GREATER**LONDON**AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2376

Title: Housing Infrastructure Fund Marginal Viability – LB Harrow, Grange Farm Regeneration

Executive Summary:

In MD2341 (11 October 2018), the Mayor approved the receipt of up to £110.7m of Marginal Viability Funding (MVF) from the Government's Housing Infrastructure Fund (HIF) following a competitive bidding process by London Boroughs. The decision delegates authority to the Executive Director of Housing and Land to approve the detailed expenditure profiles and terms of contractual commitments with 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, Community 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 Government's detailed validation and clarification process, MVF funding of £10 million has been confirmed to unlock 574 homes on the Grange Farm Regeneration Scheme in the London Borough of Harrow. This Director's Decision seeks approval for the detailed expenditure profile and terms of contractual commitment with the London Borough of Harrow.

Decision:

That the Executive Director of Housing and Land approves:

> Expenditure profile and detailed contractual terms for the provision of HIF MVF grant of £10m to the London Borough of Harrow for the regeneration of the Grange Farm Estate in the London Borough of Harrow.

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 (on behalf of David Lunts)	**Position:** Deputy Executive Director of Housing and Land
Signature: RHyatt	**Date:** 13 August 2019

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 £110.7m 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 Homes England and a panel of external consultants, funding has now been confirmed by the Government for ten MVF schemes in London. Two schemes were rejected because the boroughs were unable to provide appropriate evidence of market failure. Total grant funding of £86.7m has been confirmed by MHCLG, subject to contract.

Table 1.1 – Borough MVF Schemes

Scheme Name	Borough	HIF Announced (1 Feb 2018)	HIF Confirmed up to	Outcome of Due Diligence	GLA Approval
Grand Union Ave Phase 3	Ealing	£1,000,000	£1,000,000	Approved	
Northwick Park	Brent	£9,900,000	£10,000,000	Approved	
Peel S Kilburn	Brent	£9,999,442	£10,000,000	Approved	
8 Albert Embankment	Lambeth	£10,000,000	£10,000,000	Approved	
Somerleyton	Lambeth	£10,000,000	£10,000,000	Approved	
Woodberry Down	Hackney	£9,960,000	NA	Rejected	NA
S. Circular - Catford Town Centre	Lewisham	£10,000,000	£10,000,000	Approved	
Lewisham Gateway	Lewisham	£10,000,000	£10,000,000	Approved	
Abbey	Camden	£10,000,000	£10,000,000	Approved	
Whitgift	Croydon	£10,000,000	NA	Rejected	NA
Grange Farm	Harrow	£10,000,000	£10,000,000	Approved	DD2376
Finchley Central	Barnet	£9,800,000	£5,705,671	Approved	
TOTAL		**£110,659,442**	**£86,705,671**		

1.3. MD2341 delegated authority to the Executive Director of Housing and Land to approve, via Director Decisions, the detailed expenditure profiles and contractual terms with successful boroughs and agree appropriate substitute schemes with Government and successful boroughs where an approved scheme is no longer able to deliver within the timescales of the programme.

1.4. In order to access this funding for the Grange Farm scheme, the London Borough of Harrow is required to enter into a funding agreement with the GLA to deliver the infrastructure works as outlined in this Director's Decision.

1.5. This decision form seeks the Executive Director of Housing and Land's approval, following the due diligence process undertaken by Homes England, to commit £10 million to the London Borough of Harrow for the Grange Farm Regeneration Scheme.

Grange Farm Regeneration Scheme

1.6. The Grange Farm estate is located in the London Borough of Harrow, approximately 0.5 miles north of South Harrow Underground station. The site is c. 4.1ha in size. The regeneration will facilitate delivery of 574 new homes across three phases, with potential for a fourth phase.

1.7. The MVF will be used to fund the agreed infrastructure works comprised of land assembly and associated acquisitions costs required to enable delivery of Phase 1 and 2 of the wider project, together with demolitions of acquired properties including specialist removal of materials, land preparation, services, road diversions and an energy centre.

1.8. Hybrid planning permission for the comprehensive, phased, redevelopment of the Grange Farm estate was granted in February 2019. Phase 1 has detailed consent, while Phases 2 and 3 are outline. It is proposed that a total of 574 homes will be delivered across the three phases. This includes 300 homes for private sale, 249 for social rent, and 25 for shared ownership.

1.9. A plan of the site can be seen below, Shaftsbury Avenue runs along the north of the site and Northolt road to the east:

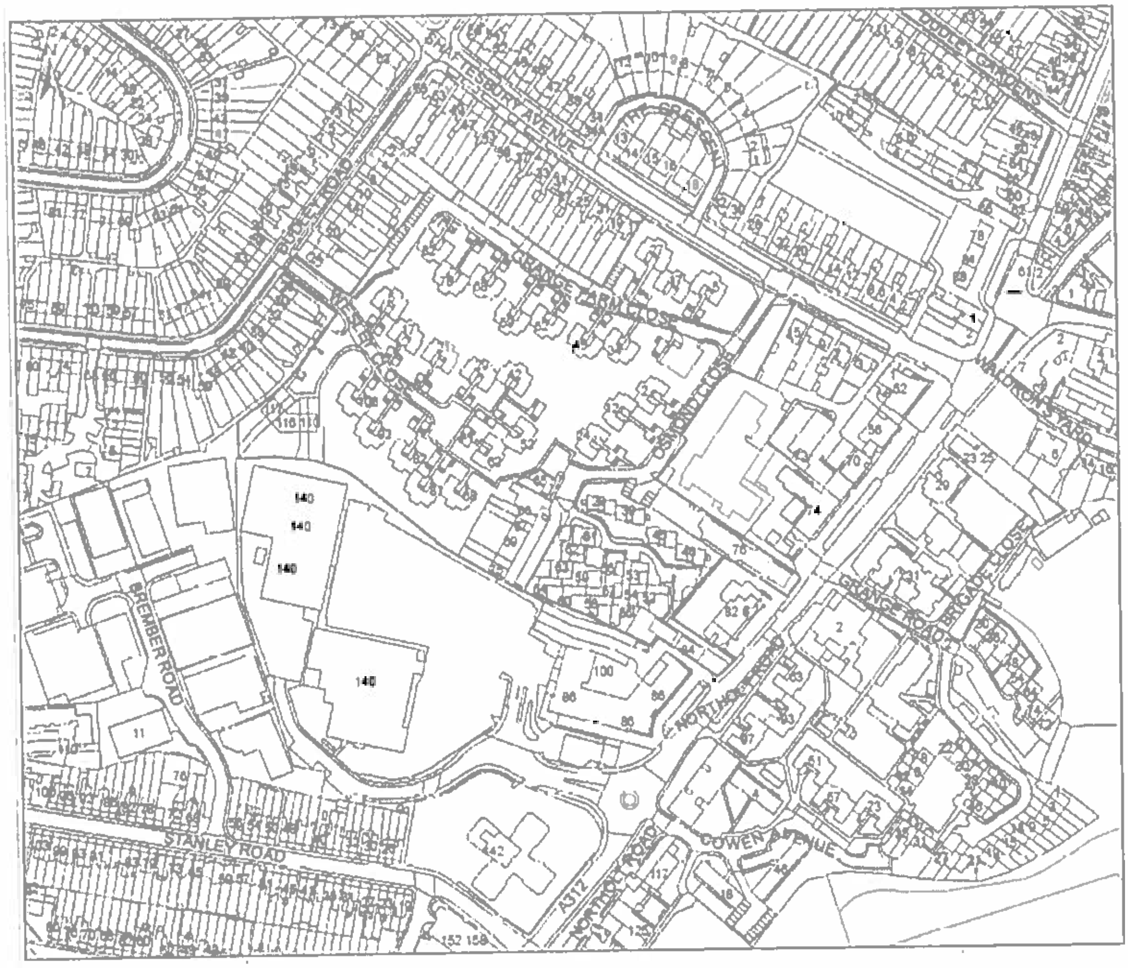

Figure 1 Scheme boundary

1.10. Homes England have undertaken detailed due diligence on the project, prior to the recommending to MHCLG that they award the HIF Funding. This included the use of external consultants to assess the proposal against the key criteria of the programme. The HIF funding is due to be drawn down by the GLA from MHCLG and transferred to LB Harrow for the land assembly and associated site preparation works as follows:

	2019/20	2020/21
April	£0	£6,281,277
October	£3,572,619	£146,104
Total	**£3,572,619**	**£6,427,381**

Project Delivery and key Milestones

Milestone	**Date**
HIF Funded Infrastructure Works Start Date	September 2017
HIF Funded Infrastructure Works Completion Date	March 2021
Start on Site Phase 1 Residential (89 Homes)	January 2020
Practical Completion Phase 1 Residential	June 2021
Start on Site Phase 2 Residential (244 Homes)	March 2022
Practical Completion Phase 2 Residential	June 2024
Start on Site Phase 3 Residential (241 Homes)	July 2024
Practical Completion Phase 3 Residential	September 2026

Stakeholders / Contractual Arrangements

1.11. The counterparty in respect of this funding is LB Harrow which will enter into the HIF-MVF Funding Agreement with the GLA.

1.12. Subject to satisfactory progress in delivery against project milestones, the GLA will provide grant to LB Harrow at 6 monthly 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 6-month period. All claims for grant funding must be signed off by the borough's section 151 officer.

1.13. Failure to deliver the HIF funded infrastructure described at paragraph 1.7 above or to meet a milestone for such infrastructure will be an event of default within the contract. In such circumstances the grant funding may be recovered. LB Harrow will also be contractually required to use reasonable endeavours to deliver wider project outputs, including the delivery of 574 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.

1.14. 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 1.19 below.

Due Diligence

1.15. Due diligence has been undertaken by Homes England and a panel of external consultants. They have recommended funding for the Grange Farm Regeneration 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:

- LB Harrow confirm that any surplus in a future fourth phase would be captured and recycled into housing in the Borough provided that such surplus is vested in the Borough and takes account of any planning viability assessments and section 106 requirements;
- LB Harrow to confirm that all funding necessary to deliver the scheme is available;
- LB Harrow to confirm that it will underwrite any overspend in infrastructure costs and commit to hold any underspend as a scheme contingency and subsequently recycle it into housing within the Borough;

- LB Harrow to confirm the funding complies with State Aid legislation;
- Detailed cost plans to be provided for housing and infrastructure works; and
- LB Harrow to confirm the estimated programme for Phase 3 of the scheme.

1.16. LB Harrow will also warrant that it has evidence that it has resolved to exercise CPO powers or appropriation in relation to the scheme.

Governance

1.17. 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. Terms of reference 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 Marginal Viability Fund 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 projects 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; and
- Commission evaluation surveys of London HIF projects, as necessary, to meet MHCLG requirements.

1.18. 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.

1.19. 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

1.20. The funding of the Grange Farm Regeneration Scheme is expected to unlock the delivery of 574 homes, including re-provision of council homes, a new community centre, provision of new infrastructure, pedestrian and cycle routes, and social value initiatives.

2. Objectives and expected outcomes

2.1. The agreed funding will:

- Facilitate the assembly of the site required for redevelopment and the associated site preparation works; and
- Unlock the delivery of 574 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 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. The Grange Farm Regeneration Scheme will help fund the supporting infrastructure needed to unlock a priority scheme for LB Harrow and contribute to the delivery of up to 574 new homes including 274 affordable.

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 between the GLA and LB Harrow, LB Harrow 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. *Delays could arise from the land assembly process which may take longer than expected.* This has been mitigated by the requirement for LB Harrow to approve the use of CPO where necessary to acquire the necessary interests.

4.2. *Further funding required.* This risk has been mitigated by the contractual condition for Harrow to fund any cost overruns.

4.3. *The homes are not delivered in accordance with the wider project milestones and outputs:* the purpose of the HIF grant awarded to LB Harrow is to unlock the delivery of 574 homes. The 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 it fails 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 Risk

4.4. *Detailed due diligence on the scheme has been undertaken by Homes England.* Whilst the GLA has reviewed the due diligence undertaken by Homes England and their external consultants, 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 LB Harrow 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.

4.5. *LB Harrow 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.

4.6. *LB Harrow draw down funding but do 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. As per paragraph 4.2.1. if any HIF funded infrastructure works output is not delivered in line with agreed milestones the GLA may suspend or withhold payment of any further grant instalments and recover all or part of the grant.

State Aid Compliance

4.7. LB Harrow have provided the GLA with the legal advice they have received confirming that the project delivery model is state aid compliant.

Links to Mayoral Strategies and Priorities

4.8. 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 will provide necessary investment to assist LB Harrow in unlock the Grange Farm regeneration scheme, making an important contribution toward meeting their ten-year housing targets. As such, it complements existing Programmes including the Mayor's Affordable Homes Programme 2016-2021.

4.9. 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.

5. Financial comments

5.1 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 Harrow 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 project 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 project is intended to unlock the delivery of up to 574 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 Harrow in relation to the project 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 External lawyers have advised GLA officers in relation to the form of grant agreement between the GLA and LB Harrow.

7. Planned delivery approach and next steps

Activity	Indicative Date
Complete HIF-MVF funding agreement with LB Harrow	July 2019
First drawdown of funding	October 2019
HIF Funding Infrastructure Start Date	September 2017
HIF Funding Infrastructure Delivery Date	March 2021
Phase 1 Start Date	January 2020
Phase 2 Start Date	March 2022
Phase 3 Start Date	July 2024

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: Gwen Mansfield has drafted this report in accordance with GLA procedures and confirms the following:	✓
Assistant Director/Head of Service: Rickardo Hyatt 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 the 5 August 2019	

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature M.T. [signature] **Date** 13.08.19

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE