

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2079

Edgware Road Housing Zone: Church Street Phase One Intervention

Executive Summary:

This decision signs off due diligence undertaken in respect of the provision of £2,000,000 recoverable grant funding to Westminster City Council under Intervention One (Church Street Phase One) of the Edgware Road Housing Zone

Decision:

In accordance with the delegations agreed in MD 1545, that the Executive Director for Housing and Land and the Executive Director for Resources, after consulting with the Deputy Mayor for Housing and Residential Development:

- Agree that the outcome of due diligence, detailed in this report, demonstrates that it is appropriate for the Greater London Authority (GLA) to contractually commit to up to £2,000,000 of recoverable grant funding to Westminster City Council to fund the Church Street Phase One intervention specified in this report within the Edgware Road Housing Zone; and
- Agree the re-profiled number, tenure, completion and start on site dates for the delivery of the housing outputs, as detailed in this report, and
- note the deduction of £2,000,000 for this intervention from the grant budget for Housing Zones.

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

Signature:



Position: Executive Director Housing and Land

Date:

8.2.17

Name: Martin Clarke

Signature:



Position: Executive Director Resources

Date:

7.2.17

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The Edgware Road Housing Zone was designated in November 2015 under MD1545. The Mayoral Decision indicatively allocated £25.5m of recoverable grant to Westminster City Council (WCC) to unlock and accelerate the delivery of 1,113 additional homes by the end of the Housing Zone programme.
- 1.2 MD1545 indicatively allocated GLA funding to the Church Street Phase One intervention, but delegated authority to the Executive Director for Housing and Land and the Executive Director for Resources, after consulting with the Deputy Mayor for Housing and Residential Development, to sign off on the financial and legal due diligence.
- 1.3 On 17 March 2016, the GLA and WCC entered into an Overarching Borough Agreement to confirm the indicative allocation of funding for the Edgware Road Housing Zone. WCC will oversee delivery across the Housing Zone through implementing the governance arrangements outlined in the Overarching Borough Agreement.
- 1.4 Due diligence has now been undertaken in respect of the Church Street Phase One intervention, the findings of which are set out in this report and in Part 2 of this Decision.

Summary

- 1.5 The regeneration of the Church Street estate is the main focus of the Edgware Road Housing Zone. The Church Street Phase One intervention will see two key schemes on the estate deliver at least 158 new homes.
- 1.6 WCC has requested £2,000,000 to support infrastructure works to facilitate the accelerated delivery of older people accommodation at Lisson Arches. Lisson Arches is expected to provide 44 new, high quality, modern sheltered housing units to be let at affordable rents, as well as 14 units for private sale with restricted leases for over-55s. The scheme also includes enterprise space for entrepreneurs and start-up businesses to support the local economy.
- 1.7 The infrastructure works required to facilitate the Lisson Arches scheme involves the diversion of nine different utility services. It is being carried out by a specialist contractor, before procurement of a construction contractor, in order to de-risk and speed up the delivery of the scheme. If the works were included in the construction contract, the successful contractor would have had to negotiate the terms of the works with the utility providers itself, which would have added at least a year on to the estimated project timetable. De-risking the scheme ahead of appointing a construction contractor will also reduce the overall cost of the development, as it reduces the amount of uncertainty over potential costs.
- 1.8 Once Lisson Arches has completed, in 2019-20, residents currently living in the nearby Lilestone Street development will move into the new sheltered housing homes. Once vacant, the Lilestone Street site will be demolished and WCC office space will be developed on the site.
- 1.9 Once the Lilestone Street council offices have been completed, WCC staff currently working at the nearby Lisson Grove site will move into the new office provision. The existing Lisson Grove office complex site will then be demolished, and replaced with at least 100 new homes, 35 of which are expected to be for affordable home ownership. Both the Lisson Arches and the Lisson Grove homes are required outputs under this intervention.

Proposition

- 1.10 The Lisson Arches site will deliver 58 homes, including 44 sheltered housing homes, by March 2020. This development unlocks the Lilestone Street site, which in turn unlocks the Lisson Grove scheme, which will deliver at least 100 new homes by 2025, 35 of which will be for affordable home ownership.

Funding

- 1.11 GLA will provide up to £2,000,000 to WCC as recoverable grant with no interest, with the full amount to be returned to the GLA by March 2025.

Contractual Arrangements / Governance

- 1.12 The counterparty in this intervention is Westminster City Council, who will enter into a Housing Zone Borough Intervention Agreement (BIA) with the GLA.
- 1.13 GLA will contract with WCC and this relationship will be managed through quarterly meetings. The relationship will be led by a designated officer from the GLA's Housing and Land Directorate, with oversight from the Housing and Land Senior Management Team.

Due Diligence

- 1.14 Property due diligence on the Church Street Phase One intervention was undertaken by Lambert Smith Hampton (LSH), and further details are contained in Part 2 of this paper. The scheme carries a number of risks, which are considered in Part 2 of this report. LSH has however, confirmed that the principle of funding the intervention meets the GLA's objectives of unlocking and accelerating housing delivery

Conclusion

- 1.15 GLA investment of £2,000,000 recoverable grant reduces the upfront costs of delivering the Lisson Arches scheme for WCC, accelerating the delivery of 58 units on that site and consequently unlocking at least another 100 new homes on the Lisson Grove site. The Housing Zone funding will be returned to the GLA by 2025. Having had regard to LSH's findings, GLA officers have concluded that the recoverable grant award to WCC should be agreed and contracted via a BIA.

2. Objectives and expected outcomes

- 2.1 The project is expected to deliver a total of 158 new homes by 2025, as well as enterprise space. Of the 158 homes being delivered through the Church Street Phase One intervention, 79 are affordable homes.
- 2.2 There have been changes to the Church Street Phase One intervention since the approval of the Edgware Road Housing Zone in MD1545, with the intervention now delivering 26 more homes than previously anticipated. Initially, the housing outputs for the intervention were 132 homes comprising 62 affordable homes (51 affordable rent and 11 affordable home ownership) and 70 market sale homes. The revised proposal is that there will be 158 homes comprising 79 affordable homes (44 affordable rent and 35 affordable home ownership) and 79 market sale homes. As a result of this increase, and more market and affordable homes being developed elsewhere in the Housing Zone, the number of homes being delivered in the Housing Zone has increased from 1,113 to 1,700.

- 2.3 There have also been some changes to the delivery timescales for the housing outputs. The programme approved in MD1545 showed the earliest starts in 2015-16, with all homes starting by 2019-20, and 14 homes completing in 2017-18, 45 completing in 2019-20 and 73 completing in 2021-25. The revised programme has the earliest starts in 2018-19 with 58 homes completing in 2019/20 and 100 homes completing in 2021/25. Notwithstanding the slippage in timescales, WCC is using GLA funding to undertake significant infrastructure works ahead of the main works contract, therefore mitigating the risk of cost escalation and delays later on in the project. Housing delivery will not come forward within the revised, proposed timescales if GLA Housing Zone funding is not forthcoming. Furthermore, the longer repayment period enables WCC to fund further development and design costs across the wider Housing Zone programme. This will support design works on sites identified through the masterplanning process for which no budget provision exists. As sites are identified and the outputs quantified these will be brought into the Housing Zone programme. GLA funding is therefore still accelerating and unlocking housing delivery.
- 2.4 In accordance with the Housing Zones Change Management Process (DD1485), the changes to the affordable housing tenure and the delivery timescales were recommended for approval by the Housing Zones Steering Group in October 2016. It was agreed the request falls within a “Tier 2” pre-contract variation under the Change Management Process and therefore would 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 Edgware Road Housing Zone is, before being submitted for a Director Decision. GLA officers confirm that this process has been followed.

3. Equality comments

- 3.1 The Edgware Road Housing Zone will contribute towards the implementation of 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 the strategy. The policies related to increasing housing supply, to which the Church Street Phase One project will contribute, were covered by the IIA for the *Further Alterations to the London Plan* (March 2015).
- 3.2 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 the other policies of the Plan (e.g. Policy 3.5), ensuring that the needs of different groups are taken into account in 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 creating new homes and housing products as well as well-designed housing schemes.
- 3.4 The designation of an area as a Housing Zone is intended to identify an area with high potential for housing growth and delivery within London. The GLA Housing Zone designation and associated funding is often partnered with other funding streams and non-financial assistance, in order 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 new homes.
- 3.5 In order to access this funding, WCC will be required to enter into a contract with the GLA to deliver the intervention specified in this Director’s Decision. With regard to project delivery, the contract places the following obligations on WCC in respect of the Equality Act 2010:

- WCC shall 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 enforce the terms of the intervention related documents to ensure compliance with this clause.
- WCC has, and is 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 the GLA.

4. Other considerations

a) key risks

Financial risks

- 4.1 The risk of the GLA not recovering its £2,000,000 grant by 2025 is low.
- 4.2 Although the Lisson Arches scheme generates a deficit, it will be covered by surpluses generated from a number of other Westminster-led schemes in the Housing Zone that are due to complete in or before March 2020.
- 4.3 The repayment of the grant funding is not dependent on the completion of Lisson Grove in 2025. Should Lisson Grove either not complete or not generate a surplus, WCC has a significant number of assets and income which can be used to repay the GLA investment.

Delivery risks

- 4.4 Failure to deliver the completed homes at Lisson Arches by March 2020 puts at risk future delivery of at least 100 new homes at the Lisson Grove site by March 2025.
- 4.5 The risk that delivery of Lisson Arches is delayed is mitigated by GLA investment in the infrastructure works before the main development contract is signed, which removes the need for a contractor to negotiate with utility companies when appointed. Planning permission is already in place for the development, which further reduces the chance of delays. Although the complicated nature of the infrastructure works does pose risks in terms of delivery, March 2020 completion takes account of such risks and GLA officers are confident that the scheme should complete much earlier in 2019/20.
- 4.6 WCC is committing significant financial and project management resources in order to deliver the scheme well before March 2020. GLA will manage the risk on an ongoing basis, including through formal quarterly Housing Zone programme board meetings with WCC.

Know Your Customer

- 4.7 The GLA has carried out 'know your customer' checks to verify the party with which it is contracting under these proposed transactions. WCC 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: Westminster City Hall, 64 Victoria Street, London, SW1E 6QP. GLA officers have confirmed that the Authority has an official government website; 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.

State aid

- 4.8 The GLA's legal advisers have provided state aid advice in relation to this intervention. Further information on this is included in Part 2.

b) links to Mayoral strategies and priorities

- 4.9 The purpose of the Housing Zones Programme is to increase housing supply by accelerating and unlocking development to deliver 75,000 homes by 2026. The Church Street Phase One intervention will contribute to this and support the aim to deliver 42,000 homes per annum, as specified in the *Further Alterations to the London Plan* (March 2015).

5. Finance comments

- 5.1 Church Street phase one is included in MD1545 as a recoverable grant of £2,000,000.
- 5.2 The recovery of this grant is not relying on any overage, or external performance of the project or any other project, it must be contractually paid back to the GLA. The long stop date for this to be paid back is March 2025
- 5.3 It seems reasonable that the GLA make this recoverable grant, the project to take the diversion of the utilities on this site to reduce the risk, and therefore the price of the construction contract seem a reasonable action.
- 5.4 The grant rate per dwelling is £12,658 but this cannot be considered normal affordable homes grant as the monies are to be returned by March 2025 at the latest.
- 5.5 The GLA has used the term "recoverable grant" in relation to its Housing Zones programme where there is a requirement that the funding will be repaid but without a market rate of interest. This distinguishes it from "Financial Transaction" Housing Zone interventions where the GLA provides a loan at a market interest rate. Notwithstanding the terminology, however, for accounting purposes recoverable grant is a loan.

6. Legal comments

- 6.1 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 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.
- 6.2 The intervention will unlock and accelerate 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.
- 6.3 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, which are explained in paragraph 7.3 of the legal comments of MD1545. As is noted in paragraph 7.4 of MD1545, 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 MD1545).
- 6.4 The GLA has engaged with WCC in relation to the Church Street Phase One intervention. 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.

- 6.5 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).
- 6.6 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. Further comments are included in Part 2.

7. **Planned delivery approach and next steps**

Activity	Indicative Date
Complete Borough Intervention Agreement	November 2016
Housing Zone funds paid to WCC	January 2016
Infrastructure works completed	August 2017
Lisson Arches starts on site	May 2018
Lisson Arches completes	November 2019
Lisson Grove starts on site	September 2022
Lisson Grove completes	September 2024

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:

Andrew Williams has drafted this report in accordance with GLA procedures and confirms that:

✓

Assistant Director/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 6 February 2017.

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

7.2.17