet being a trigger for instant repayment.
16. New entities with no track record or assets will not be considered for funding, unless they are fully guaranteed by a financially sound, private sector organisation. In such cases the guarantor would be subject to the full set of financial checks of a bidding organisation.
17. The majority of applications are expected to be for the interest-bearing loan. Proposals which involve an equity loan will be considered on a case-by-case basis and will need a clear rationale as to why that form of investment is more appropriate. Equity loans will be subject to an additional assessment process. In these cases the GLA will need external confirmation of the estimated development costs and future property value assumptions. These will be tested against a range of internal scenarios being commissioned by the GLA from external property advisors. Repayment will be subject to stress testing and lending only possible where a minimum of a full return of the principal investment is expected under the GLA's central scenario as defined at 9 above.

Security

18. For all loans the GLA will ensure that it obtains full security cover to the value of the loan provided. Trowers & Hamlins have provided the GLA with initial security advice and the GLA will continue to use legal expertise throughout the assessment and contracting process.
19. The GLA's preference in terms of security will be for a debenture with a fixed charge over the assets of the company which are not disposed of in the ordinary course of business and a floating charge over the rest of the company's undertaking. For organisations with existing borrowing facilities this may not be possible and, in particular, it is considered unlikely that any Registered Providers will be able to provide this security.
20. Where it is not possible to grant a debenture in the above form the GLA will also consider a fixed charge over the development site and/or project bank account(s). This would put the GLA in a position to appoint a receiver with a wide range of powers, including to finish the development and sell completed units, thus maximising the GLA's chances of delivering the units and having its funding repaid.
21. In the majority of cases it is likely that the developing entity will require funding from another source as well as from its own resources and from the GLA. To access this it may take some development funding from a bank or other financial institution. That funder will insist on being placed in a first-ranking position, so that, on default, it is entitled to be repaid first. Whilst the GLA's preference is for first-ranking charges it will consider subordinating charges to primary lenders, where necessary. This will involve the negotiation of a deed of priority (or intercreditor deed). This is likely to cover all charges, step-in rights and guarantees. In all cases the GLA will ensure that there is sufficient value in the security, after the first charge has been repaid, to cover the GLA's loan. The GLA will utilise external property consultants and valuers to advise upon this which will be a fundamental part of the GLA's due diligence process.

22. In all funding agreements the GLA will ensure that it has a right to step in and complete the development/infrastructure enabling works. These will either be obtained through collateral warranties from the building contractor, or built into the funding agreement. The GLA will also ensure it has step in rights where there is a default in payments, as against an RP going into receivership.

Contracting process

23. A standard contract for the interest-bearing loan agreement and equity loan will be drawn-up during the bidding window and released to interested parties as soon as possible. Bidders will be advised that the terms of these are non-negotiable. Trowers & Hamblins have been commissioned to carry out this work.
24. The GLA will manage the contract-signing process to ensure that the agreed profile of funding from DCLG can be met with contract allocation appropriately spread between the 2015-2016 and 2016-2017 financial years. A buffer of potential contracts in April 2016 will be maintained to ensure the deliverability of this.

Programme Management & Monitoring

25. The delivery of the homes through the London Housing Bank will be managed by GLA Housing and Land teams, in line with processes applied to existing affordable housing programmes. There will be regular quarterly contract reviews with organisations to which the GLA awards funding.
26. To enable drawdown, the organisation will be required to discharge conditions of funding and any failure to do so will render the scheme ineligible and the funding allocation will be withdrawn. To enable robust contract management, the organisation will be allocated a single point of contact at the GLA, within the Housing and Land Area teams, to monitor performance against the contracts with regular checks on projected scheme cashflows and finance covenants of the organisation.
27. There are existing robust monitoring systems in place with current Investment Partners (including multiple London Boroughs, developers and consortia) to assess programme delivery against forecasts, including monthly risk assessment with providers and boroughs and quarterly reviews. As noted below, a similar structural arrangement for both the selection of partners and monitoring outputs and expenditure will be put in place in order to give sufficient strength and framework to ensure the maximisation of outputs and financial management.
28. The GLA will share relevant monitoring information with DCLG on an ongoing basis. This will be the responsibility of the GLA's Housing and Land Programme Management team.
29. The GLA will notify DCLG about any material risks, or emerging risks, at the same time as notification is made to the Corporate Management Team or Investment and Performance Board.

Loan management

30. Upon completion of the legal agreement, the process for payment and repayment of loans will be passed to the GLA's Treasury Management team. This team currently manages a debt programme of £5bn and an investments portfolio of £2bn on behalf of the GLA, London Fire and Emergency Planning Authority (LFEPA), London Legacy Development Corporation (LLDC), London Pension Fund Authority (LPFA) and the Mayor's Office for Police and Crime

(MOPAC)/the Metropolitan Police Service (MPS). Payments to contracted organisations will be made in relation to site-specific milestones, as advised by the team within Housing & Land managing the programme.

31. Repayments of the principal and payments of interest will be monitored against the agreed payment schedule with the counter-party and appropriate action taken in the event of default. This may include instructing the GLA's debt recovery team and reporting to the responsible programme manager in Housing and Land.
32. The GLA's Treasury Management and Housing and Land teams will also carry out ongoing stress testing of the outstanding loans in line with the updated financial standing of the counterparty and the London property market (for equity based loans). This will be reported to the GLA's Investment and Performance Board as required and, at a minimum, annually in any event.
33. Loan management will be conducted in accordance with the GLA's Group Treasury Management Practices (Appendix 2).

Financial Protection and Security

34. To ensure that there is no diminishment in the GLA's current AA+ rating with a stable outlook, the GLA will ensure:
 - It has sufficient control to recover funds due. This may include step in rights if there were a default in a payment, with the ability to offset any other payments due to the RP, ability to seize assets equal to the default, utilising any collateral obtained at the outset etc.
 - That in the case of insolvency it would be able to exercise any primacy as a senior lender over other creditors, apply any parental or corporate guarantee, utilise any charge over assets or collateral obtained.
35. The charging of interest and likely nominal increases in London property values will create a further buffer. Interest will be held in a reserve by the GLA if considered necessary to insulate against financial risk. Depending upon the balance of loan and equity and the interest rates charged this is expected to provide a minimum of £25m over a 10 year period.
36. These protections give Government full assurance that the GLA will repay the sums due.
37. The GLA would utilise the existing experienced legal team, with appropriate external legal input, to prepare contract documentation to deliver these protections. This would draw on contract documentation prepared for Registered Providers and commercial loan agreements used in other GLA transactions.
38. Full financial protection will be afforded in accordance with the hierarchy outlined below:

Project	<ul style="list-style-type: none"> • Lend to financially strong Registered Providers <ul style="list-style-type: none"> ○ Financial assessment – public data, commissioned credit rating and other relevant analysis • Charge interest • Ability to recover funds due <ul style="list-style-type: none"> ○ Step in rights, guarantees, offset against other
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	payments, seize assets, collateralisation, etc
Programme	<ul style="list-style-type: none"> • Other Housing and Land programmes
GLA	<ul style="list-style-type: none"> • Year-end flexibility • Treasury management/cash flow flexibility • Strong GLA balance sheet

Governance

39. In line with GLA practices the programme will be subject to audit by the GLA's internal (Mayor's Office for Policing and Crime) and external (Ernst and Young) auditors.
40. The decision-making for financial transactions will be via recommendations from the Housing and Land Senior Management Team (SMT) and through examination at the Housing Investment Group (HIG). Decisions in principle arising from HIG will be submitted in summary form to Investment & Performance Board (IPB) for its consideration and then on to the Mayor of London for formal sign-off via Mayoral Decision (MD).
41. To ensure robust processes are in place, the GLA will implement a new advisory board for the management of Financial Transactions and monitoring of the expected outcomes and outputs for the London Housing Bank, alongside and in partnership with the existing decision making processes. This board will be chaired by the Executive Director for Resources, with the Executive Director – Housing and Land as Deputy Chair.

Risk Appetite Statement

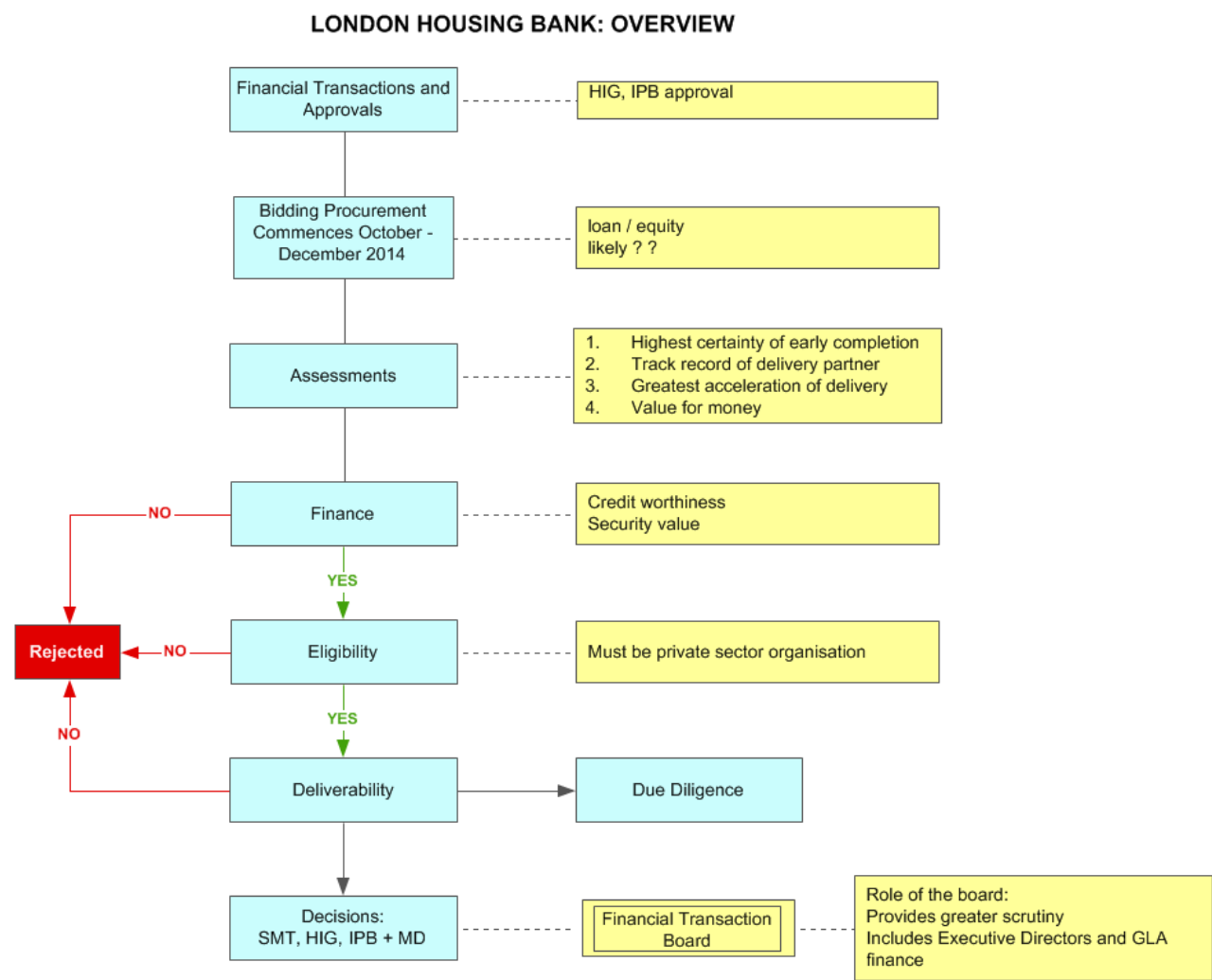
42. This statement of risk appetite is drawn up by the GLA in line with best professional practice and in support of the aims and objectives of the Chartered Institute of Public Finance and Accountancy's "Treasury Management in the Public Services: Code of Practice" and related guidance.
43. During the lifespan of the London Housing Bank programme, the GLA will overall take fair, measured and targeted levels of risk with the aim of achieving the expected outcomes and outputs. However, it will not jeopardise its AA+ credit rating with a stable outlook.
44. It will be innovative and will consider all potential business and delivery options both proposed by bidders and internally, choosing those options in risk terms that are most likely to result in successful delivery and a maximisation of outputs, but at the same time will apply robust processes as described above to provide full return of the Financial Transaction match funding as agreed and a minimisation of risk exposure within individual proposals and the overarching programme.
45. In line with the principles of the Authority's Risk Management Framework (2014), the GLA:
- Will not tolerate risks rated red on the risk scoring matrix where they are avoidable – other than in exceptional circumstances that should be formally documented;
 - Has zero tolerance for risks that cannot be mitigated to avoid the potential for a breach of law / formal regulation;

- Has an extremely low tolerance for taking risk where there is the potential to actively cause harm to individuals or groups – all such risks should be avoided as far as possible;
- Has a low tolerance for risks that might cause harm to the environment; and
- Has a relatively high tolerance for risk flowing from the delivery and communication of Mayoral priorities, and in particular where the work is innovative and with the potential to catalyse broader beneficial outcomes. Examples include some extant youth, volunteering and regeneration projects. Of course, projects should always be intelligently designed in order to maximise outcomes. Here it is the opportunity cost that should be considered in particular; that is, whether resources might be better deployed in order to seek similar outcomes – either for incurring reduced costs or risk.

46. In terms of the London Housing Bank proposals, the GLA will:

- Use the proposed structures and governance to minimise risk exposure and maximise strategic outputs, accepting a level of risk will exist with all projects and will be managed appropriately.
- Use our corporate experience and expertise to take a fair and balanced approach to risk in order to minimise risk exposure, but maximise outputs.
- Ensure that the resulting transactions will not impact on or reduce the Authorities AA+ Credit Rating with a stable outlook.
- Apply robust processes as described above to ensure a full return of the total sum of funding devolved in line with an agreed programme..
- Use a tiered repayment approach including use of accrued interest, repayment defaulting agreements and other Housing and Land programmes to ensure sufficient capital is consistently available in order to be able to repay the loaned funding across an agreed timespan.
- Ensure that through a combination of risk management, corporate oversight and governance, negative reputational risk to all partners is minimised.

Assessment process



Appendix One – Process maps

Allocations process

LONDON HOUSING BANK: ALLOCATIONS

