

# GREATER LONDON AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD2231

**Title: Barking Riverside Gateways Housing Zone, London Borough of Barking and Dagenham – Land Assembly**

### Executive Summary:

MD1632 designated Barking Riverside Gateways as a Housing Zone and agreed to indicatively allocate funding of £30 million to deliver interventions within the zone that would unlock and/or accelerate housing and regenerate the area. The funding was approved subject to the outcome of legal and financial due diligence on the proposed interventions.

This Director's Decision seeks approval to contractually commit non-recoverable grant funding of £30 million to the London Borough of Barking and Dagenham to contribute towards the costs of assembling land in the predominantly industrial area of the Barking Riverside Gateways Housing Zone, which will assist in unlocking the development of over 3,000 homes, of which at least 35% will be affordable, by the end of 2034.

### 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, approve:

- following the due diligence in Part 2 of this Director's Decision, entering into a contractual commitment to provide non-recoverable grant funding of £30 million to the London Borough of Barking and Dagenham to fund the intervention specified below within the Barking Riverside Gateways Housing Zone.
- agree to the revised housing outputs, the re-profiled start on site and completion dates for the delivery of these outputs, and the funding interventions and payment timescales 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

**Signature:**



**Position:** Executive Director Housing and Land

**Date:** 26.3.2018

**Name:** Martin Clarke

**Signature:**



**Position:** Executive Director Resources

**Date:**

21.3.18

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

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

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

- 1.1 Barking Riverside Gateways was designated a Housing Zone by MD1632 and funding of £30 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 June 2016, 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 Riverside Gateways Housing Zone. LBBD will retain oversight of the delivery across the Housing Zone by implementing governance arrangements outlined in the Overarching Borough Agreement with the GLA.
- 1.3 MD2139 subsequently varied the Barking Riverside Gateways Housing Zone boundary to include the part of the Beam Park development site that falls within LBBD, noting that the part of the site that falls within the London Borough of Havering is already included within the Rainham and Beam Park Housing Zone boundary. It also increased the indicative allocation in the Barking Riverside Gateways Housing Zone by £5 million for the purposes of accelerating and/or unlocking the delivery of housing in the zone.
- 1.4 Due diligence has now been undertaken in respect of the proposed Barking Riverside Gateways intervention, the conclusion of which is set out below and in Part 2 of this Director's Decision. It is proposed that the intervention will be implemented by the GLA and LBBD entering into a contractual agreement known as a Borough Intervention Agreement (BIA).

#### Summary

- 1.5 A non-recoverable grant of £30 million is required by LBBD to contribute towards the costs of assembling land in the predominantly industrial area of the Barking Riverside Gateways Housing Zone. This funding intervention will assist in unlocking the development of 3,028 homes by the end of 2034. Of the total homes to be delivered, 1,573 are required to start on site and complete by 31 March 2026, and these are comprised of the following tenures:
  - 1,021 (65%) Market Sale homes; and
  - 552 (35%) affordable homes, comprising 331 Affordable Rent and 221 First Steps (shared ownership) homes. Of these affordable homes, 112 are forecast 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. In addition, while the current proposed level of affordable housing to be delivered is 35%, the aspiration is to achieve up to 50% (and no less than 35%), subject to viability.
- 1.7 As part of the neighbourhood development, LBBD will also deliver a new school.

#### Proposition

- 1.8 The Barking Riverside Gateways Housing Zone is an area with predominantly industrial uses. It is surrounded by Barking Riverside (to the southeast), Thames View Estate (to the north) and the Barking Town Centre (to the northwest) – where significant housing development is being undertaken. This industrial area, therefore, acts as a physical and perceptual barrier between these neighbouring residential communities, and this is seen as a major barrier to the Barking Riverside development, achieving its full potential.

- 1.8 To address these challenges, LBBD is proposing to use £30 million in non-recoverable grant funding to contribute towards the costs of land assembly. This will specifically involve the acquisition of 57 freehold properties, currently in different ownerships, across three areas within the zone: River Road, Thames Road West and Thames Road East. Assembly of this land is required to unlock the development of 1,573 homes by 31 March 2026 and 3,028 homes across the entire development, which will be split across ten phases.
- 1.9 This intervention is, therefore, targeted at achieving the following key objectives:
- eliminating the physical and perceptual barrier between the significant housing development underway in the neighbouring areas of Barking Riverside, the Thames View Estate and Barking Town Centre; and
  - forming strong gateways between these neighbouring areas.

#### Funding

- 1.10 To enable this project, LBBD is requesting a total of £30 million in non-recoverable grant funding from the GLA. The funding will be used to part fund the land acquisition required to unlock the development of 1,573 homes by 31 March 2026 within the Barking Riverside Gateways Housing Zone. In addition, the land acquisition will remove some of the risk associated with this type of brownfield project, thereby making it more attractive to potential development partners.
- 1.11 The remaining funding required for the development will come from a combination of LBBD's own resources and a private sector development partner, which LBBD intends to procure and form a 50/50 Joint Venture Limited Liability Partnership (JV LLP) with.
- 1.12 GLA funding is required to finance a gap identified in the budget and to improve the viability, which is complicated by the fact that there is a significant amount of land interests to be acquired. Additionally, given the historic industrial uses, Thames Road estate will require remediation. The site is in a flood plain and there will be a planning requirement to retain the same number of jobs on the site as currently exist.
- 1.13 However, due diligence, undertaken by Cushman and Wakefield (C&W), considered that the overall viability of the development has the potential to be marginally improved. The GLA will, therefore, put in place clawback provisions in respect of the £30 million in non-recoverable grant funding should land acquisitions not proceed as planned and/or, should the scheme proceed, values increase to generate a super profit. In the event of a super profit, the GLA would seek to reinvest any repayment of funding to increase the proportion of affordable homes on the scheme.
- 1.14 Without GLA investment, the development would either be delayed while alternative funding is sought, or LBBD's scheme would need to be reduced in size to fit the available budget (resulting in fewer private and/or affordable homes being delivered overall) and/or a more piecemeal development would be seen across the site. Therefore, GLA investment will accelerate delivery of the scheme and unlock more homes than could be delivered without such funding. This is primarily due to the need to create certainty for potential development partners, considering that the outstanding land acquisitions (based on the fragmented nature of existing ownerships) will be too onerous for most potential partners.

#### Stakeholders / contractual arrangements

- 1.15 As counterparty in respect of the aforementioned intervention, LBBD will be the recipient of the non-recoverable grant funding and will enter into a Borough Intervention Agreement (BIA) with the GLA.

## Appraisal

- 1.16 Project due diligence was undertaken by C&W to establish the appropriateness of LBBD's cost and value assumptions in relation to the Barking Riverside Gateway project. C&W highlighted that it considered residential values to be relatively low, while costs appear higher than expectations, and that this may allow the opportunity for viability to improve. In addition, C&W found build costs per sq m to be high based on its experience of major residential developments in East London, but recognised that higher build costs reflect the additional risk associated with site preparation, utilities and other ground works.
- 1.17 Furthermore, the grant per affordable home of £54,348, calculated by dividing the total non-recoverable grant (£30 million) by the total number of affordable homes (552) required to start on site and complete by 31 March 2026, is considered reasonable.

## Project milestones

- 1.18 LBBD has been progressing its plans for development within the Barking Riverside Housing Zone. It began the process of acquiring strategic sites within the Barking Riverside Gateways Housing Zone in June 2017. Having so far purchased four sites, LBBD is making progress with the land assembly programme, which is forecast to complete by 31 March 2021. Whilst LBBD is yet to commence pre-application planning, it has produced an initial masterplan that will be used to take forward an outline planning application. In relation to procuring a development partner, LBBD has undertaken soft market testing with a range of potential partners and has taken legal advice on a procurement approach, which recommends an Official Journal of the European Union (OJEU) compliant Competitive Procedure with Negotiation in order to procure a development partner. Provided land assembly, planning and procurement of a development partner proceed as expected, construction of the first homes on the site should start by 31 March 2021, with practical completion of the first homes occurring by 31 March 2022. 1,573 homes are required to start on site and complete by 31 March 2026.

## Governance

- 1.19 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.
- 1.20 The scheme will be delivered by Be First, a wholly owned subsidiary of LBBD, which was set up by them to accelerate economic growth and deliver regeneration in the borough.

## Conclusion

- 1.21 In summary, the proposed intervention has the potential to unlock housing supply, including a large proportion of affordable homes (currently 35%, but with an aspiration to achieve up to 50% subject to viability), within the Barking Riverside Gateways Housing Zone. However, without GLA Housing Zone funding totalling £30 million, delivery of the development is likely to be delayed or will not go ahead in its current form since LBBD is currently unable to identify alternative funding sources to plug the viability gap. The scheme will, therefore, not progress to the project milestones outlined in section 1.18 or be able to provide the same tenure mix as outlined in section 1.5 without GLA investment.

## 2. Objectives and expected outcomes

- 2.1 The project will deliver a mixed-use development comprising 1,573 residential homes, of which 552 will be affordable, by March 2026. A total of 3,028 homes will be delivered across the entire duration of development, ending in 2034. As part of the area's development, a new school will also be provided.

## 3. Changes to the Barking Riverside Gateways Housing Zone

- 3.1 LBBD has revised the number of homes to be delivered, its estimated start on site and completion dates for the delivery of these homes, and the funding interventions and payment timescales compared to the position set out in MD1632 and the Overarching Borough Agreement. Overall, however, more affordable homes will be delivered by March 2026. The proposed total number of homes to be delivered is now 1,573, rather than 1,902, and the proposed total affordable homes to be delivered has increased by 21.
- 3.2 The proposed revised start on site and completion dates are set out in the tables below. Start on site of the first homes is now forecast for 2020-21, rather than 2019-20. The first completions are still due to be in 2021-22.

### Barking Riverside Gateways Housing Zone, proposed revised start on site dates:

	2020-21	2021-22	2022-23	2023-24	2024-25	Total
<b>Affordable rent</b>	67	69	92	46	57	<b>331</b>
<b>Market Sale</b>	208	214	286	141	172	<b>1,021</b>
<b>First Steps</b>	45	47	62	30	37	<b>221</b>
<b>Total</b>	<b>320</b>	<b>330</b>	<b>440</b>	<b>217</b>	<b>266</b>	<b>1,573</b>

### Barking Riverside Gateways Housing Zone, proposed revised completion dates

	2021-22	2022-23	2023-24	2024-25	2025-26	Total
<b>Affordable rent</b>	67	69	92	46	57	<b>331</b>
<b>Market Sale</b>	208	214	286	141	172	<b>1,021</b>
<b>First Steps</b>	45	47	62	30	37	<b>221</b>
<b>Total</b>	<b>320</b>	<b>330</b>	<b>440</b>	<b>217</b>	<b>266</b>	<b>1,573</b>

- 3.3 In addition to the start on site and completion date changes, some of the grant payment details have been amended so that the funding is paid in tranches in 2018-19 and 2019-20, rather than between 2016-17 and 2021-2025.
- 3.4 These changes amount to a Tier 2 change under DD1485 and as per the change management procedure set out in that DD they have been reviewed and recommended by the Housing Zone Steering group on 8 January 2018.

## 4. Equality comments

- 4.1 In September 2017, the Mayor published the draft London Housing Strategy and in November 2017 he published the new draft London Plan for consultation. The Housing Strategy proposes the Housing Zone programme should continue to increase the pace and scale of housing delivery, including the proportion of affordable homes. The new draft London Plan, in policy H5, makes it clear that delivering more affordable housing is a key strategic priority for the Mayor.
- 4.2 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.

- 4.3 Throughout the decision-making process relating to the funding of these interventions due regard has been 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, and in particular affordable housing will help to achieve positive impacts in line with the 'three needs'.
- 4.4 This intervention will contribute towards the ambitions set out in the draft Mayor's Vision for a Diverse and Inclusive City (June 2017), in particular building more genuinely affordable accessible decent homes for Londoners (Priority Outcome 1.1).
- 4.5 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.
- 4.6 In order to access this funding LBBD will be required to enter a contract with the GLA to deliver the intervention specified in this Director's Decision. This places the following obligations on LBBD in respect of the Equality Act 2010:
- LBBD will 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 Grant Recipient Parties do likewise.
  - LBBD confirms that it has, and is in full compliance with, a policy covering equal opportunities designed to ensure that discrimination prohibited by the Equality Act 2010 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 A key risk to the GLA is if the scheme is delayed, changes significantly or does not proceed. It is, therefore, important for the GLA to include clawback provisions within the contract, appropriate monitoring mechanisms and stipulations on agreements before funding is released. Similarly, if the scheme generates a 'super profit' there should be the ability for the GLA to recoup some funding.
- 5.3 The GLA has carried out 'know your customer' checks to verify the party with which it is contracting under this proposed transaction. 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. The GLA will undertake formal identification and address verification for all signatories.

*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 Barking Riverside Gateways development will contribute towards meeting the Mayor's key strategic priority, set out in policy H5 of the new draft London Plan, to deliver more affordable housing, and to meeting the need to provide 66,000 additional homes per year identified by the Strategic Housing Market Assessment (November 2017). 112 of the affordable homes unlocked by this intervention are forecast 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 Barking Riverside and the gateway sites leading to it are identified as key development areas in the London Riverside Opportunity Area Planning Framework (OAPF) (Adopted in September 2016). The London Riverside OAPF was designated as such in the current London Plan (March 2016). The London Riverside OAPF describes the area as an 'intervening industrial use' between the areas where development is underway, and notes that Strategic Industrial Land could be released in this area and the area re-developed for residential use.

*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. Financial comments**

- 6.1 This decision requests approval to contractually commit £30m of non-recoverable grant funding to the London Borough of Barking and Dagenham (LBBD) towards land assembly costs, within the Barking Riverside Gateways Housing Zone. GLA obtained a satisfactory due diligence result prior to reaching this decision (per findings set out above and in Part 2).
- 6.2 The total indicative allocation for the Barking Riverside Gateways Housing Zone is £35m (£30m – non-recoverable grant MD1632 + £5m – interest-free Loan MD2139).
- 6.3 The grant per affordable home is £54,348, (being £30m divided by 552 homes) which is considered reasonable.
- 6.4 Due diligence has been undertaken by Cushman and Wakefield. The due diligence report states there is some opportunity for the viability of the development to be improved. The GLA should therefore put in place clawback provisions on the grant in the case of excess profit being generated on the development by the developer.
- 6.5 As it is a non-recoverable grant allocation, it represents a financial risk to the GLA, which is mitigated through contractual obligation from LBBD to repay the funding, on a pro-rata basis, in the event of non-delivery (see Section 1.12 above for further details).

6.6 Grant/Recoverable Grant funding profile at £400m is currently over forecast by £20m. It should be noted, however, that only £193m (exclusive of the current commitment) has been committed on thirteen interventions. There is additional £47.28m that currently in the process of being committed on further five interventions, which will bring the total of committed and pending to £240.28m.

6.7 See Part 2 for further comments.

## **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 intervention providing it considers 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.

7.2 The intervention 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.

7.3 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 as set out above.

7.4 The GLA has engaged with the London Borough of Barking and Dagenham in relation to the intervention which is the subject of this Director Decision. 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.

7.5 External lawyers 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. No funding is to be paid out unless, amongst other requirements, London Borough of Barking and Dagenham's solicitor has either provided an opinion (satisfactory to the GLA) as to the State Aid treatment of the intervention or undertaken to meet the GLA's reasonable legal costs in procuring an opinion from the GLA's solicitors as to the same matter. Further, if there is found to have been any unlawful State Aid, and the intervention cannot be restructured to be compliant, the London borough of Barking and Dagenham must repay the unlawful State Aid following a written demand for repayment by the GLA.

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

<b>Activity</b>	<b>Timeline</b>
Completion of Borough Intervention Agreement	March 2018
Procurement of Development Partner	June 2020
Completion of land assembly programme / vacant possession achieved	March 2021
Physical Start on Site of the first homes	March 2021
Practical Completion of the first homes	March 2022
Practical Completion of 1,573 homes	March 2026

## **Appendices and supporting papers:**

N/a.



**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 19 March 2018.

**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

21.3.18

