

# GREATER LONDON AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD1090

**Title:** Mayor's Housing Covenant – Pocket

### Executive Summary:

To approve an allocation of funding to Pocket Homes under the Mayor's Housing Covenant, having successfully passed financial and legal due diligence in line with MD1174 and DD1054.

This decision form requests the allocation of up to a maximum of £21.7m for the construction of up to 384 homes.

### Decision:

That the Executive Director of Housing and Land approves the allocation of funding for Pocket Homes, as set out in part two of this Director Decision form, in accordance with the delegation agreed in MD1174, and entry into the associated legal agreement governing the funding proposal.

### AUTHORISING DIRECTOR/HEAD OF UNIT

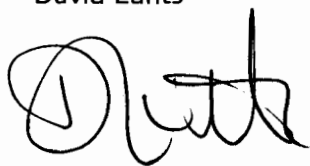
I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

**Name** David Lunts

**Position** Executive Director of Housing and Land

**Signature**



**Date**

16.07.13.

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE**

### **Decision required – supporting report**

#### **1. Introduction and background**

- 1.1 The funding prospectus for the Mayor's Housing Covenant – homes for working Londoners was published on 28 September 2012 following decision by the Mayor (MD1065 27 September 2012).
- Initial allocations were agreed by the Mayor on 8 February 2013 (MD1145) and further allocations on 25 March 2013 (MD1174). At the same time the Mayor delegated authority to approve the remaining allocations of the Mayor's Housing Covenant programme, subject to detailed due diligence, to the Executive Director of Housing and Land, in consultation with the Deputy Mayor for Housing, Land and Property.
- 1.2 The bid from Pocket Homes was considered by Housing Investment Group (HIG) on 21 March 2013 and received support from that group. On 1 May 2013 by DD1054 the Executive Director of Housing and Land approved Pocket for the allocation of funding set out in Part 2 of that DD, subject to agreement to a suitably drafted contract, to procurement of a suitably qualified and financially stable Joint Venture Partner and to completion of detailed legal due diligence to the GLA's satisfaction.
- 1.3 As noted previously, Pocket's proposal involves a revolving loan from the GLA, which would not benefit from interest but which would be repayable after ten years. Pocket commits to reinvest all of their profits over the ten year period alongside the GLA in order to grow the number of homes delivered significantly above the initial number proposed. GLA makes certain payments into a charged account, once certain conditions are satisfied in relation to each scheme proposed by Pocket with draw-down for site acquisition and preliminary expenses. As Pocket acquires a site it grants a legal charge in favour of GLA over the site, with the charge to be subordinated once development finance is put in place. Pocket must pay all net receipts into the charged account. An agreement has now been drafted by Trowers and Hamlin LLP which fully reflects this proposal and suitably protects the GLA's position.
- 1.4 Pocket have provided evidence of a commitment to provide development finance from 3 bank lenders. The provision of funding for land acquisition will be conditional upon a funding agreement being put in place to provide the necessary development finance for that site.
- 1.5 Pocket have provided Heads of Terms for a proposed Joint Venture further details of which are provided at Part 2.

#### **Issues for consideration**

- a) Links to strategies and Mayoral and corporate priorities

The allocation of this funding delivers on the 2012 Mayoral Manifesto commitment to extend First Steps to assist Londoners who are currently locked out of home ownership.

- b) Impact assessments and Consultation

The availability of this funding was announced with the publication of the funding prospectus and the placement of a voluntary notice in the Official Journal of the European Union. This ensured the widest possible audience for the funding opportunity.

The policy changes linked to this funding stream were outlined in an accompanying paper which invited consultation responses up until 19 December 2012. The results of these responses are currently under consideration.

c) Risk

Dramatic changes to the housing market in London, up or down, could negatively impact upon this proposal. Price falls could render schemes financially unviable for providers and increases could move homes out of reach of many Londoners. The housing market will be monitored on an ongoing basis.

There is a general development risk that schemes proposed to us will not be delivered on time. This has been mitigated by a careful review of deliverability of all schemes to be funded, particularly those completing in 2015/16. Scheme progress will be monitored on an ongoing basis as part of contract management.

Although it is contemplated that the GLA's investment will be returned in full following a period of ten years, this is not guaranteed. Increased costs of build or land coupled with decreased prices could place this at risk. The GLA has protection against this risk through the programme approach, which means that gains on some sites could offset losses on others.

Insolvency, either of Pocket Homes or the contractor, could place the GLA's investment at risk. However under the terms of the agreement, Pocket's insolvency would constitute a termination event entitling GLA to require any funding within the charged bank account to be repaid to the GLA and to enforce the charge on the sites which would give the GLA a say in the most effective disposal route to maximise the GLA's return.

### 3. Financial Comments

- 3.1 The proposed allocation is within the programme approval of £118.2m and the conditions surrounding the requirement for Pocket to provide additional security by means of a Joint Venture arrangement will be satisfied. Further financial comments appear in Part 2.
- 3.2 Officers from Finance have been involved in the detailed due diligence process and endorse the recommendations in the main text of this report.

### 4. Legal Comments

Section 30 of the Greater London Authority Act 1999 (as amended) ("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), are:

- (a) promoting economic development and wealth creation in Greater London;
- (b) promoting social development in Greater London; and
- (c) promoting the improvement of the environment in Greater London

and, in considering the allocations in respect of which a decision is sought, officers confirm they have complied with the GLA'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 in Greater London, promote the reduction of health inequalities between persons living in Greater London, contribute towards the achievement of sustainable development in the United Kingdom and contribute towards the mitigation of or adaptation to climate change in the United Kingdom; and
- consult with appropriate bodies..

Previously the GLA was prohibited from using this general power to incur expenditure in providing any housing. This prohibition was, however, removed by section 186 of the Localism Act 2011, which came into effect on 1 April 2012.

Section 34 of the GLA Act allows the Mayor to do anything which is calculated to facilitate or is conducive or incidental to the exercise of any of his functions.

The foregoing sections of this report indicate that the decision requested falls within the above statutory powers of the GLA exercisable by the Executive Director of Housing and Land, in consultation with the Deputy Mayor for Housing, Land and Property (pursuant to the delegated authority granted under MD1174).

As contemplated by DD 1054, external legal support has been procured from Trowers and Hamlin LLP who have been appointed by TfL Legal to act for GLA in the drafting and negotiation of the legal agreement with Pocket Homes and in relation to the legal due diligence. Further legal comments appear in Part 2.

## **5. Investment & Performance Board**

This decision was considered and supported at Housing Investment Group on 21 March 2013.

## **6. Background/supporting papers**

MD1065, MD1145, MD1174 & DD1054

**Public access to information**

Information in this form is subject to the Freedom of Information Act 2000 (FOI Act) and other legislation. Information on this decision will be included in the Mayor's report and decision list. The form will be available publically from then. Any facts and advice that should not be made automatically available on request should not be included in Part 1 but instead on the separate Part 2 form. Deferment is only applicable where release before that date would compromise the implementation of the decision being approved.

Is the publication of this approval to be deferred? YES

If yes, for what reason:

To enable the GLA to manage announcements with partners in relation to the allocations.

Until what date: 06/09/2013

Is there a part 2 form – YES

**ORIGINATING OFFICER DECLARATION:**

Tick indicates  
approval (✓)

**Drafting officer:**

Reena Owen has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision:

✓

**Assistant Director/Head of Service:**

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

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**Executive Director, Resources**

I have been consulted about the proposal and confirm that financial and legal advice have been taken into account in the preparation of this report.

Signature

*M. D. Blag*

Date

17.7.13

