

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2140

Title: Lambeth Housing Zone – Regeneration of Knights Walk, Westbury and South Lambeth Estates

Executive Summary:

This Director's Decision seeks approval to:

- sign off due diligence undertaken in respect of the intervention that GLA proposes to fund in the Lambeth Housing Zone; and
- enter into a Borough Intervention Agreement with London Borough of Lambeth to provide such funding.

Decision:

That the Executive Director for Housing and Land and the Executive Director for Resources, after consulting with the Deputy Mayor for Housing, Land and Residential Development:

1. Agrees that the outcome of due diligence, detailed in this report demonstrates it is appropriate for the GLA to contractually commit recoverable grant funding of £10m to the London Borough of Lambeth to fund the intervention specified below within the Lambeth Housing Zone;
2. Agrees the re-profiled start on site and completion dates for delivery of the housing outputs and timing for funding payments as detailed in this report.

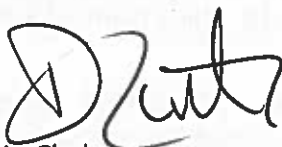
AUTHORISING DIRECTOR

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:

18.7.17

Name: Martin Clarke

Position: Executive Director Resources

Signature:



Date:

18.7.17

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The London Borough of Lambeth proposal was designated a Housing Zone by MD1545 and funding of £10,000,000 was indicatively allocated to that zone (subject to the outcome of legal and financial due diligence) to unlock and/or accelerate housing delivery.
- 1.2 In September 2016, the GLA and the London Borough of Lambeth (LBL) entered into an Overarching Borough Agreement to record the indicative allocation of funding for the Lambeth Housing Zone. LBL will retain oversight of delivery across the Housing Zone by implementing governance arrangements outlined in the Overarching Borough Agreement with the GLA.
- 1.3 Due diligence has now been undertaken in respect of the proposed intervention, the conclusion of which is set out below and in Part 2 of this Director Decision. It is proposed that the intervention will be implemented by GLA and LBL entering into a Borough Intervention Agreement.

Summary

- 1.4 The grant requested by LBL is required to part fund land assembly costs across the Westbury, South Lambeth and Knights Walk housing estates, which subject to planning consent, will assist in unlocking 1,030 homes by March 2026, comprising:
 - 590 homes for affordable rent – a net gain of 387 units when the demolition of existing units is taken into account.
 - 440 homes for market rent – a net gain of 440 units as there are no existing market rent homes on the site being demolished.

Proposition

- 1.5 LBL is proposing to regenerate the Knights Walk, Westbury and South Lambeth Estates. All three estates are located in the northern core of the Housing Zone, with Westbury falling within the Vauxhall/Nine Elms/Battersea Opportunity Area. GLA recoverable grant will be used to part fund leaseholder buy-backs and the acquisition of a number of freehold interests across the three estates in order to expedite much needed regeneration.
- 1.6 To deliver the ambitions of the Housing Zone and provide certainty of delivery, LBL intends to establish a wholly owned development company, Homes for Lambeth. On completion of the land assembly programme, LBL will transfer the estates to Homes for Lambeth and provide development finance during construction. Rather than simply seeking a capital receipt through disposal on the open market, Homes for Lambeth will enable the Council retain full control of development and benefit directly from any uplift in land values associated with developing sites.

Funding

- 1.7 LBL has requested a total of £10m to part fund leaseholder buybacks and acquisition of a number of freehold interests across the Knights Walk, South Lambeth and Westbury Estates. The funding is recoverable and will be repaid to GLA as a single bullet payment, by which point 63% of the homes are projected to have reached practical completion.

The GLA's Housing Zone funding, in conjunction with finance that LBL will obtain from other sources, will enable the council to fund the upfront cost of the leaseholder buy-backs and acquisition of other land interests. This will accelerate delivery of the three estates, which otherwise would not be possible, as LBL has limited access to alternative funding sources. In addition, the GLA's investment will unlock a greater proportion of affordable housing than would typically be delivered by a traditional house builder.

Stakeholder/Contractual Arrangements

- 1.8 As counterparty in respect of the aforementioned intervention, LBL will be the recipient of the funding and enter into the Borough Intervention Agreement with the GLA.

Appraisal

- 1.9 Project due diligence was undertaken by Cushman and Wakefield (C&W) to establish the appropriateness of LBL's financial assumptions in relation to the regeneration of the three estates. Overall, LBL's cost and value assumptions, detailed in Part 2 of this Director Decision, were reported to be reasonable and in line with C&W's expectations.

Project Milestones

- 1.10 LBL commenced leaseholder buybacks in June 2016 and are due to submit planning applications for each estate before September 2017. It has forecast that vacant possession of all three estates will be achieved by February 2018. The first homes are forecast to start on site by April 2018 and final homes due to complete by March 2026. LBL will be required to repay the GLA the recoverable grant funding of £10m by March 2023.

Governance

- 1.11 The GLA will contract with LBL and this relationship will be managed through quarterly meetings in order to ensure transparency. The relationship will be managed by a designated officer from the GLA's Housing and Land Directorate with oversight from the Housing and Land Senior Management Team.

Conclusion

- 1.12 In summary, the proposed intervention has the potential to unlock housing supply, including a large proportion of affordable homes, in the northern core of the Lambeth Housing Zone. Without GLA Housing Zone funding, regeneration of the three estates is likely to be significantly delayed as LBL is currently unable to identify sufficient alternative funding sources to acquire all the land interests required to proceed with development. Regeneration of the estates, therefore, will not progress to the project milestones outlined in paragraph 1.11 without GLA investment.

2. Objectives and expected outcomes

- 2.1 Regeneration of the three estates will deliver a total of 1,030 residential units by March 2026.

3. Changes to the Lambeth Housing Zone

- 3.1 LBL has revised a number of its estimated start on site and completion dates compared to the position set out in the Overarching Borough Agreement. However, the amount of funding for the intervention remains the same. The proposed revised start on site and completion dates are set out in the tables below. The first completions are now due to be in 2020-21, rather than 2018-19. There is no change to the overall outputs in the Housing Zone.

3.2 Revised start on site dates:

	2018-19	2019-20	2020-21	2021-22
Affordable Rent	590	0	0	0
Market Rent	440	0	0	0
Total	1,030	0	0	0

3.3 Revised completion dates:

	2019-20	2020-21	2021-22	2022-23
Affordable Rent	0	84	0	506
Market Rent	0	70	0	370
Total	0	154	0	876

- 3.4 Where the revised dates represent 'annual movements within 2015-18 or within 2018-25' they constitute minor 'Tier 1' pre-contract variations under the Housing Zones Change Management Process (DD1485), and have therefore been subject to review by the Senior Housing Zones Manager and agreed in principle by the relevant Head of Area, prior to being submitted for formal approval in this Director Decision.
- 3.5 Where some of the completion dates are proposed to move beyond one year, such changes were recommended for approval by the Housing Zones Steering Group. It was agreed the request falls within a 'Tier 2' pre-contract variation under the Change Management Process, and would therefore require Housing Zones Steering Group review followed by agreement in principle by the Assistant Director – Programme Policy and Services, or in their absence a Head of Area other than the Head of Area in whose area the Lambeth Housing Zone is, before being submitted for a Director Decision.
- 3.6 In addition to the start on site and completion date changes, some of the grant payment details have been amended so that some of the funding is paid out a year later than was originally set out in the Overarching Borough Agreement. These changes constitute minor 'Tier 1' pre-contract variations under the Housing Zones Change Management Process (DD1485), and have therefore been subject to review by the Senior Housing Zones Manager and agreed in principle by the relevant Head of Area, prior to being submitted for formal approval in this Director Decision.
- 3.7 GLA officers confirm that these processes have been followed.

4. Equality comments

- 4.1 The Lambeth Housing Zone aligns with the 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 Lambeth Housing Zone will contribute, were covered by the IIA for the Further Alterations to the London Plan.
- 4.2 The IIA concluded that updating housing projections and targets would support the delivery of sufficient housing and may help to 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.
- 4.3 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.

- 4.4 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.
- 4.5 In order to access this funding, Lambeth Council will be required to enter in to contract with GLA to deliver the intervention. With regard to project delivery, the contract places the following obligations on Lambeth Council in respect of the Equality Act 2010:
- The Borough shall comply in all material respects with all relevant Legislation, including (to the extent applicable to the Agreed Intervention) but not limited to legislation relating to health and safety, welfare at work and equality and diversity, and will use reasonable endeavours to enforce and/or procure the enforcement of the terms of the Intervention Related Documents to ensure compliance with this clause.
 - The borough shall inform the GLA immediately upon becoming aware of any investigations into or findings of any breach of any equality or anti-discrimination legislation or regulations directly or indirectly related to the Agreed Intervention or the Borough Zone Outputs whether or not the Borough and/or any Contractor and/or any other third party is responsible for the breach or is the subject of the investigation.

5. Other considerations

a) key risks and issues

- 5.1 The Westbury Estate falls within the Mayor's designated Vauxhall, Nine Elms and Battersea Opportunity Area Planning Framework. The Housing Zone will build on Mayor's ambition to realise growth within this area and facilitate intensification working with key bodies including TfL.
- 5.2 The Lambeth Housing Zone is part of the Council's wider Estate Regeneration, the objectives of which are outlined in the Council's Local Plan under policy H3 Safeguarding Existing Housing and S2 New and Improved Community Premises.
- 5.3 The proposed development comprises a high concentration of homes for private rent which compared to private sale would be less sensitive to the impact of an economic downturn. In the event of a decline in demand for private rent Lambeth could mitigate the risk of long term voids by converting the PRS units to market sale.
- 5.4 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.

b) links to Mayoral strategies and priorities

- 5.5 The purpose of the Housing Zones Programme is to increase housing supply by accelerating and unlocking development to deliver over 75,000 homes by 2026. The Lambeth Housing Zone will contribute towards this and support the aim to deliver 42,000 homes per annum prescribed by the Further Alterations to the London Plan March 2015. All affordable homes unlocked by this intervention are proposed to start on site by 31 March 2021, thereby contributing to the Mayor's target to deliver 90,000 affordable housing starts by that date.

- 5.6 In line with emerging policy regarding estate regeneration projects, the GLA has received assurances from LBL that it will be working towards the principles set out in the Homes for Londoners: Draft Good Practice Guide to Estate Regeneration (December 2016). This includes offering displaced tenants the right to return and a fair deal for leaseholders.

c) Environmental considerations

- 5.7 The scale of the Housing Zones Programme presents significant opportunities for innovative building design to reduce resource costs, and unlock investment connecting new developments to necessary utility and social infrastructure assets. Such assets include low carbon decentralised energy and water networks; green infrastructure; waste and recycling collection infrastructure; low emission transport hubs and parks and open spaces. Boroughs and counterparties to Housing Zone Intervention Agreements should look to include opportunities to address environmental and wider regeneration, quality of life and place making benefits that are viable and will help unlock investment in line with policy ambitions set out in the London Plan. GLA support can be made available to help identify environmental opportunities in specific locations.

6. Financial comments

- 6.1 This decision requests approval for the GLA to provide a recoverable grant funding to London Borough of Lambeth (LBL) of £10m to part fund leaseholder buybacks and acquisition of a number of freehold interests across the Knights Walk, South Lambeth and Westbury Estates, within the Lambeth Housing Zone. Satisfactory due diligence has been obtained prior to reaching this decision.
- 6.2 The total indicative allocation for the Lambeth Housing Zone is £10m (MD1457) and this decision will commit this allocation in full. The commitment will be made as a recoverable grant, which is repayable, as one single payment, once 63% of the homes will reach the stage of practical completion (anticipated to be March 2023).
- 6.3 Grant/Recoverable Grant funding profile is currently over forecast by £275.626m against the £400m budget. It should be noted, however, that only £99.891m (exclusive of the current commitment) has actually been committed on eight interventions.

7. Legal comments

- 7.1 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 intervention 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 intervention will 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.
- 7.2 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 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).

- 7.3 The GLA has engaged with LBL 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.
- 7.4 The GLA funding for the intervention is recoverable 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).
- 7.5 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, LBL's 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, LBL must repay the unlawful State Aid following a written demand for repayment by the GLA.

7.6

7. Planned delivery approach and next steps

Activity	Timeline
Completion of Borough Intervention Agreement	July 2017
Physical Start on Site	October 2018
Physical Practical Completion	March 2026

Appendices and supporting papers:

Appendix 1 – Knights Walk Estate Site Plan

Appendix 2 – Westbury Estate Site Plan

Appendix 3 – South Lambeth Estate Site Plan

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:

Eleanor Byrne has drafted this report in accordance with GLA procedures and confirms that:

✓

Assistant Director/Head of Service:

Lucy Owen 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 17 July 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

18.7.17