

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION- DD2456

Community-led housing - Naked House

Executive Summary:

Naked House set up as community builders in 2013 through a not-for-profit Community Interest Company to unlock small under-used sites in London to build genuinely affordable homes for those on moderate incomes.

This Director's Decision seeks approval to provide recycled loan funding of £3,261,596, capital grant of £550,705 and revenue grant of £181,791 from the Community Housing Fund to Naked House Community Builders Community Interest Company. This will initially support the delivery of 22 affordable community-led homes (custom build) across three sites owned by the London Borough of Enfield.

Approval for the funding is sought through a Decision by the Executive Director, in line with the policy in Mayoral Decision (MD)2372, which delegates authority to the Executive Director to approve funding allocations from the Community Housing Fund.

Decision:

That the Interim Deputy Executive Director of Housing and Land approves:

Expenditure from the Community Housing Fund comprising:

- a recycled loan facility of £3,261,596 for Naked House Community Builders Community Interest Company to support the initial phase delivery of 22 affordable community-led (custom build) homes and, subject to satisfactory completion of further due diligence and the requirements of the Community Housing Fund, subsequent phases; and
- a capital grant of £550,705; and a revenue grant of £181,791 for the initial phase only.

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: Rickardo Hyatt

Position: Interim Deputy Executive Director of Housing and Land

Signature:



Date:

17 March 2020

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1. The Mayor is committed to increasing the supply of community-led housing (CLH), believing that Londoners should be able to play a leading role in building their own communities. His London Housing Strategy sets out a target to identify a pipeline of community-led schemes with capacity to deliver 1,000 homes by 2021.
- 1.2. To help achieve this, the Mayor funded the London Community-Led Housing Hub (MD2194) to provide support to community groups that wish to develop housing. The Mayor also secured £38m for London from the Government's Community Housing Fund (CHF) (MD2372). The Fund, which launched in January 2019, is being allocated through a programme of continuous bidding. It will be used to facilitate the delivery of community-led homes starting by April 2023. £30m of the CHF is allocated as capital funding and £8m as revenue. The £30m capital fund is administered by the GLA. £3.8m of the £8m revenue funding enables the London Community Led Housing Hub to support community groups at an early stage, with the GLA administering revenue grants for later stage pre-development costs
- 1.3. Naked House Community Builders was established by four young Londoners in 2013, who were renting in London, couldn't afford to buy and were uninspired by increasingly expensive shared ownership flats. They set up as community builders through a not-for-profit Community Interest Company to unlock small under-used, predominantly council, sites in London to build genuinely affordable homes for those on moderate incomes.
- 1.4. Naked House won the New London Architecture 'Housing Ideas' competition in 2015 with its 'Making More with Less' idea in partnership with LB Enfield, providing the land and award-winning architects Pitman Tozer providing the design expertise.
- 1.5. A Naked House flat or house is completed to a minimalist design. It is habitable and comes with electricity, heating and a basic bathroom. The homes are well designed and have high environmental performance. All Naked House homes are planning and building regulations compliant and can be bought with a high street mortgage. The homes come with few finishes, fittings or partitions; this allows the purchaser to create their own home over time. It enables this community of custom builders to create homes better suited to their needs.
- 1.6. London households are actively looking to build their own home either individually or as part of a community group with nearly 1,000 Londoners signed up to the Greater London Authority's pan-London register of demand for custom and self-build since April 2016.
- 1.7. In June 2016, London Borough of Enfield's Cabinet approved the delivery of a pilot programme of affordable, custom-build homes on small-scale council sites in the borough. In April 2019, the Cabinet approved a pilot scheme with the freehold disposal of several sites to Naked House based on affordable housing site valuations.
- 1.8. Naked House is currently proposing to develop 22 homes in the first phase of development across three sites, subject to planning permission. LB Enfield is currently finalising the legal documents and anticipates being in contract with Naked House by 30 April 2020. Naked House has also been working closely with LB Enfield looking to unlock a longer-term pipeline of 60 homeownership homes across seven other sites across the borough.
- 1.9. If the first phase is successful, LB Enfield has identified other sites that Naked House could develop. The loan facility will therefore be available to be recycled by Naked House to support the next phases of development, with the GLA's agreement (which would only be provided following further due diligence in respect of the proposed phase). The projected surplus from the first phase will be

available to support the pre-development costs of a subsequent phase, again with the GLA's agreement.

- 1.10. The homes are to be delivered as an affordable discounted market sale product, and the discount will be locked in to keep the property affordable in perpetuity for allocation to those who are priced out of the market, on terms to be agreed with the GLA. It is anticipated that the discount to market will be between 25-30 percent. The total sales income is projected to be between 70-75 percent of the gross development value.
- 1.11. Naked House's vision is to keep the product as affordable as possible, cutting back on design and build costs allowing the occupier to choose the internal specification and design. To ensure that each home is as affordable as possible, land costs, build costs and other professional fees will be shared between the individuals involved in each site. This model of collaborative working across individuals creates a strong sense of community, further enhanced by the inclusion of shared space which will be chosen by the occupiers and could be office space, events space or a café.
- 1.12. Naked House plan to set up as a Community Land Trust, which will hold the communal land in an 'asset lock' ensuring it will always be used for everyone's benefit in perpetuity. In the future Naked House will be able to share their learning and experience with other self-builders to discuss common problems and come up with collective solutions.
- 1.13. Naked House is seeking loan funding of £3,261,596, capital grant of £550,705 and revenue grant of £181,791 from the Mayor's Community Housing Fund, to kick-start the first phase of their development programme. The capital grant will be paid on start on site at £25,032 per house started, and the revenue grant will be used for pre-development revenue costs in line with the London Community Housing Fund Funding Prospectus. Naked House has secured funding from three lenders: CAF Venturesome, Big Issue Invest and Charity Bank but requires GLA funding to meet a shortfall in revenue and capital funding. The total grant and loan funding from the GLA and the Big Issue Invest GLA fund together will not exceed 75 per cent of the total development costs.
- 1.14. In 2017, capital grant to Naked House of £495,000 from the Mayor's Affordable Homes Programme (AHP) for this scheme was agreed by the GLA, in line with AHP approval delegation processes. However, since then there has been an 18-month delay in the project, due to a LB Enfield deciding to dispose of the freehold of sites as opposed to a long leasehold interest. As a result, Naked House has incurred and identified additional costs and the capital grant funding requirement has increased to £550,705. It is proposed that the original £495,000 plus the additional £55,705 will now come from the Community Housing Fund.
- 1.15. The project is delivering a home ownership product which is genuinely affordable. Therefore, no interest rate is to be charged on the loan.
- 1.16. The Naked House programme runs over three years and commences upon successful confirmation of funding streams and the project agreement being signed with LB Enfield. The programme allows 24 months for planning and pre-construction and 12 months for construction to shell and core stage. The start date depends upon financial and legal agreements being in place but is currently forecast for 30 April 2020. This allows a start on site by 31 October 2021 and practical completion to be achieved by 31 October 2022.
- 1.17. Naked House's bid has been assessed and moderated by officers and senior management in the Housing and Land Directorate according to the criteria outlined in the CHF prospectus and in line with the decision-making processes in place for the Fund.
- 1.18. Approval for the funding is sought through a Decision by the Interim Deputy Executive Director, in line with the policy in MD2372, which delegates authority to the Executive Director to approve funding allocations from the Community Housing Fund.

2. Objectives and expected outcomes

- 2.1. Londoners on modest incomes will be enabled to customise 22 of their own genuinely affordable homes sustainably and contribute to the community they live in. This will kickstart a pipeline of 60 further homes across seven other sites.
- 2.2. This funding will also enable the growth of a new housing provider, building on smaller sites, and a viable model for new homes that can be followed by others to accelerate the delivery of more affordable community-led housing.

3. Equality comments

- 3.1. Section 149(1) of the Equality Act 2010 provides that, in the exercise of their functions, public authorities must have due regard to the need to: Eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010; advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; and foster good relations between persons who share a relevant protected characteristic and persons who do not share it.
- 3.2. There is a chronic shortage of affordable housing in London and those with protected characteristics are more likely to disproportionately suffer as a result of that shortage. A full equality impact assessment was conducted to inform the development of the Mayor's London Housing Strategy. Community-led housing generally produces decent affordable homes and is often designed to help particular groups of people and to meet community need.
- 3.3. By encouraging and facilitating community-led housing which meets local communities' needs, the GLA hopes to create a positive impact in equalities terms and to advance equality of opportunity for those with protected characteristics who are currently disadvantaged by the housing situation in London.
- 3.4. To access the grant and loan funding, Naked House will be required to enter into agreements with the GLA, which place the following obligations on Naked House: to 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 to have, and fully comply with, a policy covering equal opportunities designed to ensure that discrimination prohibited by the Equality Act 2010 or which is made on any other unjustifiable basis is avoided at all times. Naked House will also provide a copy of that policy and evidence of the actual implementation of that policy upon request by GLA.

4. Other considerations

- 4.1. The counter-party to the funding agreements will be Naked House Community Builders Community Interest Company.
- 4.2. The 'Know Your Customer' due diligence process under the GLA's Anti-Money Laundering Policy has been completed against the counter-party, and those parties with a beneficial interest in it, and no areas of concern have been highlighted through that process.
- 4.3. Naked House has applied for Investment Partner status and has provisionally qualified as an Investment Partner limited to the delivery of this programme, and to be renewed annually. It is a condition precedent to the payment of funding under the loan that the company has qualified as an Investment Partner and retains that status.

Declarations of Interest

- 4.4. The officers involved in the drafting or clearance of this form do not have an interest to declare in accordance with the GLA's policy on registering interests which might, or might be seen to, conflict with this Director's Decision.

a) Key risks and issues

Risk description	Rating	Mitigating action
The project does not (yet) have planning permission from the London Borough of Enfield.	Low risk	Naked House have worked in partnership with the Council throughout the long development of their proposals and are entering an Agreement to purchase the Council- owned sites. One of the reasons why LB Enfield agreed to the project, is to meet the requirements of the National Planning Policy Framework which requires local authorities to identify suitable opportunities for both custom build and self-build. Accordingly, it proposes to appropriate the sites for planning purposes. The consensus within the Council should therefore be positive.
Pre-development revenue funding could be lost if the project does not progress to start on site.	Medium risk	<p>The grant agreement will contain clauses outlining that revenue funding is paid under a close monitoring regime.</p> <p>Sufficient evidence is required prior to grant being paid to enable GLA officers to be satisfied that the projects represent value for money. Sales value, cost and inflation assumptions will continue to be monitored throughout the development period.</p>

b) Links to Mayoral strategies and priorities

- Policy 5.3a of the Mayor's London Housing Strategy includes the following proposals:
'Working with councils and others, the Mayor will support Londoners to be involved in planning and delivering new homes. This will include:
 - i. setting a target to identify a pipeline of community-led housing schemes by 2021, with capacity to deliver at least 1,000 homes;
 - ii. supporting the expansion of community-led housing schemes through a new Community-Led Housing Hub for London; and
 - iii. investing in community-led housing schemes and lobbying Government for a share of the national Community Housing Fund.'
- Policies H2 and H12 of the Draft New London Plan include the following proposals:
Small sites should play a much greater role in housing delivery and boroughs should pro-actively support well-designed new homes on small sites through both planning decisions and plan-making in order to ... support those wishing to bring forward custom, self-build and community-led housing.

To determine the appropriate mix of unit sizes in relation to the number of bedrooms for a scheme, applicants and decision-makers should have regard to ... the potential for custom-build and community-led housing schemes.

c) Impact assessments and consultations

- 4.5. The GLA has engaged with Naked House and LB Enfield in relation to the proposal which is the subject of this report. 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's Decision.

5. Financial comments

- 5.1. This decision requests approval for expenditure from the Community Housing Fund for Naked House Community Builders Community Interest Company to support the delivery of 22 affordable community-led homes. The expenditure comprises of: -
- a loan of £3,261,596
 - capital grant of £550,706; and
 - a revenue grant of £181,791
- 5.2. The funding is expected to be made in 2020/2021 and if Naked House do not propose to recycle the loan into additional schemes prior to or on the repayment date, the amount of £3,261,596 is to be fully repaid in 2022/2023.

6. Legal comments

- 6.1. The provision of financial assistance (including grant and loan funding) to facilitate community-led housing is permissible under sections 30(1) and 34 of the Greater London Authority Act 1999 (the GLA Act), if the GLA considers that doing this will further one or more of the GLA's principal purposes of: promoting economic and social development in Greater London and improving the environment in Greater London. The foregoing sections of this report indicate that it is open to the Director to take the view that the provision of this grant and loan to Naked House will promote economic and social development in Greater London.
- 6.2. In determining whether or how to exercise the power conferred by section 30(1) of the GLA Act, the GLA must:
- (i) have regard to the effect that these decisions will have on the health of persons in Greater London, health inequalities between persons living in Greater London, the achievement of sustainable development in the United Kingdom and climate change and its consequences (sections 30(3-5) of the GLA Act);
 - (ii) pay due regard to the principle that there should be equality of opportunity for all people (section 33 of the GLA Act); and
 - (iii) have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and persons who do not share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010).
- 6.3. In this respect regard should be had to section 3 above.

- 6.4. Officers must ensure that all necessary and appropriate steps are taken, and suitable funding agreements entered into with Naked House to formalise the provision of the grant and loan funding, including requirements regarding state aid compliance, before committing to the same.

7. Planned delivery approach and next steps

- 7.1. The next step, subject to this decision, would be to sign the facility agreement and the supporting documents, and the completion of an intercreditor agreement for that lending. This would allow Naked House to start drawing funds on the pre-planning works for the sites.
- 7.2. The timetable should therefore be as follows:

Activity	Timeline
Signing the facility agreement and supporting documents	By 30 April 2020
Submit the planning application	By 31 December 2020
Start on site of 22 affordable homes	By 31 October 2021
Repayment in full of the loan facility (if not recycled before repayment date)	By 31 December 2022

Appendices and supporting papers:

None.

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) 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 it has been approved 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 – Sensitive information

Only the facts or advice that would be exempt from disclosure under FoIA should be included 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:

Rebecca Cheetham has drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director:

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

This decision was agreed by the Corporate Investment Board on 16 March 2020.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Blö

Date

16.3.20