GREATER**LONDON**AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2101

Title: Barking Town Centre Housing Zone, London Borough of Barking and Dagenham – Gascoigne West

Executive Summary:

This Director Decision seeks approval to:

- sign off due diligence undertaken in respect of the Gascoigne West interventions that the GLA proposes to fund in the Barking Town Centre Housing Zone; and
- enter into two Borough Intervention Agreements with the London Borough of Barking and Dagenham to provide such funding.

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:

1. agree that the outcome of due diligence, detailed in this report, demonstrates it is appropriate for the GLA to contractually commit non-recoverable grant funding of £4.3 million and recoverable grant funding of £3.5 million, of which up to £1 million may be used as a loan to fund design fees, to the London Borough of Barking and Dagenham to fund the three interventions specified below within the Barking Town Centre Housing Zone;
2. agree the re-profiled start on site, completion dates for the delivery of the housing outputs, and timing for funding payments as detailed in this report;

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.
It has my approval.

Name: David Lunts

Position: Executive Director Housing and Land

Signature: D Lunts

Date: 04/04/17

Name: Martin Clarke

Position: Executive Director Resources

Signature: M. D. Clarke

Date: 4. 4. 17

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

1.1 The Barking Town Centre proposal 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 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 three proposed Gascoigne West interventions, the conclusion of which is set out below and in Part 2 of this Director Decision. It is proposed that the three interventions will be implemented by the GLA and LBBD entering into two separate contractual agreements known as Borough Intervention Agreements.

<u>Summary</u>

1.4 The non-recoverable grant, recoverable grant and loan-funded interventions proposed by LBBD for the Gascoigne West scheme are required to fund land assembly costs and to upgrade the Abbey Road (running adjacent to the Gascoigne West site), which will assist in unlocking 850 homes by March 2025 comprising:

- 500 (59%) homes for market sale – 416 excluding demolitions; and
- 350 (41%) affordable homes – 254 excluding demolitions – comprising 50 First Steps (shared ownership) homes and 300 Affordable Rent homes. All 350 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.

<u>Proposition</u>

1.5 LBBD is proposing to regenerate and increase the density of the Gascoigne West estate, which is located in the southwest of the Barking Town Centre Housing Zone, by delivering 850 new homes to replace the existing 180 low-density homes. Of the 180 homes to be demolished, 96 are affordable, which will result in a net gain of 254 affordable homes at scheme completion. In order to unlock the new development and improve the immediate environment along one side of the new scheme, LBBD is also proposing to undertake road and drainage infrastructure along the Abbey Road, which runs adjacent to the site.

1.6 As illustrated in the table below and in the Gascoigne West Phasing Plan attached at Appendix 1, the development will be split across three phases. LBBD owns the freehold to the site and proposes to procure a developer through the London Development Panel (LDP) to partner with them and deliver all three phases of the Gascoigne West scheme.

	Private Units	Affordable Units			
	Market Sale	First Steps	Affordable Rent	% Affordable Housing	Total
Phase 1	125	0	100	**44%**	225
Phase 2	125	0	100	**44%**	225
Phase 3	250	50	100	**38%**	400
Total	**500**	**50**	**300**	**41%**	**850**

Funding

1.7 To enable this project, LBBD is requesting a total of £7.8 million in GLA Housing Zone funding for three interventions. The first intervention ('Intervention 1') is a non-recoverable grant of £3.3 million and the second ('Intervention 2') is a recoverable grant of £3.5 million. Both are required to fund land assembly, i.e. the buy-back of 80 private leasehold units on the estate and the associated basic loss payments or home loss and disturbance payments. Of the £3.5 million recoverable grant in GLA investment relating to land assembly, LBBD will use up to £1 million (to be treated as a non-interest bearing loan) to fund early design fees, which will help it to accelerate the leaseholder buy-back process. If it wishes to, LBBD may request that the GLA considers an offer to reapply the loan funding as recoverable grant to contribute towards the cost of the buy-backs (which the GLA may refuse or accept in its absolute discretion). Each phase of the scheme will generate a sales receipt which LBBD will use to fund leaseholder buy-backs on the next phase, with the £3.5 million recoverable grant/loan to be repaid to the GLA by 31 March 2024.

1.8 The third intervention ('Intervention 3') is a £1 million non-recoverable grant to fund new road and drainage infrastructure along Abbey Road, which runs adjacent to the Gascoigne West site. The road is in an extremely poor state of repair and the upgrade works are necessary to serve the new development as well as to improve the immediate environment along one side of the new scheme.

1.9 The GLA's Housing Zone funding, in conjunction with finance that LBBD will obtain from other sources, will allow LBBD to fund the upfront cost of the leaseholder buy-backs and design fees. This will unlock the potential of currently low-density housing and accelerate the delivery of the Gascoigne West scheme, which would not otherwise happen without GLA Housing Zone funding, as LBBD cannot identify sufficient alternative funding sources to acquire the leasehold interests. In addition, the GLA's investment will unlock a greater proportion of affordable housing than the development market would be likely to deliver without it.

Stakeholders / Contractual Arrangements

1.10 As counterparty in respect of the aforementioned interventions, LBBD will be the recipient of both the non-recoverable and recoverable grant funding (including the loan for design costs) and will enter into two Borough Intervention Agreements (BIAs) with the GLA. The first BIA will relate to funding for Interventions 1 and 2; the second BIA will relate to Intervention 3.

Appraisal

1.11 Project due diligence was undertaken by Cushman and Wakefield (C&W) to establish the appropriateness of LBBD's financial assumptions in relation to the Gascoigne West scheme. Overall, LBBD's cost and value assumptions, detailed in Part 2 of this Director Decision, were reported to be reasonable and in line with C&W's expectations.

Project Milestones

1.12 LBBD has started buy-back discussions with leaseholders and has appointed architects to work on the scheme's design. It has forecast that vacant possession of the whole site will be achieved by March 2021. Planning for each phase of the scheme will be sought by a development partner, which LBBD intends to procure through the LDP by December 2017 (for Phases 1 and 2) and July 2019 (for Phase 3). Planning, start on site and practical completion of the homes will occur in three phases, with the first homes starting on site in September 2018 and the final homes completing by March 2025. LBBD will be required to repay the GLA the recoverable grant funding totalling £3.5 million by March 2024.

Governance

1.13 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.

Conclusion

1.14 In summary, the proposed Gascoigne West interventions have the potential to unlock housing supply, including a large proportion of affordable homes (41%), within the Barking Town Centre Housing Zone. Without GLA Housing Zone funding (totalling £7.8 million), delivery of the development is unlikely to take place as LBBD is currently unable to identify sufficient alternative funding sources for acquiring the extensive leasehold interests as set out above. Without this investment, it is unlikely that the 41% of affordable housing proposed for the scheme by LBBD would be viable. The scheme will, therefore, not progress to the project milestones outlined in paragraph 1.12 or be able to provide the same tenure mix as outlined in paragraph 1.6 without GLA investment.

2. Objectives and expected outcomes

2.1 The project will deliver a mixed-use development comprising 850 residential units and an upgrade of the Abbey Road, including new road and drainage infrastructure improvements, by March 2025.

3. Changes to the Barking Town Centre Housing Zone

3.1 LBBD has revised a number of its estimated start on site and completion dates compared to the position set out in MD1457 and the Overarching Borough Agreement. Overall, however, the units will still be delivered by March 2025 and the amount of funding for the interventions remains the same.

3.2 The proposed revised start on site and completion dates are set out in the tables below. The first completions are now due to be in 2019-20, rather than 2018-19, and First Steps completions will now be in 2023-24, rather than from 2018-19.

Gascoigne West, proposed revised start on site dates:

	2018-19	2019-20	2020-21	2021-22
Affordable rent	100	100	100	-
Market sale	125	125	150	100
First Steps	-	-	50	-
Total	**225**	**225**	**300**	**100**

Gascoigne West, proposed revised completion dates:

	2019-20	2021-22	2023-24	2024-25
Affordable rent	100	100	100	
Market sale	125	125	150	100
First Steps	-	-	50	-
Total	**225**	**225**	**300**	**100**

3.3 Where the revised dates represent 'annual movements within 2015-18 or within 2018-25' they constitute minor 'Tier 1' pre-contract variations under the Housing Zones Change Management Process (DD1485), and have therefore been subject to review by the Senior Housing Zones Manager and agreed in principle by the relevant Head of Area, prior to being submitted for formal approval in this Director Decision.

3.4 Where some of the completion dates are proposed to move beyond one year, such changes were recommended for approval by the Housing Zones Steering Group in July 2016 and February 2017. It was agreed the request falls within a 'Tier 2' pre-contract variation under the Change Management Process, and would therefore require Housing Zones Steering Group review followed by agreement in principle by the Assistant Director – Programme Policy and Services, or in their absence a Head of Area other than the Head of Area in whose area the Barking Town Centre Housing Zone is, before being submitted for a Director Decision.

3.5 In addition to the start on site and completion date changes, some of the grant/loan payment details have been amended so that some of the funding is paid out a year later than was originally set out in the Overarching Borough Agreement. These changes constitute minor 'Tier 1' pre-contract variations under the Housing Zones Change Management Process (DD1485), and have therefore been subject to review by the Senior Housing Zones Manager and agreed in principle by the relevant Head of Area, prior to being submitted for formal approval in this Director Decision.

3.6 GLA officers confirm that these processes have been followed.

4. Equality comments

4.1 The Barking Town Centre Housing Zone is aimed at implementing 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 that strategy. The policies relating to increasing housing supply, to which the Gascoigne West scheme will contribute, were covered by the IIA for the *Further Alterations to the London Plan* (March 2015).

4.2 The IIA concluded that updating housing projections and targets would support the delivery of sufficient housing and may help to stabilise housing prices, supporting equal opportunities throughout communities. Furthermore, the provision of housing, including maximising the delivery of affordable housing would be in line with other policies of the Plan (e.g. Policy 3.5), ensuring that the needs of different groups are taken into account in the housing design.

4.3 The delivery of new and additional homes will help to implement Objectives 1, 2, 3 and 4 of the Mayor's Equalities Framework "Equal Life Chances for All" (June 2014) through the creation of new homes, housing products and well-designed housing schemes.

4.4 The designation of a Housing Zone within an area is designed to identify a site or sites as an area for housing growth and delivery within London, often partnered with a series of funding streams and non-financial assistance to deliver these new homes, and therefore this decision will facilitate these goals and ultimately ensure that the needs of different groups are taken into account in the design and development of housing.

4.5 In order to access this funding, LBBD will be required to enter into two contracts with the GLA to deliver the interventions. With regard to project delivery, the contract places the following obligations on LBBD in respect of the Equality Act 2010:

- LBBD 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 procure that all Borough Parties do likewise.

- LBBD has confirmed that it 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 interventions specified in this decision 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 LBBD may be unsuccessful in acquiring the majority of the sites by private treaty and therefore may have to rely on the CPO. There is a risk that the CPO is not confirmed by the Secretary of State, or delayed, which could mean that LBBD's project costs rise and project outputs are no longer delivered or significantly delayed. The GLA has mitigated the risk of investing in the Housing Zone when there is a risk that the CPO may not be granted, or may be delayed, by:

- Including a payment condition precedent in the contractual agreements that for sites which are to be acquired through the CPO, LBBD's solicitor must certify the amount of compensation due under the CPO. As a consequence of this, for sites being acquired through the CPO, grant and recoverable grant payments will not be paid until the CPO has been confirmed.
- Including provisions which make failure to provide the 850 units in accordance with the agreed timetable, an 'event of default', thereby allowing the GLA to recover grant paid to LBBD in accordance with the terms of the contract.

5.3 The GLA has carried out 'know your customer' checks to verify the party with which it is contracting under these proposed transactions. 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. GLA officers have confirmed that the Authority exists from 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.

b) links to Mayoral strategies and priorities

5.4 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 Gascoigne West development will contribute towards this and support the aim to deliver 42,000 homes per annum prescribed by the *Further Alterations to the London Plan* (March 2015). All 350 affordable homes unlocked by these interventions 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.

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

c) Environmental considerations

5.6 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. Finance comments

6.1 £7.8 million has previously been allocated to this project as part of MD1457, the time frame for delivery is as mentioned in the Director Decision.

6.2 GLA finance advised treating the contribution of design fees as a loan.

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 interventions provided that doing so will further one or more of its principal purposes of: promoting economic development and wealth creation, social development, and the improvement of the environment in Greater London. The interventions will unlock the delivery of housing and affordable housing, and it is open to the GLA to take the view that funding it will promote both social and economic development, and is therefore within its power, contained in section 30(1) of the GLA Act.

7.2 In exercising the power contained in section 30(1) of the GLA Act, the GLA must have regard to the matters set out in sections 30(3-5) and 33 of the GLA Act, and also the Public Sector Equality Duty in section 149 of the Equality Act 2010, which are explained in paragraph 7.3 of the legal comments of MD1457. As is noted in paragraph 7.4 of MD1457, the London housing strategy, which included a policy for Housing Zones, has been subject to an Integrated Impact Assessment, and GLA officers consider that the delivery of new and additional homes within the Housing Zones programme will help to implement Objectives in the Mayor's Equalities Framework "Equal Life Changes for All." (See also sections 4 and 5 of MD1457).

7.3 The GLA has engaged with LBBD in relation to the interventions which are the subject of this Director Decision. GLA officers have confirmed it is not considered necessary or appropriate for the GLA to consult with any other persons or bodies including those specified in section 32(2) of the GLA Act for the purposes of this Director Decision.

7.4 The GLA funding for the interventions is grant (partly recoverable) and loan funding. It is not being provided on a commercial basis and is not therefore a specified activity under section 34A of the GLA Act that is required to be provided through GLA Land and Property (GLAP).

7.5 External lawyers have advised GLA officers in relation to State Aid rules, and have been instructed to prepare and negotiate the funding contract for the GLA, including the incorporation of any provisions required to ensure compliance with State Aid rules. These clauses include provisions which ensure that no funding will be paid out unless, amongst other requirements, LBBD's solicitor has provided an opinion (satisfactory to the GLA) as to the State Aid treatments of the interventions. Further, if there is found to have been any unlawful State Aid, and the interventions cannot be restructured so as to be compliant, LBBD must repay the unlawful State Aid following a written demand for repayment by the GLA.

8. Planned delivery approach and next steps

Activity	**Timeline**
Completion of Borough Intervention Agreements	April 2017
Physical Start on site	September 2018
Practical Completion of development	March 2025

Appendices and supporting papers:

Appendix 1 – Gascoigne West Phasing 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 3 April 2017.	

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature M. J. Ella **Date** 4. 4. 17