

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD2122

### Title: Pocket 2017 funding allocation

#### Executive Summary:

This MD seeks approval for an extension of £25m to the GLA's existing £26.4m funding programme for Pocket Living, a specialist provider of new build discount market sale homes to London first time buyers. Homes developed under the programme are sold at a discount to the open market (typically 20%), with a resale covenant to ensure that the homes remain as intermediate affordable housing in perpetuity.

Specifically, this approval is for the allocation of £25m new funding from the Mayor's Affordable Housing Innovation Fund, to a Pocket entity following Pocket's bid made under the Homes for Londoners: Affordable Homes Programme 2016-2021 together with the re-allocation of up to a further £26.4m of funding under an existing funding agreement between the GLA and Pocket Living (2013) LLP dated 19 July 2013. This will form a revolving fund of up to £51.4m to finance site acquisitions and related pre-construction costs agreed with the GLA. This funding of up to £51.4m, which is repayable as recoverable grant (except where it will be on commercial terms for non-affordable housing), is subject detailed legal and financial due diligence being completed to the satisfaction of the GLA and the entry into suitable legal agreements governing the funding proposal. The facility is expected to deliver at least 1,059 additional affordable housing starts by the end of March 2021.

#### Decision:

That the Mayor:

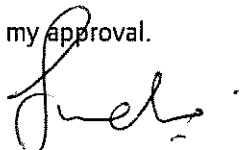
- Approves the allocation to a Pocket entity, subject to contract, of: (i) £25m funding from the Homes for Londoners: Affordable Homes Programme 2016-2021; and (ii) up to £26.4m of funding, re-allocated from an existing funding agreement between the GLA and Pocket Living (2013) LLP dated 19 July 2013, to fund the acquisition of sites and related pre-construction costs agreed with the GLA, noting that such funding shall only be contractually committed subject to the satisfactory outcome of legal and financial due diligence and a commitment from Pocket to deliver at least 1,059 affordable housing starts by March 2021 in addition to the affordable housing to be delivered under the existing agreement dated 19 July 2013.
- Delegates authority to the Executive Director of Housing and Land and the Executive Director of Resources, in agreement with the Deputy Mayor for Housing and Residential Development, to determine that such due diligence (including requirements set out in Finance comments in the Part II decision) has been satisfactorily undertaken and that it is appropriate for the GLA (or GLA Land and Property Limited) to contractually commit funding of up to £51.4m to Pocket in line with the information set out in this Mayoral Decision.
- Delegates authority to the Executive Director of Housing and Land and the Executive Director of Resources, in consultation with the Deputy Mayor for Housing and Residential Development, to take all steps necessary to finalise, approve and execute documentation in relation to this funding of up to £51.4m with Pocket, including: any variations required to the existing funding agreement between the GLA and Pocket Living (2013) LLP dated 19 July 2013 and related documentation to facilitate the use of proceeds under the existing funding agreement to be used under this new funding proposal; a loan funding agreement; any inter-creditor arrangements and security documentation required in relation to the funding; and any other legal agreements required to implement this funding proposal.

#### 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:

9/5/17

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

### Decision required – supporting report

#### 1. Introduction and background

- 1.1 Pocket is a provider of affordable homes, typically sold at a discount of 20% to the market sale price which is secured in perpetuity through an on-sale covenant. Pocket homes are one and two bedroom apartments and the efficient layout design results in 38m<sup>2</sup> dwellings that meet London Plan space standards. Pocket Living Ltd also delivers a mainstream market product (known as Pocket Edition) that is not discounted, but that can provide cross subsidy to further fund the affordable housing.
- 1.2 The Mayor has an existing agreement dated 19 July 2013 with Pocket Living (2013) LLP (the "existing 2013 funding agreement") funded originally through the Mayor's Housing Covenant - Homes for Working Londoners Programme to use revolving loan financing of £26.4m as set out in MD1145, MD1174, DD1054, DD1090, DD1365, and DD2020.
- 1.3 This funding agreement has enabled Pocket to acquire development sites on a subject to planning basis and deliver 665 affordable starts on site of which 277 are complete, with an additional 388 units under construction. In a buoyant development market, opportunities to acquire land on a conditional basis in London are rare and generally rely on public sector land sales where transactions can typically take longer to complete.
- 1.4 Within this context, the trajectory of delivery since 2013 can be seen as reasonable and the acceleration over the last two years is welcome as the Pocket platform has been built up to support delivery and become a recognisable component of the affordable housing offer for Londoners. Pocket is also a rarity in that it is a relatively new start up specialist provider of affordable housing for sale in a housing economy where new SME businesses are notoriously difficult to get off the ground. The GLA's financial support has been critical to this success and additional support is now required to enable a scaling up of Pocket's offer to first time buyers.
- 1.5 Organisationally, Pocket is now in a position to increase its rate of delivery but the 2013 funding agreement is not designed in a way to facilitate this. The original fund has been fully allocated, the availability of conditional land purchases is not sufficient to meet demand, and income to Pocket through the current level of management fee and the delivery of dwellings combined no longer meets the cost of its overheads as it looks to expand at pace.
- 1.6 The Pocket brand is now a well-established product within the affordable housing landscape in London. There is substantial unmet demand for such homes (which unlike the recently proposed 'Starter Homes' are discounted in perpetuity) and Pocket has informed the GLA that over 30,000 people have registered their interest in future Pocket homes. Being able to start to meet this demand requires greater access to available land and capital to acquire sites.
- 1.7 The Mayor's recently published funding prospectus, 'Homes for Londoners: Affordable Homes Programme 2016-2021' identifies an Innovation Fund to support innovative forms of affordable housing delivery through the use of a grant or a loan facility. Pocket has submitted a bid under this new programme and, accordingly, GLA officers have been in discussions with Pocket regarding the potential to provide a further £25m to a new Pocket entity and to broaden the scope of the funding proposal compared to the existing 2013 agreement to enable Pocket to deliver a greater number of affordable homes more quickly.
- 1.8 It is intended to permit the funding to be used in part to fund the acquisition of sites prior to the grant of planning permission. In broadening the scope of the programme to allow unconditional acquisitions and the use of surpluses, the requirement is to enable the business to reach a scale that will go on to achieve a self-sustaining position and will not be reliant on public funding support.

- 1.9 It is proposed that the new £25m of funding would be allocated to Pocket together with up to £26.4m of the funding proceeds re-allocated from the existing 2013 funding agreement to form a revolving fund of up to £51.4m to finance site acquisitions and any related pre-construction costs agreed with the GLA. The new facility of up to £51.4m would be treated as a recycling and recoverable grant to Pocket and would be expected to deliver at least 1,059 affordable housing starts by the end of March 2021. Under the terms of the funding agreement, the latest repayment date will be April 2028.
- 1.10 The sites to be acquired by Pocket using the new facility may be used for a mix of affordable housing and other uses (including market housing). Where this is the case, GLA funding will be on fully commercial terms to the extent required to ensure that the GLA is not providing public subsidy in respect of any non-affordable (i.e. market) housing elements. Further details in relation to the funding proposal are set out in Part 2 of this report.
- 1.11 The Homes for Londoners: Affordable Homes Programme 2016-2021 funding application from Pocket has been evaluated as part of the Innovation Fund process and in order to allow Pocket to proceed with the acquisition of development sites in its pipeline, the Mayor is asked to approve the allocation of £25m of funding from the Innovation Fund together with up to £26.4m of funding proceeds re-allocated from the existing 2013 funding agreement, subject to contract and full detailed legal and financial due diligence.
- 1.12 The Mayor is also asked to delegate authority to the Executive Director of Housing and Land and the Executive Director of Resources, in agreement with the Deputy Mayor for Housing and Residential Development, to determine whether such due diligence has reached a satisfactory outcome and to approve the terms of any required legal contracts, including any deed of variation to the existing 2013 funding agreement, as well as the new funding, security and intercreditor agreements.

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

- 2.1 The main objective of the £51.4m loan facility is to fund the acquisition of sites and pre-construction costs (such as planning and design) related to the delivery of new affordable housing. Pocket will acquire sites that consist of:
- Type A: 100% affordable Pocket homes
  - Type B: mixed tenure that also include a minority proportion of full market sale homes
- 2.2 From Type A and Type B sites, Pocket is required to deliver at least 1,059 affordable housing starts by 2021.
- 2.3 An additional objective is to further grow the delivery rate of the platform so that the Pocket product can continue to diversify the affordable housing offer for Londoners beyond the requirement for GLA funding.

## **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 The obligation in section 149(1) is placed upon a decision maker, and due regard must be had at the time a particular decision is being considered. The duty is non-delegable and must be exercised with an open mind.
- 3.3 The allocation of the funding is from the Homes for Londoners: Affordable Homes Programme 2016 – 21 Innovation Fund and 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 related to increasing housing supply, of which this paper relates, were covered by the IIA for the Further Alterations to the London Plan.
- 3.4 The delivery of new and additional homes by Pocket through the Innovation Fund 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. Other considerations – risk mitigation**

- 4.1 Housing delivery and property development is an intrinsically risky exercise. A general risk to property development is that significant changes to demand factors in the housing market could negatively impact on Pocket's ability to deliver genuinely affordable homes. Price falls could render schemes financially unviable for providers and increases could move homes out of reach of the target audience.
- 4.2 Sensitivity testing of sales value assumptions within development appraisals will be considered by the GLA at the time of site purchase and the housing market will be monitored on an ongoing basis. Suitable security documentation and repayment arrangements will also need to be put in place as part of the GLA's funding requirements to protect against the risk that a development incurs a loss upon completion. Agreeing the terms of these arrangements will form part of the detailed financial and legal due diligence before a commitment to fund is made by the GLA.
- 4.3 There has been marked construction price inflation in recent years.. Further cost inflation and uncertainties in the availability of construction labour in London (especially post-Brexit) could exacerbate build price rises further.
- 4.4 Sensitivity testing of cost assumptions and inflation within development appraisals will be considered by the GLA at the time of site purchase. Pocket developments to date have included the use of off-site manufactured modules and this is expected to increase which should help to insulate projects from the uncertainty of sharp increases from fluctuations in the supply of labour. As mentioned above, suitable security documentation and repayment arrangements will also need to be put in place as part of the GLA's funding requirements to protect against the risk that a development incurs a loss upon completion.
- 4.5 As Pocket will be able to compete for development sites on an unconditional basis before planning permission is granted and the level of affordable housing is known, it is possible for Pocket to over-pay for land or to acquire land that cannot be delivered for housing.
- 4.6 Pocket will be required to present to GLA a package of due diligence material to support the land offer assumptions including planning risk, site constraints and qualified assumptions on sales values and build costs. The risk that a development incurs a loss upon completion will need to be mitigated through suitable security documentation and repayment arrangements.

- 4.7 During the construction phase of a project, there is a risk that building contractors may face administration or liquidation and be unable to proceed with the delivery of the project. There may be circumstances where this could lead to senior lenders calling a default and placing the GLA's investment at risk, including from other projects that are provided as collateral. This risk will need to be addressed when negotiating the terms of the intercreditor arrangements between the GLA and senior lenders.

## **5. Financial comments**

- 5.1 Detailed financial comments are provided in part 2 of this Mayoral Decision.

## **6. Legal comments**

- 6.1 Section 30 of the Greater London Authority Act 1999 ('GLA Act') gives the Mayor a general power to do anything which he considers will further one or more of the principal purposes of the GLA. The principal purposes, as set out in section 30(2) of the GLA Act are:

- (1) promoting economic development and wealth creation in Greater London;
- (2) promoting social development in Greater London; and
- (3) promoting the improvement of the environment in Greater London

- 6.2 In determining whether or how to exercise the power conferred by section 30(1) of the GLA Act, the Mayor must:

- (i) have regard to the effect that his decision 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 Given the above (including section 3 of this report), Section 34 of the GLA Act which allows the Mayor to do anything which is calculated to facilitate or is conducive or incidental to the exercise of any of his functions (including his functions under section 30) and the Mayor's powers (under Section 38 of the GLA Act) to delegate to any GLA member of staff functions of the GLA that are exercisable by him, the foregoing sections of this report indicate that the Mayor has the power to agree to the decisions set out above.

- 6.4 Prior to entering into any funding agreement with Pocket in respect of the funding proposal set out in this report, appropriate legal advice must be sought by the GLA as to the detailed terms of the funding, state aid and appropriate security for lending.

- 6.5 Consideration will also need to be given as to whether the proposed GLA funding is, by virtue of section 34A of the GLA Act and the Greater London Authority (Specified Activities Order) 2013/973, a specified, commercial activity that must be dealt with by GLA Land and Property Limited ("GLAP"). If it is, GLAP will be required to enter into the relevant funding agreement, committing the GLA funding.

- 6.6 Once the Pocket entity which is proposed to be the counter-party to the GLA funding agreement has been constituted, GLA officers will need to carry out "know your customer" checks to verify the party with which it is contracting in accordance with the GLA's latest policies. These checks should be completed before any commitment to fund is made.
- 6.7 Further legal comments are set out in Part 2 of this report.

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

- 7.1 Subject to this Mayoral Decision being made, further legal and financial due diligence will be undertaken in respect of the funding proposal. A further Director Decision will be sought in due course to determine whether such due diligence has been satisfactorily completed and, if so, to approve the terms of the legal agreements to be entered into.
- 7.2 It is expected that the funding agreement will be in place by July 2017, at which point Pocket will be able to make use of the new funding in line with the agreement and will seek agreement from the GLA to acquire land and progress planning applications.
- 7.3 Contract management and reconciliation of expenditure will be undertaken within Housing and Land with the support of colleagues from finance and the GLA's lawyers to administer the flow of expenditure and proceeds through the Charged Account.

<b>Activity</b>	<b>Timeline</b>
Announcement of in principle funding award	On or after 9th June 2017
Funding agreements in place	July 2017
Performance reviews	Monthly statements, quarterly meetings and bi-annual formal performance reviews
Target longstop date and project closure	2028 (subject to performance reviews)

**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? YES**

If YES, for what reason:

Due to the general election no publication to be made until 9<sup>th</sup> June.

Until what date: (a date is required if deferring) 9<sup>th</sup> June at the earliest

**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:**

Alex Hearn has drafted this report in accordance with GLA procedures and confirms the following:

✓

**Sponsoring Director:**

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

✓

**Mayoral Adviser:**

James Murray 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 May 2017

**EXECUTIVE DIRECTOR, RESOURCES:**

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

**Signature**

*M. D. Allen*

**Date**

*8.5.17*

**CHIEF OF STAFF:**

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

**Signature**

*D. Bellamy*

**Date**

*8/5/2017*

