

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2434

Housing Infrastructure Fund: Marginal Viability Funding – LB Lewisham, Catford Town Centre

Executive Summary:

Mayoral Decision (MD) 2341 of 11 October 2018, approved the receipt of up to £110.7 million of Marginal Viability Funding (MVF) from the Government's Housing Infrastructure Fund (HIF) following a competitive bidding process by the London Boroughs. The decision delegated authority to the Executive Director of Housing and Land to approve the detailed expenditure profiles and contractual terms with the successful boroughs.

The GLA will receive the funding from Government under section 31 of the Local Government Act 2003 and, acting in accordance with the memorandum of understanding (MoU) between the GLA and Ministry of Housing, Communities and Local Government (MHCLG), the GLA will disburse the funds through individual funding agreements with the successful boroughs to deliver agreed outputs and outcomes.

Following the Government's detailed validation and clarification process, this Director's Decision seeks approval for the detailed expenditure profile and contractual terms for an intervention required to unlock 1,500 homes in Catford Town Centre.

Decision:

That the Executive Director of Housing and Land approves:

The expenditure profiles and detailed contractual terms for the provision of HIF MVF grant of £10 million to the London Borough of Lewisham for Catford Town Centre to unlock 1,500 homes in Lewisham.

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:

10/12/19

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

Introduction

- 1.1. On the 11 October 2018, MD2341 approved receipt of up to £110.7 million of Marginal Viability Funding (MVF) that was provisionally allocated to London Boroughs from the Government's Housing Infrastructure Fund (HIF) following a competitive bidding process.
- 1.2. Following a due diligence exercise undertaken by external consultants from the Homes England panel, funding has now been confirmed by the Government for ten MVF schemes in London. Total grant funding of £90.2 million has been confirmed by MHCLG, subject to contract.

Borough MVF Schemes

| Scheme Name | Borough | HIF Confirmed up to | Homes unlocked | Outcome of Due Diligence | GLA Approval |
|----------------------------|----------|---------------------|----------------|--------------------------|--------------|
| Grand Union Ave Phase 3 | Ealing | £1,000,000 | 171 | Approved | DD2406 |
| Northwick Park | Brent | £10,000,000 | 1,300 | Approved | DD2413 |
| South Kilburn Regeneration | Brent | £10,000,000 | 1,576 | Approved | DD2413 |
| 8 Albert Embankment | Lambeth | £10,000,000 | 443 | Approved | DD2413 |
| Somerleyton Road | Lambeth | £10,000,000 | 268 | Approved | DD2406 |
| Lewisham Gateway | Lewisham | £13,500,000 | 530 | Approved | DD2413 |
| Abbey | Camden | £10,000,000 | 105 | Approved | DD2406 |
| Grange Farm | Harrow | £10,000,000 | 574 | Approved | DD2376 |
| Finchley Central | Barnet | £5,705,671 | 415 | Approved | DD2413 |
| Catford Town Centre | Lewisham | £10,000,000 | 1,500 | Approved | DD2434 |
| TOTAL | | £90,205,671 | 6,882 | | |

- 1.3. MD2341 delegated authority to the Executive Director of Housing and Land to approve, via Director Decision, the detailed expenditure profiles and contractual terms with successful boroughs and agree appropriate substitute schemes with the Government and successful boroughs where approved schemes are no longer able to be delivered within the timescales of the programme. To access this funding, the boroughs are required to enter into a funding agreement with the GLA to deliver the infrastructure works.
- 1.4. The HIF award for Catford Town Centre is recommended following a due diligence exercise, undertaken by external consultants from the Homes England panel on behalf of MHCLG. The proposals were assessed against the key programme criteria including strategic fit, value for money and deliverability.
- 1.5. This decision seeks the Executive Director of Housing and Land's approval, to commit £10 million to the London Borough of Lewisham for Catford Town Centre to unlock 1,500 homes (50% affordable) in Lewisham.

Catford Town Centre – South Circular Realignment

- 1.6. Catford Town Centre has potential for significant urban renewal. The New London Plan designates Catford Town Centre as part of the New Cross/Lewisham/Catford Opportunity Area, and sets out that large-scale redevelopment of five key sites – Catford Shopping Centre and Milford Towers, Laurence House, Town Hall and Civic Centre, Plassy Island, Wickes and Halfords – will help to transform the town centre. Overall, 2,700 new homes can be accommodated in the heart of the town centre,

including approximately 1,500 new homes on Council controlled land. The London Plan classifies Catford as a Major Town Centre in London's Town Centre Network – a Strategic Area for Regeneration with high residential growth potential.

- 1.7. The realignment of the A205 South Circular will assist in the transformation of the town centre by reducing existing severance and road hostility, enhancing the place ambience of the town centre, enriching place making potential, and improving pedestrian and cyclist experience and accessibility to sites of new housing.
- 1.8. The A205 realignment supports the delivery of 1,500 new homes, unlocking Catford Town Centre's growth potential. The homes are to be located across several council controlled sites:
- 1.9. *Laurence House*. Approximately 200 homes are planned for this land, currently used as Council offices. The realignment of the A205 will reconnect this site to key Town Centre amenities and public transport interchange. This development opportunity is directly unlocked by the road infrastructure, taking advantage of town centre land, adjacent to the existing Laurence House, currently forming part of the A205 alignment. The Council is the freeholder of this site. Development is scheduled to start in 2026 following completion of the infrastructure works.
- 1.10. *Catford Shopping Centre and Milford Towers*. Approximately 1,150 homes are planned for three phases of comprehensive mixed-use redevelopment of Catford Shopping Centre and the adjoining Milford Towers. The delivery of this scheme will be accelerated by the road realignment which creates the enhanced environment of the town centre. The Council is the freeholder of this site (through Catford Regeneration Partnership Limited, a company wholly-owned by the Council). Leaseholder interests are comprised of Tesco in the shopping centre, and a number of leaseholder residents in Milford Towers. Development of the first phase is scheduled to start before 2026.
- 1.11. *Small sites*. Approximately 150 homes are to be delivered across three sites which are adjacent to the realigned road infrastructure: Canadian Avenue Lorry Park (SS1), Thomas Lane Car Park (SS2) and Thomas Lane Depot (SS3). The delivery of these schemes will be accelerated by the road realignment which creates the enhanced environment of the town centre. The Council is the freeholder on all three of these small sites. Development of the first homes is scheduled to start in 2024.
- 1.12. The Council will coordinate a phased regeneration scheme for these sites within Catford Town Centre. The viability of the scheme is challenging because of the significant infrastructure costs of improving the town centre highway network to be capable of supporting vehicle and pedestrian movements and public transport interchange commensurate with major housing growth. Without HIF funding alongside other grant funding from the public sector, the infrastructure scheme will not proceed, because the viability of town centre housing schemes does not allow for strategic infrastructure contributions. LB Lewisham plan to commit their own financial resources to the wider infrastructure costs. Funding from Transport for London (TfL) is also anticipated, and TfL have also applied to the Department for Transport's Major Road Network programme for funding.
- 1.13. The MVF is to contribute towards utilities diversions, land acquisition, site preparation, surveys and professional fees associated with the realignment of the A205. This supports the unlocking of the wider regeneration scheme across the sites that will deliver a total of 1,500 residential units including 750 affordable homes, as well as commercial floorspace, employment space, cultural facilities, restaurants and retail.
- 1.14. Key risks relate to securing additional funding for the road realignment and gyratory removal, and the grant of planning permission. These are discussed in Section 4 below.
- 1.15. A plan of the town centre is shown at Figure 1.1 below, with the specific housing sites and full extent of the A205 realignment works inside the area outlined in red.

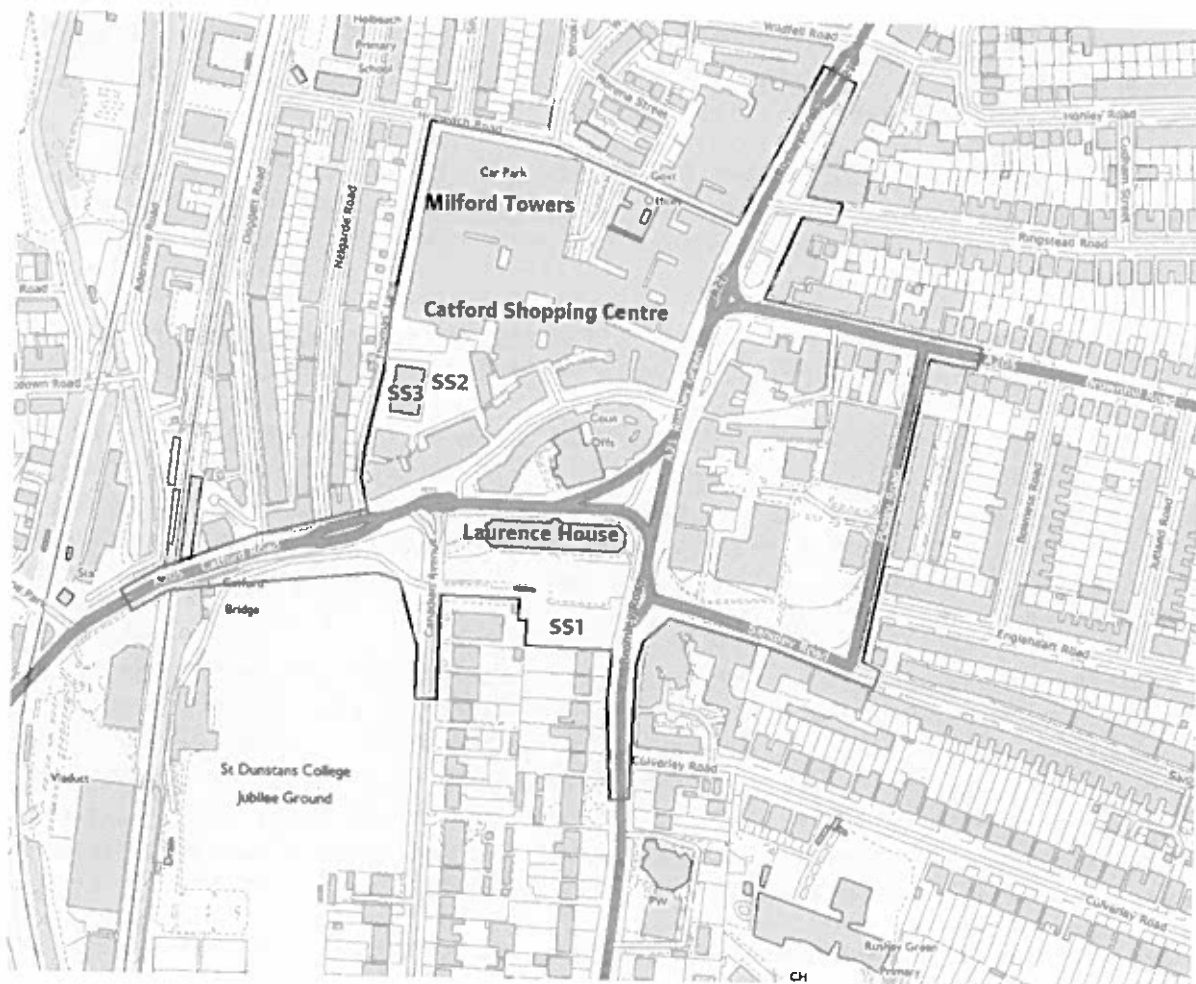


Figure 1.1 Site boundary

- 1.16. The HIF funding is due to be drawn down by the GLA from MHCLG and transferred to LB Lewisham as follows:

| MVF 126 Scheme: LB Lewisham: Catford A205 realignment: £10,000,000 | | | |
|--|---------|---------|--------------------|
| | 2019/20 | 2020/21 | 2021/22 |
| April | - | - | £4,611,926 |
| October | - | - | £5,388,074 |
| Total | - | - | £10,000,000 |

Project Delivery and key Milestones

| Milestone | Date |
|--------------------------------|------------------|
| HIF Funded Works Start date | 1 April 2021 |
| HIF Funded Works Backstop date | 31 March 2026 |
| Wider Project Start date | 1 April 2024 |
| Wider Project Completion date | 31 December 2035 |

Stakeholders / Contractual Arrangements

- 1.17. The counterparty in respect of the HIF MVF funding agreement for the Catford Town Centre scheme is LB Lewisham.
- 1.18. Subject to satisfactory progress in delivery against project milestones, the GLA will provide grant at half-year intervals. Grant may be drawn down in advance of spend based on the borough's cashflow

forecast, which will be updated as necessary during the availability period. Grant claims will be supported by regular monitoring and progress reports from the borough to the GLA. Any underspends will be subject to reconciliation in the following six-month period. All claims for grant funding must be signed-off by the borough's section 151 officer.

1.19. Failure to deliver the HIF funded infrastructure described above or to meet a milestone for such infrastructure, will be an event of default within the funding agreement. In such circumstances the grant funding may be recovered. LB Lewisham will also be contractually required to use reasonable endeavours to deliver wider-project outputs, including delivery of the agreed number of homes, in accordance with specified milestones. The wider project will be subject to an assurance framework which requires the borough to engage in quarterly review meetings with the GLA and to provide progress and monitoring reports at quarterly intervals until the final claim is submitted and thereafter annually until the wider project completion date.

1.20. The GLA will report on progress quarterly and engage in an annual performance review with MHCLG in accordance with the terms of the MoU as set out in paragraph 1.25 below.

Due Diligence

1.21. Due diligence has been undertaken by external consultants from the Homes England panel. They have recommended funding for the Catford Town Centre scheme. GLA officers have reviewed this due diligence and recommend that the GLA provides the funding subject to the following conditions, which must be discharged before the GLA's obligations in respect of the grant become binding:

1.22. LB Lewisham must confirm and provide evidence that:

- it believes the scheme can be delivered in budget, and that it will fund any cost overruns;
- the HIF funding complies with State Aid legislation;
- the HIF funding forms the first part of the budget spend for the road to comply with the March 2022 spend deadline;
- it (or the borough's delivery partner) has or will have sufficient legal control and access to the sites necessary to enable delivery of the infrastructure and homes, including, where relevant, a strategy for exercising Compulsory Purchase Order (CPO) powers.

1.23. Prior to drawdown of grant, LB Lewisham must confirm and provide evidence that:

- the whole funding package for the A205 realignment scheme is confirmed.
- planning permission has been secured in order to allow for delivery of the HIF funded infrastructure by 31 March 2022.

Governance

1.24. The London MVF Programme will be overseen by the HIF Programme Delivery Board which is chaired by the Executive Director for Housing and Land and includes representatives from the GLA, TfL, London Councils and MHCLG. The terms of reference for the board include the following:

- provide the leadership and support necessary to ensure successful delivery of the HIF Programme in London by identifying and leveraging synergies, mitigating risks and managing dependencies;
- oversee programme management of the MVF in London, proactively monitoring and managing underspends and, where necessary, proposing substitute schemes for approval by MHCLG;
- ensure a robust programme assurance framework is in place to ensure value for money and appropriate risk management in relation to project outputs and outcomes, including the delivery of a significant number of new homes;
- monitor programme delivery to ensure compliance with all applicable legal requirements including state aid, public procurement law and the Public Sector Equality Duty;

- receive quarterly reports on MVF schemes and monitor progress in the delivery of infrastructure and spend against project profile and programme longstops;
- provide quarterly reports to Housing and Land Directors Management Team on project risks and progress in delivery;
- provide periodic reports to the Corporate Investment Board (minimum intervals of six months) and update the Corporate Risk Register and
- commission evaluation surveys of London HIF projects, as necessary, to meet MHCLG requirements.

1.25. Area Managers from the GLA's Housing and Land Directorate will manage the relationships as part of their borough portfolios and chair the quarterly progress and monitoring meetings.

1.26. The GLA will provide project updates and monitoring returns to MHCLG on a quarterly basis to enable programme oversight in accordance with the MoU between the GLA and MHCLG. The GLA will also engage in an annual performance review with MHCLG. The review will confirm spend and delivery targets and milestones for the forthcoming financial year and provide assurance to MHCLG that the next instalment of funding can be released.

Legacy

1.27. The funding of the A205 road realignment and gyratory removal within Catford Town Centre is expected to unlock 1,500 homes (50% affordable).

2. Objectives and expected outcomes

2.1. To provide the agreed funding for Catford Town Centre to help fund delivery of the A205 road realignment and unlock the delivery of 1,500 new homes.

3. Equality comments

- 3.1. In September 2017, the GLA published an impact assessment, including an equalities impact assessment, of the London Housing Strategy. Policies related to increasing housing supply and delivering affordable housing, to which the MVF HIF schemes will make a significant contribution, were also covered by the Integrated Impact Assessment (IIA) for the Draft London Plan, published in November 2017.
- 3.2. The IIA concluded that the cumulative impact of these policies combined with policies for flexible housing mix, inclusive design and accessible housing would contribute to creating inclusive communities, relieve housing pressures that disproportionately affect lower-income groups and ensure the needs of different groups are taken into account in housing design.
- 3.3. The delivery of new and additional homes will help to implement Strategic Objective 1 of the Mayor's equality, diversity and inclusion strategy 'Inclusive London' (May 2018) to increase the supply of homes that are genuinely affordable to buy or rent. The HIF will help fund the supporting infrastructure needed to unlock priority schemes for LB Lewisham, contributing to the delivery of 1,500 new homes, including affordable homes.
- 3.4. Under section 149 of the Equality Act 2010, as public authorities, the Mayor and the GLA are subject to a public-sector equality duty and must have 'due regard' to the need to (i) eliminate unlawful discrimination, harassment and victimisation; (ii) advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and (iii) foster good relations between people who share a relevant protected characteristic and those who do not. Protected characteristics under section 149 of the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status.

- 3.5. Throughout the decision-making process relating to HIF due regard has been – and will continue to be – had to the ‘three needs’ outlined above. The housing shortage in London disproportionately negatively affects people with certain protected characteristics. Increasing the supply of housing (by funding infrastructure to unlock additional housing supply) will help to achieve positive impacts in line with the ‘three needs’.
- 3.6. Under the terms of the funding agreement, LB Lewisham will be required to comply with, and assist and co-operate with the GLA in order that it can comply with (and require third parties who benefit from the grant and any appointed contractors do the same, if applicable), the Public Sector Equality Duty.

4. Other considerations

Key Risks

Delivery Risks

- 4.1. *HIF funded infrastructure works may be delayed beyond the spend deadline of 31 March 2022.* This has been mitigated by the GLA’s due diligence on the expenditure programme for the road realignment, generating up to date timings and cost estimates detailing expenditure. Following planning permissions LB Lewisham are to be required to provide updated cost plan and programme plan demonstrating how they will procure TfL deliver the infrastructure works.
- 4.2. *Delays could arise from the land assembly process which may take longer than expected.* This has been mitigated by the inclusion of specific milestones and outputs for completing the necessary acquisitions and gaining full legal control of the land. Failure to achieve milestones and outputs relating to the HIF funded infrastructure works is an event of default which, if it cannot be remediated, may result in termination of the funding agreement and recovery of all or part of the grant funding.
- 4.3. *Confirmation of further funding required stack.* This risk has been mitigated by the contractual conditions that will be placed on LB Lewisham to:
- provide its strategy for funding the scheme as a whole;
 - fund any cost overrun; and
 - prevent drawdown of grant until the whole funding package for the A205 realignment scheme is confirmed.
- 4.4. *The infrastructure works do not yet have planning permission.* This risk has been mitigated by the contractual conditions that will be placed on LB Lewisham to achieve planning permission in order to allow for the delivery of the HIF funded infrastructure by the “HIF Funded Works Backstop Date” milestone before drawdown of grant.
- 4.5. *The homes are not delivered in accordance with the wider project milestones and outputs:* the purpose of the HIF grant awarded to LB Lewisham is to unlock the delivery of homes. These wider project outputs are subject to an assurance framework which requires the borough to use reasonable endeavours to procure the delivery of the homes. However, the borough will not be in default if they fail to achieve the wider project milestones and outputs and the grant will not be subject to clawback in these events, provided the borough has used reasonable endeavours.

Financial Risks

- 4.6. *Detailed due diligence on the scheme has been undertaken by external consultants from the Homes England panel.* Whilst the GLA has reviewed the due diligence, there is a risk for the GLA not having been party to this detailed review, particularly as the GLA is responsible for monitoring and managing the MVF programme in London. This is mitigated by the detailed reporting required from the borough which is required to be passed on to MHCLG. If the borough fails to achieve any HIF funded

infrastructure works output or HIF funded infrastructure works milestone, and is unable to remedy the default, the GLA may suspend or withhold payment of any further grant instalments and recover all or part of the grant. Additionally, the borough may be required to repay any underspend or overpayments to the GLA immediately (unless the GLA agrees an amendment to the project cashflow) where this has arisen as a result of delays in the works or an overpayment with respect to State Aid law.

- 4.7. *The borough has submitted a valid claim for funding, but the GLA has not received funds from MHCLG.* This risk is mitigated by a payment framework agreed with MHCLG and contractual clauses that agree that the GLA will only forward funds on agreed claims following receipt of funding from MHCLG.
- 4.8. *The borough has drawn down funding but does not deliver the expected infrastructure.* Failure to deliver an MVF project by the agreed backstop date is the only event in which MHCLG may recover an underspend from the GLA in accordance with the MoU. If any HIF funded infrastructure works output is not delivered in line with agreed HIF funded infrastructure works milestones, the GLA may suspend or withhold payment of any further grant instalments and recover all or part of the grant.

State Aid Compliance

- 4.9. The borough is required to provide the GLA with confirmation that it has received an opinion, satisfactory to the borough as to the state aid treatment of the project.

Links to Mayoral Strategies and Priorities

- 4.10. The draft new London Plan 2017 (LP) and the London Housing Strategy 2018 (LHS) set ambitious new targets to deliver the homes necessary to meet housing need. To create this step-change in housing delivery, the Mayor is committed to targeting investment to accelerate and de-risk housing and regeneration sites across London, including securing a significant share of the Government's Housing Infrastructure Fund (LHS Policy 3.2). This Marginal Viability Funding provides necessary investment to assist in unlocking future phases of land and estate regeneration in the LB Lewisham, making an important contribution toward meeting the borough's ten-year housing targets.
- 4.11. The London MVF schemes announced by central government in February 2018 include several major estate regeneration programmes. MVF will help unlock these by mitigating infrastructure viability gaps. Since funding decisions about whether a scheme receives MVF are made by MHCLG, the Mayor cannot require the award of MVF to be contingent on an affirmative resident ballot. However, the Mayor expects estate regeneration programmes otherwise to be delivered in accordance with 'Better Homes for Local People – the Mayor's Good Practice Guide to Estate Regeneration', meaning any funding from his Affordable Homes Programme must be subject to his funding condition around ballots.

Declarations of Interest

- 4.12. 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.

5. Financial comments

- 5.1 This Decision seeks approval for payment of £10 million of grant to LB Lewisham for the Catford Town Centre scheme under the Marginal Viability Fund. The expenditure profile is for £4,611,926 million to be spent in the first half of 2021-22, and £5,388,074 in the second half of 2021-22.
- 5.2 HIF MVF projects will be funded by Government capital grant and therefore are at net nil-capital cost to the GLA. The GLA will need to administer the grant claims process, but LB Lewisham will only be paid after the grant is received from MHCLG so there is no cashflow risk. In addition, project overspend and delivery risk will also be borne by the borough.

6. Legal comments

- 6.1 Under section 30(1) of the Greater London Authority Act 1999 (as amended) ("GLA Act"), the GLA has the power to provide the funding for this scheme 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 scheme is intended to unlock the delivery of 1,500 homes, including affordable housing, and it is open to the GLA to take the view that funding it will promote both social and economic development, and is therefore within its power, contained in section 30(1) of the GLA Act.
- 6.2 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 6.2 of the legal comments of MD2341 relating to the Housing Infrastructure Fund Marginal Viability Fund. Reference should be made to section 3 above in this respect.
- 6.3 In addition to the above, where the GLA is proposing to use the power conferred in section 30(1) of the GLA Act, the GLA must consider consulting in accordance with section 32 of the GLA Act. The GLA has engaged with LB Lewisham in relation to the scheme which is 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.
- 6.4 With reference to paragraph 4.8 above, it is recommended that the GLA obtains LB Lewisham's confirmation that it has received a satisfactory opinion as to the state aid treatment of the scheme before the GLA enters into the funding agreement with that borough. This is to provide assurance that the funding is capable of being applied in a state aid compliant manner before it is committed and, if necessary, to enable any scheme-specific state aid provisions to be inserted into the funding agreement for compliance purposes.
- 6.5 External lawyers have advised GLA officers in relation to the form of funding agreement between the GLA and LB Lewisham.

7. Planned delivery approach and next steps

| Activity | Indicative Date |
|---|------------------------|
| Complete HIF-MVF funding agreement with LB Lewisham | By 16 December 2019 |
| HIF funded infrastructure works start on site | 1 April 2021 |
| HIF funded infrastructure works completion | 31 March 2026 |
| Wider projects start on site | 1 April 2024 |
| Wider projects completion | 31 December 2035 |

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 – NO

ORIGINATING OFFICER DECLARATION:

Drafting officer to
confirm the
following (✓)

Drafting officer:

Jonathan Schifferes has drafted this report in accordance with GLA procedures and confirms the following:

✓

Assistant Director/Head of Service:

Nick Taylor has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Financial and Legal advice:

The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 9 December 2019.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. D. Bell

Date

9.12.19