

# GREATER LONDON AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD2226

**Title: Barking Town Centre Housing Zone, London Borough of Barking and Dagenham – Crown House**

### Executive Summary:

MD1457 designated Barking Town Centre as a Housing Zone and agreed to indicatively allocate funding of £42.3 million to deliver interventions within the zone that would unlock and/or accelerate housing and regenerate the area. The funding was approved subject to the outcome of legal and financial due diligence on the proposed interventions.

This Director's Decision seeks approval to contractually commit non-recoverable grant funding of £2 million to the London Borough of Barking and Dagenham to deliver an intervention on the Crown House site within the Barking Town Centre Housing Zone. The funding will be used to undertake the land assembly and site preparation works required to enable a comprehensive re-development of the site and accelerate and unlock the development of 323 homes, of which 144 will be affordable. In addition, this report sets out the outcome of the due diligence work undertaken to inform and support this decision.

### Decision:

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

- following the due diligence in Part 2 of this Director's Decision, entering into a contractual commitment to provide non-recoverable grant funding of £2 million to the London Borough of Barking and Dagenham to fund the intervention specified below within the Barking Town Centre Housing Zone.
- agree to the revised housing outputs, the re-profiled start on site and completion dates for the delivery of these outputs, and the funding interventions and payment timescales 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:** 21.3.18

**Name:** Martin Clarke

**Position:** Executive Director Resources

**Signature:**



**Date:** 20.3.18

## PART I - NON-CONFIDENTIAL FACTS AND ADVICE

### Decision required – supporting report

#### 1. Introduction and background

- 1.1 Barking Town Centre was designated a Housing Zone by MD1457 and funding of £42.3 million was indicatively allocated to that zone (subject to the outcome of legal and financial due diligence) to unlock and/or accelerate housing and to regenerate the area.
- 1.2 In October 2015, the GLA and the London Borough of Barking and Dagenham (LBBD) entered into an Overarching Borough Agreement to record the indicative allocation of funding for the Barking Town Centre Housing Zone. LBBD will retain oversight of the 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 Crown House intervention, the conclusion of which is set out below and in Part 2 of this Director's Decision. It is proposed that the intervention will be implemented by the GLA and LBBD entering into a contractual agreement known as a Borough Intervention Agreement (BIA).

#### Summary

- 1.4 A non-recoverable grant of £2 million is required by LBBD to deliver an intervention on the Crown House site within the Barking Town Centre Housing Zone. This will fund land assembly and site preparation works, which will enable a comprehensive re-development of the site and assist in accelerating the development of 323 homes by March 2025 comprising:
  - 179 (55%) homes for Market Rent; and
  - 144 (45%) homes for Affordable Rent. All of these affordable homes are required to start on site prior to 31 March 2021, thereby contributing to the Mayor's target to deliver 90,000 affordable housing starts by that date.
- 1.5 As part of the site's re-development, LBBD will also re-provide a Baptist church community centre and provide a small amount of commercial space (for the creative industries and artists). In addition, new public realm will be delivered on the site, which will provide a direct route between Cambridge Road and Linton Road, thereby improving local connectivity.

#### Proposition

- 1.6 LBBD is proposing to use £2 million of non-recoverable grant funding to enable a comprehensive redevelopment of the Crown House site, which is located within the Barking Town Centre Housing Zone. The funding will be used to fund land assembly and site preparation works, including the acquisition of freehold land at 26 Linton Road (currently a drugs and rehabilitation facility), demolition of existing buildings (26 Linton Road, and a community centre and car park which adjoin the Baptist church), re-provision of a Council-owned car park (currently used four days a week by market traders), and to cover other costs associated with enabling redevelopment of the site. These works will enable LBBD to accelerate and unlock the delivery of 323 new homes (of which 144 will be affordable), a ground-floor community centre (to be re-provided by demolishing and incorporating the Baptist church community centre into the scheme), a small amount of commercial space (intended for the creative industries and artists) and parking.
- 1.7 The Crown House site is situated in the northeast of the Barking Town Centre Housing Zone (a site plan is attached at Appendix 1). It holds a key location within the town centre, given its close proximity

to Barking train station, and because it is opposite to the Barking 360 (Cambridge Road) scheme, which is currently under construction by Nu Living/Swan Housing Association and is receiving GLA funding through the Barking Town Centre Housing Zone.

- 1.8 The site is currently dominated by Crown House, an under-utilised 1960s office block which, due to its inefficient layout and asbestos, is not suitable for conversion to residential housing. The rest of the site includes a car park for the office users, a further Council-owned car park (used by market traders), a listed Baptist church with adjoining community centre and car park, as well as various other buildings.
- 1.9 Land ownership across the site is varied. Roughly two-thirds of the site (the north-western end) is under the freehold ownership of LBBD, of which one-third (the south-eastern end) is under the effective ownership of Lightquote Ltd (a developer), which has a long lease on the site with 52 years remaining. This part of the site includes the Crown House building. Other land ownerships include the Baptist church along with its community centre and car park, and the 26 Linton Road site.
- 1.10 LBBD and Lightquote are jointly progressing a planning application for a housing led scheme across the site. By bringing the land interests together a comprehensive scheme can be delivered but each party will develop their own scheme on their respective land with the two parties having separate planning conditions and S106 agreements. Therefore, Lightquote will develop 179 Market Rent homes on part of land ('the Lightquote scheme') and LBBD will develop 144 Affordable Rent homes on the remainder of the site ('the LBBD scheme').
- 1.11 However, a comprehensive redevelopment of the site cannot be delivered in this form without the land in the ownership of Lightquote and this brings with it the ability to deliver more homes. Lightquote will take the risk of demolishing Crown House and dealing with the removal of asbestos. LBBD will grant a new long leasehold interest to Lightquote and it will be the beneficiary of a revised ground rent arrangement. The leasehold interest will cover a reduced area of land than that held under the current lease to facilitate the development of the public realm.
- 1.12 All 323 of the homes are forecast to be delivered by March 2025, with the Affordable Rent homes being developed by LBBD to start on site in March 2021 and complete in March 2023.

#### Funding

- 1.13 To enable this project, LBBD is requesting a total of £2 million in non-recoverable grant funding from the GLA. The funding will be used to fund the land assembly and site preparation works required to enable a comprehensive redevelopment of the Crown House site.
- 1.14 GLA funding is required to finance a gap identified in the scheme's budget and make the scheme viable. There are various complications in terms of the scheme's design, including the need to work around the listed Baptist church, demolish existing buildings (including 26 Linton Road and the community centre and car park which adjoin the Baptist church) and acquire the freehold land at 26 Linton Road to achieve vacant possession of the whole site.
- 1.15 Appropriate clawback and overage provisions will be put in place between the parties. The GLA will put in place clawback provisions in respect of the £2 million in non-recoverable grant funding should outputs be reduced or not delivered. The agreement between LBBD and Lightquote will make provision for a super-profit overage to be paid to LBBD should there be an improvement in market conditions.
- 1.16 Without GLA Housing Zone investment, the scheme would either be delayed while alternative funding is sought, the Lightquote scheme would need to be restructured (resulting in fewer private and/or

affordable homes being delivered overall), or the LBBD scheme would need to be reduced in size to fit the available budget. Therefore, GLA investment will accelerate delivery of the scheme and unlock more homes than could be delivered without such funding.

#### Stakeholders / contractual arrangements

- 1.17 As counterparty in respect of the aforementioned intervention, LBBD will be the recipient of the non-recoverable grant funding and will enter into a Borough Intervention Agreement (BIA) with the GLA.

#### Appraisal

- 1.18 Project due diligence was undertaken by Cushman and Wakefield (C&W) to establish the appropriateness of LBBD's cost and value assumptions in relation to the Crown House scheme. Overall, LBBD's cost and value assumptions, detailed in Part 2 of this Director's Decision, were reported to be reasonable and in line with C&W's expectations.
- 1.19 Furthermore, the grant per affordable home of £13,889, calculated by dividing the total non-recoverable grant (£2 million) by the total number of affordable homes (144), is considered reasonable.

#### Dependencies

- 1.20 As detailed in section 1.11, comprehensive redevelopment of the Crown House site is dependent on the LBBD scheme and the Lightquote scheme being progressed together. Should this not be able to happen, then it is likely that both schemes will be delayed, their make-up revised due to the resulting impact on viability and the need to obtain planning permission before either scheme can progress independently.
- 1.21 The delivery of the scheme as proposed in this report also relies on the following: LBBD successfully acquiring 26 Linton Road; LBBD and Lightquote obtaining a joint planning permission to progress the scheme, agreement on the re-lease and ground rent on the Lightquote scheme site and overage provisions; relocation of the Baptist church community facility and car park within scheme; alternative provision for market traders' car parking; LBBD securing GLA Housing Zone non-recoverable grant funding and a preferential rate on public loan finance; highway works to help enable the scheme; timely procurement of a works contractor; and all of the above being in place so work can progress to the project milestones outlined in section 1.22.

#### Project milestones

- 1.22 LBBD and Lightquote are progressing a joint planning application for a comprehensive housing scheme across the site. Planning approval is anticipated at the latest by December 2019 while the appointment of a developer to deliver the affordable homes is expected to have occurred by March 2020, which would allow the affordable homes to start on site by March 2021. All 323 of the homes are forecast to be delivered by March 2025, with the Affordable Rent homes being developed by LBBD to be completed in March 2023.

#### Governance

- 1.23 The GLA will contract with LBBD 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.

- 1.24 The scheme will be delivered by Be First, a wholly owned subsidiary of LBBD, which was set up by them to accelerate economic growth and deliver regeneration in the borough. The completed scheme will be managed by Barking and Dagenham Reside, which is LBBD's affordable rented homes manager.

### Conclusion

- 1.25 In summary, the proposed Crown House scheme has the potential to accelerate and unlock housing supply, including a large proportion of affordable homes (45%), within the Barking Town Centre Housing Zone. However, without GLA Housing Zone funding totalling £2 million, delivery of the development is likely to be delayed or will not go ahead in its current form since LBBD is currently unable to identify alternative funding sources to plug the viability gap. The scheme will, therefore, not progress to the project milestones outlined in section 1.22 or be able to provide the same tenure mix as outlined in section 1.4 without GLA investment.

## **2. Objectives and expected outcomes**

- 2.1 The project will deliver a mixed-use development comprising 323 residential homes, of which 144 will be affordable, by March 2025. As part of the site's redevelopment, a Baptist church community centre will be re-provided, and a small amount of commercial space (for the creative industries and artists), public realm and parking will also be provided on the new scheme.

## **3. Changes to the Barking Town Centre Housing Zone**

- 3.1 LBBD has revised the number of homes to be delivered, its estimated start on site and completion dates for the delivery of these homes, and the funding interventions and payment timescales compared to the position set out in MD1457 and the Overarching Borough Agreement. Overall, however, the homes will still be delivered by March 2025, and the size and tenure mix of the proposed scheme and the amount of GLA funding required to deliver it have all markedly improved. The proposed total number of homes to be delivered is now 323, rather than 270, and the proposed total affordable homes to be delivered has increased to 144. The amount of funding required for the intervention has also been reduced by £1 million.
- 3.2 The proposed revised start on site and completion dates are set out in the tables below. 144 Affordable Rent homes will now start on site by March 2021, and the first completions are now due to be in 2022-23, rather than 2019-20.

### **Crown House, proposed revised start on site dates:**

	2020-21	2021-22	2022-23
<b>Affordable rent</b>	144	-	-
<b>Market rent</b>	-	-	179
<b>Total</b>	<b>144</b>	<b>0</b>	<b>179</b>

### **Crown House, proposed revised completion dates**

	2022-23	2023-24	2024-25
<b>Affordable rent</b>	144	-	-
<b>Market rent</b>	-	-	179
<b>Total</b>	<b>144</b>	<b>0</b>	<b>179</b>

- 3.3 In addition to the start on site and completion date changes, some of the grant payment details have been amended so that the funding is paid in tranches in 2018-19 and 2019-20, rather than between 2015-16 and 2017-18.

- 3.4 These changes amount to a Tier 2 change under DD1485 and as per the change management procedure set out in that DD they have been reviewed and recommended by the Housing Zone Steering Group on 27 February 2018.

#### **4. Equality comments**

- 4.1 In September 2017, the Mayor published the draft London Housing Strategy and in November 2017 he published the new draft London Plan for consultation. The Housing Strategy proposes the Housing Zone programme should continue to increase the pace and scale of housing delivery, including the proportion of affordable homes. The new draft London Plan, in policy H5, makes it clear that delivering more affordable housing is a key strategic priority for the Mayor.
- 4.2 This intervention will contribute towards the ambitions set out in the draft Mayor's Vision for a Diverse and Inclusive City (June 2017), in particular building more genuinely affordable accessible decent homes for Londoners (Priority Outcome 1.1).
- 4.3 Under section 149 of the Equality Act 2010, as public authorities, the Mayor and the GLA are subject to a public-sector equality duty and must have 'due regard' to the need to (i) eliminate unlawful discrimination, harassment and victimisation; (ii) advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and (iii) foster good relations between people who share a relevant protected characteristic and those who do not. Protected characteristics under section 149 of the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status.
- 4.4 Throughout the decision-making process relating to the funding of this intervention due regard has been had to the 'three needs' outlined above. The housing shortage in London disproportionately negatively affects people with certain protected characteristics. Increasing the supply of housing, and in particular affordable housing will help to achieve positive impacts in line with the 'three needs'.
- 4.5 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.
- 4.6 In order to access this funding LBBD will be required to enter a contract with the GLA to deliver the intervention specified in this Director Decision. This places the following obligations (or substantially similar obligations) on LBBD in respect of the Equality Act 2010:
- LBBD will 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 procure that all Grant Recipient Parties do likewise.
  - LBBD confirms that it has, and is in full compliance with, a policy covering equal opportunities designed to ensure that discrimination prohibited by the Equality Act 2010 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 the GLA.

#### **5. Other considerations**

- a) *key risks, issues and mitigation of these*

- 5.1 C&W highlighted a number of key risks associated with the project as well as recommendations on how these could be mitigated. These are detailed in Part 2 of this Director Decision.
- 5.2 The GLA has carried out 'know your customer' checks to verify the party with which it is contracting under this proposed transaction. LBBD 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: Civic Centre, Rainham Road North, Dagenham, RM10 7BN. LBBD has been a GLA investment partner since March 2012. The GLA will undertake formal identification and address verification for all signatories.
- b) *links to Mayoral strategies and priorities*
- 5.3 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 Crown House development will contribute towards meeting the Mayor's key strategic priority, set out in policy H5 of the new draft London Plan, to deliver more affordable housing, and to meeting the need for to provide 66,000 additional homes per year identified by the Strategic Housing Market Assessment (November 2017). All 144 affordable homes accelerated and unlocked by this intervention are required to start on site prior to 31 March 2021, thereby contributing to the Mayor's target to deliver 90,000 affordable housing starts by that date.
- c) *Environmental considerations*
- 5.4 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 designation 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 to contractually commit up-to £2m of non-recoverable grant funding to the London Borough of Barking and Dagenham (LBBD) towards land assembly and site preparation works within the Barking Town Centre Housing Zone. GLA obtained a satisfactory due diligence result from Cushman and Wakefield prior to reaching this decision (per findings set out above and in Part 2).
- 6.2 The total indicative allocation for the Barking Town Centre Housing Zone is £42.3m (MD1457), £7.8m of which has been committed as a mixture of Recoverable/non-recoverable grants and a Loan funding (DD2101) towards land assembly costs and to upgrade the Abbey Road.
- 6.3 The grant per affordable home of £13,889, calculated by dividing the total non-recoverable grant (£2 million) by the total number of affordable homes (144), is considered reasonable.
- 6.4 As it is a non-recoverable grant allocation, it represents a financial risk to the GLA, which is mitigated through contractual obligation from LBBD to repay the funding, on a pro-rata basis, in the event of non-delivery (see Part 2 for further details).

- 6.5 Grant/Recoverable Grant funding profile at £400m is currently over forecast by £20m. It should be noted, however, that only £193m (exclusive of the current commitment) has been committed on thirteen interventions. There is additional £47.28m that currently in the process of being committed on further five interventions, which will bring the total of committed and pending to £240.28m.

## **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 providing it considers 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.
- 7.2 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.
- 7.3 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 as set out above.
- 7.4 The GLA has engaged with the London Borough of Barking and Dagenham in relation to the intervention which is the subject of this Director Decision. 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.
- 7.5 External lawyers 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. No funding is to be paid out unless, amongst other requirements, London Borough of Barking and Dagenham solicitor has either provided an opinion (satisfactory to the GLA) as to the State Aid treatment of the intervention or undertaken to meet the GLA's reasonable legal costs in procuring an opinion from the GLA's solicitors as to the same matter. Further, if there is found to have been any unlawful State Aid, and the intervention cannot be restructured to be compliant, the London Borough of Barking and Dagenham must repay the unlawful State Aid following a written demand for repayment by the GLA.

## **8. Planned delivery approach and next steps**

<b>Activity</b>	<b>Timeline</b>
Completion of Borough Intervention Agreement	March 2018
Planning application submitted	May 2019
Planning approval obtained	December 2019
Physical Start on Site of the LBBD scheme	March 2021
Practical Completion of the LBBD scheme	March 2023
Physical Start on Site of the Lightquote Ltd scheme	March 2023
Practical Completion of the whole development	March 2025

### **Appendices and supporting papers:**

Appendix 1 – 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:**

Marianne Danielewicz has drafted this report in accordance with GLA procedures and confirms that:

✓

**Assistant Director/Head of Service:**

Fiona Duncan 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 19 March 2018

**EXECUTIVE DIRECTOR, RESOURCES:**

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

Signature

*M. J. Allen*

Date

20.3.18

