

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2747

Title: Barking Riverside Limited Mayor's Land Fund investment

Executive Summary:

Barking Riverside Limited (BRL) is a joint venture (JV), the shares in which are owned 49 per cent by GLA Land and Property Limited (GLAP) and 51 per cent by London & Quadrant Housing Association (L&Q).

GLAP invested in BRL to unlock the delivery of 10,800 homes on London's largest brownfield housing site, as well as schools, retail, leisure and social infrastructure, and new transport infrastructure in the form of an extension of the London Overground line to Barking Riverside. The development of the former industrial site is progressing, with over 1,500 homes now complete as well as new schools and community facilities. The investment was originally made through English Partnerships then transferred to GLAP, and MD1594 approved changes to the BRL JV in 2016.

The JV is now seeking further investment from GLAP and L&Q to continue the development of the site and ensure plot remediation, site infrastructure and placemaking is progressing at pace. The provision of GLAP loan investment and GLAP shareholder investment will ensure that the site continues to deliver at pace and that maximum value growth is achieved. This will be funded from the Mayor's Land Fund as approved by Mayoral Decision (MD) 2207.

Decision:

The Mayor approves:

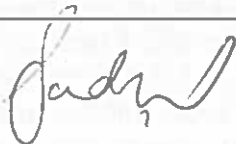
1. GLA Land and Property investing £39,023,246 in Barking Riverside Limited from the Mayor's Land Fund to deliver the Barking Riverside site.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

10/3/21

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

Background information

- 1.1. Barking Riverside Limited (BRL) is a joint venture (JV), the shares in which are owned by GLA Land and Property Limited (GLAP) (49 per cent) and London & Quadrant Housing Association (L&Q) (51 per cent).
- 1.2. Barking Riverside is a flagship Mayoral project transforming a disused power station site into a new place to live and work. The development will provide much needed housing supply on a large scale, including significant affordable housing. The regeneration project continues to push boundaries and demonstrate delivery, maintaining 50 per cent affordable housing in order to deliver in line with housing need.
- 1.3. The purpose of the JV is to prepare the Barking Riverside site for redevelopment, providing serviced development plots for house builders and essential physical infrastructure including highways, utilities, public realm and community facilities. The JV owns the site and has secured consent for development of the multiple phases of the scheme to deliver a total of 10,800 new homes along with seven schools, a new district centre and associated infrastructure.
- 1.4. The regeneration of Barking Riverside is underway, with over 1,500 homes already completed, two new primary schools, a secondary school, a community centre and shops, along with an extension to the Gospel Oak Overground line to connect to Barking Riverside.
- 1.5. GLAP has invested in the creation of BRL by the purchase of shares. This investment was initially funded through English Partnerships, then transferred to GLAP. As set out in MD1594 and MD1565 a total of £172 million, including a £48 million junior loan facility from GLAP, was made available by the JV partners to fund the extension of the rail line and new station at Barking Riverside. Transport for London (TfL) committed to funding the remaining estimated £91 million required to deliver the extension.
- 1.6. In MD1594, the GLA committed up to £75 million Recycled Capital Grant Funding (RCGF) funding to L&Q, of which £45 million was expected to be used on development costs on the Barking Rail Extension. In 2019, DD2429 approved a further £10 million grant from the Accelerated Construction Fund to cover a shortfall for items that materialised from the rail extension works risk register. This was approved on a pari-passu basis with TfL also investing £10 million to cover the risk items.
- 1.7. In March 2020 Homes England committed to a £56 million funding package supporting the provision of services, roads and social infrastructure, as well as helping unlock previously challenging areas of the site, increasing potential capacity by an additional 1,000-2,000 homes. The Homes England funding is recoverable only if BRL reach an internal rate of return (IRR) target of 8 per cent across the site. This funding and the potential repayment are included in the financial modelling for the project.

Project progress and current financial position

- 1.8. The key objective of the development of Barking Riverside is the delivery of housing, particularly affordable housing. However, when this project started the main part of the site (263 acres) was a major power station, with the remaining parts of the site being a former domestic tip and allotments. Furthermore, access to the site was largely reliant on an inadequate road infrastructure and remote access to public transport connections. To enable delivery of housing, the site required significant works to deal with ground clearance, remediation, demolition, service diversions, new infrastructure and servicing.

- 1.9. Due to the scale of the infrastructure and preparation work required for the site, this was the focus once the JV was set up and operating. Delivery to date includes remediating 40 per cent of the land, developing utilities, roads and drainage to service all plots, and a district heat network. Placemaking work is also taking place in parallel and includes walkways, cycle paths, green space and wetlands, vital for the growth in value to support the business plan.
- 1.10. The Barking Rail Extension, an extension of the Overground line from Gospel Oak to Barking, is currently under construction. Services are due to commence in late 2022, which will further increase the connectivity of the area, likely resulting in an increase in the value of units on the Barking Riverside development. Additional connectivity has been confirmed through the Uber boat by Thames Clipper servicing the site from 2021.
- 1.11. Following this initial focus on infrastructure, delivery of housing on the site has accelerated and to date 1,500 homes have been completed and land for a further 1,025 homes has been sold to Bellway and L&Q. Infrastructure works on plots for a further 506 units is ongoing. These further plots are planned for sale in the next 12 months.
- 1.12. The BRL Business Plan has been produced to deliver the vision and ambition of the Board and shareholders and delivers land parcels to market significantly faster than other comparable schemes. The business plan is based on selling serviced land parcels to deliver around 750 homes a year. This unprecedented level of delivery, designed to take advantage of the value uplift on the site and aligned with the opening of the new station, has been tested with the market and with independent advisors.
- 1.13. The last year has been challenging for BRL. The COVID-19 pandemic resulted in a delay of plot sales due the lockdown that was imposed in March 2020. This specifically affected the handover of plots from BRL developers and led to the site being shut down. Remobilisation and reprogramming of the works following lockdown also resulted in difficulties, particularly bringing subcontractors back on to site when they had planned work elsewhere. Issues in the housing market related to COVID-19 have further impacted the build rate planned by the developers.
- 1.14. Plot sales is the key source of income for BRL, and the delays on the original business plan have led to predictions of cash flow shortages in 2022/23. This has resulted in a call for additional equity from both GLAP and L&Q, and some changes in the structure of the investment to date. There are no changes proposed to the legal structure of BRL, or the 49 per cent interest that GLAP holds.

Investment proposal

- 1.15. BRL has conducted a cost review to assess spending required to March 2025. This has confirmed the total amount of funding required to continue to deliver homes significantly faster than comparable schemes, with 50 per cent affordable housing and high-quality standards. This cost review highlights a shortfall of £60 million required to fund investment in various projects including physical core infrastructure and social infrastructure.
- 1.16. In order to continue the current rate of development, BRL is seeking additional investment from both L&Q and GLAP, along with some changes to the type of security held by each partner. This investment is required due to funding shortfalls at this point in the business plan but is predicted to provide returns based on land sales and value uplift later in the project.
- 1.17. The funding focuses on four key parts of the site: completing Stage 2 North, unlocking Northgate East, unlocking Site H and the District Centre. The other areas of spend in the next three years include sitewide infrastructure, section 106 requirements and overheads. Drawdown of the funding would be between March 2022 and July 2023 with repayment forecast to start in 2032.
- 1.18. Without this funding, BRL would need to review the business plan and halt much of the work on the site. This would impact BRL's ability to let contracts in early 2021, and therefore impact the remediation of land almost immediately.

- 1.19. This investment will come from the Mayor's Land Fund which was approved through MD2207. This MD delegated authority to the Executive Director of Housing and Land to approve, via a director decision form and subject to approval from the Mayor's Land Fund Investment Committee, land fund investments unless the investment is considered to be novel, contentious or repercussive at which point it should be approved through a Mayoral Decision. In accordance with this, because this investment is into a JV part owned by the Mayor, this approval is progressing as a Mayoral Decision. The Land Fund Investment Committee has been consulted and supports the proposals in this Mayoral Decision form.

2. Objectives and expected outcomes

- 2.1. The overarching objective is to continue the realisation of the delivery of at least 10,800 new homes at Barking Riverside, of which no less than 50 per cent will be affordable. The investment is also forecast to provide a return on the Mayor's Land fund from 2030 onwards.
- 2.2. The Barking Riverside development, supported by this funding, has overall outputs of:

Homes: 10,800-12,800¹ homes commenced by 2034, a minimum of 50 per cent of which will be affordable.

Jobs: 2,232 permanent jobs, including a new district centre.

Schools: a secondary school, five new primary schools and a special needs school.

Infrastructure: a new Barking Riverside Overground station and accompanying extension to the existing Overground line, along with new roads, District Heat Network and green space.

3. Equality comments

- 3.1. Under section 149 of the Equality Act 2010 (the "Equality Act"), as a public authority, the GLA must have 'due regard' to the need to eliminate unlawful discrimination, harassment and victimisation, and to advance equality of opportunity and foster good relations between people who share a protected characteristic and those who do not. Protected characteristics under the Equality Act comprise age, disability, gender re-assigned, pregnancy and maternity, race, religion or belief, sex, sexual orientation and marriage or civil partnership status.
- 3.2. When considering the needs of the existing community and those that will be affected by the proposed development works (both currently and in the future development scheme), any development activity will look to minimise disadvantages to all protected characteristics group within society. This decision is therefore expected to have positive impacts on persons with a protected characteristic under the Equality Act, as building market confidence in the scheme and increasing the supply of housing in London through the wider development of the Barking Riverside project will help to address problems such as overcrowding and homelessness, which evidence indicates disproportionately affect specific groups, including Black, Asian, Minority Ethnic groups and women.
- 3.3. In the English Indices of Deprivation 2019, the London Borough of Barking and Dagenham (LBBD) was ranked as the most deprived London Borough based on the population weighted average level of deprivation. LBBD also has the highest proportion of children (0-17) in the UK: almost three in ten residents (29.8 per cent) are under 18². Due to these demographics, the need for affordable housing and particularly family sized affordable homes in the Borough is high. Barking Riverside is focusing on provision of affordable homes and family homes, and the seven schools being built on the site will help to service the needs of families in the area.

¹ The current planning consent is for 10,800 homes, but using the additional Homes England investment, BRL will be seeking approval for a further 2,000 homes.

² Joint Strategic Needs Assessment 2018, LBBD

- 3.4. Barking Riverside has been classified a 'Healthy New Town' development and the vision is to apply the latest health and social care research and practice, working with community groups. Barking Riverside will develop new social infrastructure including a health and wellbeing hub, and walkways, cycleways and public transport links will encourage active travel. The delivery of high-quality housing will also promote improved health and wellbeing, given evidence of an association between poor housing conditions and poor health.

4. Other considerations

Risks

- 4.1. The major risk of this investment is the delivery risks associated with the Barking Riverside project. External factors that impact value growth, including impacts of Brexit and the UK's trading relationship with the EU and the COVID-19 pandemic affecting the London housing market, will have an impact on the expected return. In order to mitigate this, BRL has sought independent advice on estimates of sales value uplift, ensuring that assumptions have been validated and are that values are comparable with other schemes. Independent due diligence conducted in January 2021 assessed the assumptions in the business case and confirmed that the value uplift estimates are at the lower end of predictions based on comparable schemes.
- 4.2. L&Q and Bellway have option agreements in place to buy the plots that are remediated by BRL. Therefore, any slowdown in demand for plots or build rates from Bellway and L&Q will impact the current programme. Third party developers could be brought in to buy the plots, however as each must be offered to Bellway and L&Q first, this would still result in delays. In order to mitigate this, BRL continue to test the assumptions of the business plan with both Bellway and L&Q, and are closely tracking the delivery of relevant infrastructure, particularly the train station. BRL are also working with Bellway and L&Q to closely monitor build rates and costs and have consulted with both developers on the planned build rate. GLAP representatives also have oversight of progress as part of the oversight performed by the BRL Board.
- 4.3. There is a risk that the investment does not provide returns in line with the Mayor's Land Fund commercial targets. More information on independent due diligence is provided in Part 2 of this decision form.
- 4.4. The completion of the train station is vital for the project. This will improve the connectedness of the development and will be a key factor increasing the land value of the site. TfL has confirmed commitment to the delivery of the rail line and confirmed additional funding in December 2020, addressing funding concerns regarding the project. The rail extension is due to commence service in 2022.
- 4.5. Legal risks on the investment include the complexity of the contracting required. The contracting will require a new agreement for the loan notes, syndication of the senior debt and a new Intercreditor Agreement. The terms of how the senior debt works with both L&Q and GLAP holding this instrument require agreement, and the intercreditor is complex as Homes England is also party to this agreement.
- 4.6. There are risks associated with the JV partner L&Q, and the possibility that they don't support the investment. Governance at the BRL Board level is structured so that both L&Q and GLAP have three representatives. The result is that any decisions that cannot be agreed between the two parties reach a stalemate position. The negotiation then proceeds between the CEO of L&Q and the Executive Director of Housing and Land (neither of whom are BRL Board members). In the case of a deadlock on a major issue, either party is entitled to serve notice to acquire the other's interest in the JV for market value.

Links to Mayoral strategies and priorities

- 4.7. The delivery of Barking Riverside is one of the Mayor's key housing projects. As such, the project contributes to the delivery and realising the vision of the London Plan, Mayor's Housing Strategy and the Mayor's Transport Strategy.
- 4.8. The Mayor's Equality, Diversity and Inclusion Strategy was issued in May 2018. The first chapter of this document is entitled "A Great Place to Live". Priority outcome 1.1 in the vision refers to delivering affordable, accessible and decent homes. This funding will help to deliver new affordable homes in London.

Consultations and impact assessments

- 4.9. The vision and masterplan for Barking Riverside was part of an extensive consultation process which culminated in approval of the original Planning Permission (08/00887/FUL) and subsequent Variant Planning Permission (16/00131/OUT).

Other considerations

- 4.10. As detailed in the Mayoral Decision-Making document (published November 2020), Greater London Authority Land and Property Ltd (GLAP) is the Mayor's subsidiary company established to manage all land related transactions, including and primarily the acquisition and disposal of land.
- 4.11. The Chief of Staff, the Deputy Mayor for Housing and Residential Development, the Executive Director for Resources, the Executive Director for Housing and Land, and the Assistant Director for Strategic Projects and Property are Directors of GLAP and responsible for financial decision making for the company.
- 4.12. In parallel, the Deputy Mayor for Housing and Residential Development and the Head of Area – North East London are appointed Directors of Barking Riverside Limited (BRL).
- 4.13. As this Mayoral Decision proposes the passing of funding from the GLA or GLAP to BRL, there is a potential overlap of responsibilities for the Deputy Mayor for Housing and Residential Development.
- 4.14. On that basis, the following steps have been taken in order to ensure a clear differentiation of roles and decision-making responsibilities:
 - The Head of Area – North East London, has recorded a potential conflict of interest as part of the Barking Riverside Ltd Board proceedings, and will absent them self from any decision making by BRL related to this issue in order that they can review this Mayoral Decision and provide advice and information to GLAP and the GLA.
 - The Deputy Mayor for Housing and Residential Development is not involved in the drafting or clearance of this Mayoral Decision in order that they can continue to act on the BRL Board.
- 4.15. There are no other conflicts of interest to declare for those involved in the drafting or clearance of this decision form.
- 4.16. The Land Fund Investment Committee and Interest Rate Setting Board were consulted as part of this decision.

5. Financial comments

- 5.1. This proposal seeks approval for a £39.02 million investment in Barking Riverside Limited. This funding will be used to continue the realisation of the delivery of at least 10,800 new homes at Barking Riverside, of which no less than 50 per cent will be affordable.

- 5.2. The investment is forecast to provide a return to GLAP from 2030 onwards, towards the end of the development of the Barking Riverside site.
- 5.3. The interest rate on the loan will be taken to the Interest Rate Setting Board for confirmation.
- 5.4. The loan will be financed from the £250 million Mayor's Land Fund.

Chief Investment Officer's comments

- 5.5. Internal and independent external review confirm that the expected return on this investment, viewed in the round, i.e. the interest on the new loans taken together with the incremental impact on the GLA's expected equity returns, are commensurate with the investment risks and the corresponding targets of the Mayor's Land Fund. On receipt, the incremental dividends identified should be transferred to the GLA General Fund, alongside the loan interest, in compensation for the risk borne by corporate cash balances, or alternatively, if the GLA's liquidity position allows, recycled within the Mayor's Land Fund.
- 5.6. In light of the above, if the GLA is successful in securing third party investment alongside the Mayor's Land Fund and the GLA proposes to transfer this investment into any pooled vehicle, the loan notes together with a negotiated percentage of the GLA's BRL shares will need to be contributed in order to meet expected return hurdles.
- 5.7. Proposed security is substantial and value growth assumptions are prudent; the principal risks therefore centre on delivery at the pace outlined in the business plan. Assiduous monitoring and regular reporting to the Land Fund Investment Committee are therefore essential.
- 5.8. To date, Mayor's Land Fund investments have been financed through cash within GLAP. If GLAP assumptions change and this investment requires a transfer of cash from the GLA, this should be done in the first instance through loans to GLAP, reflecting the nature of the transaction as an investment rather than a capital spending decision.

6. Legal comments

- 6.1. The foregoing sections of this report indicate that the decision requested of the Mayor falls within the discharge of the GLA's housing and regeneration functions contained in Part 7A of the Greater London Authority Act 1999 (the "GLA Act"); and concerns the exercise of the GLA's general powers under sections 30 and 34 of the Act falling within the GLA's statutory powers to do such things considered to further or which are facilitative of, conducive or incidental to the promotion of economic development and wealth creation in Greater London; and in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:
 - pay due regard to the principle that there should be equality of opportunity for all people;
 - consider how the proposals will promote the improvement of health of persons, health inequalities persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
 - consult with appropriate bodies.
- 6.2. In taking the decisions requested, the Mayor must 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). To this end, the Mayor should have particular regard to section 3 (above) of this report.

7. Planned delivery approach and next steps

Activity	Timeline
Approval of finance from the Mayor's Land Fund	March 2021
Completion of contract with Barking Riverside Limited	April 2021
Funding made available	May 2021

Appendices and supporting papers:

Appendix 1 – Barking Riverside site plan

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: N/A

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:

Cathryn McCarthy has drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

Rickardo Hyatt has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Jules Pipe has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on the 8 March 2021

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

Date



9 March 2021

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

Date



8 March 2021

