

# GREATER LONDON AUTHORITY

## REQUEST FOR DIRECTOR DECISION – DD2454

### Accelerated Construction Fund: Precision-Manufactured Council Homes – London Borough of Lewisham

#### Executive Summary:

Mayoral Decision (MD) 2396 approved the receipt of £486 million of funding from Government to help unlock and accelerate housing delivery in London through land assembly, infrastructure investment and provision of gap funding.

MD2396 also approved a delegation to the Executive Director of Housing and Land in consultation with the Deputy Mayor for Housing and Residential Development, to approve the allocation of funding, in accordance with the terms associated with the programme and in pursuit of the Mayor's housing ambitions.

This Director's Decision requests approval for the provision of a grant of £13.85 million to Lewisham Council to enable the delivery of 125 affordable homes, using precision manufacturing methods of construction.

#### Decision:

That the Executive Director of Housing and Land approves a grant of up to £13.85 million from the Accelerated Construction Fund (MD2396) to Lewisham Council to enable the delivery of 125 affordable homes, using precision manufacturing methods of construction.

#### 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:**

17 March 2020

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

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

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

##### *Introduction*

- 1.1. In November 2018 MD2396 approved receipt of £486 million of funding from Government to help unlock and accelerate housing delivery in London through land assembly, infrastructure investment and provision of gap funding.
- 1.2. MD2396 delegated authority to the Executive Director of Housing and Land in consultation with the Deputy Mayor for Housing and Residential Development, to approve the allocation of this new funding in accordance with the terms associated with the programmes and in pursuit of the Mayor's housing ambitions.
- 1.3. The Mayor's Housing Strategy highlights that precision manufactured homes have the potential to offer greater consistency and quality control, alongside additional benefits in terms of speed of delivery, cost efficiencies and safety on construction sites.
- 1.4. This Director's Decision requests approval to use the Accelerated Construction Fund (ACF) to provide a grant of £13.85 million to Lewisham Council to enable the delivery of 125 affordable homes, using precision manufacturing methods of construction. The Council has been a leader in these methods, completing 24 homes in the PLACE project in Ladywell in 2016.
- 1.5. This ACF grant will help Lewisham Council to address housing need in the borough and accelerate delivery of additional affordable homes. Lewisham Council already has a £37.1 million grant funding agreement with the GLA under the Building Council Homes for Londoners (BCHfL) programme to build 374 affordable homes, all to achieve start on site by 31 March 2022, and the first of these homes have commenced construction. The 125 homes funded via ACF will be additional to the 374 already funded via BCHfL.

##### *Scheme details*

- 1.6. This funding will be used to part-fund construction costs associated with 125 affordable homes across several schemes in the borough of Lewisham. All homes built with this grant are expected to be made available at London Affordable Rent benchmarks or below. All homes will be self-contained family sized accommodation meeting Mayoral Space Standards.
- 1.7. The schemes will be procured under the Council's Precision Manufactured Homes (PMH) programme using precision-manufacturing partners and an off-site construction approach. Both development and management of the completed homes is expected to be through Lewisham Homes (the Council's Arms Length Management Organisation). All development will take place on council-owned land.
- 1.8. The first 78 affordable homes to be built will be at Home Park in Sydenham (31 homes) and Mayfield in Lee (47 homes). Both schemes achieved planning permission in 2018. Details of both schemes have been assessed by GLA officers using a benefit-cost model, and the schemes achieve a benefit-to-cost ratio greater than 1.5, which is a requirement of the Ministry of Housing, Communities and Local Government for all schemes funded under the Accelerated Construction Fund.
- 1.9. Upon entering into the contract for this grant funding, Lewisham Council will be contractually committed to construction of these two schemes, procured through a single tender process which closed on 29 November 2019.
- 1.10. Home Park will achieve a start on site before 30 June 2020 and Mayfield will achieve a start on site before 31 March 2021. Both schemes will be completed by 31 March 2022.
- 1.11. A further 47 homes are to be funded through this grant, at additional sites to come forward in the borough. The specific schemes are to be named by 30 June 2020, following completion of the

Council's due diligence processes to assess suitability for delivery via PMH, and subject to meeting the criteria of the GLA contract, including start on site before 31 March 2022.

#### *Wider benefits*

- 1.12. The wider benefits of the proposed grant relate to addressing uncertainty, perceptions of risk and lack of experience with PMH as a method of construction, including how to design for PMH, procure for PMH, and navigate the planning approvals process. These challenges apply to contractors and developers, and in particular local authorities across London who are growing their in-house homebuilding capacity.
- 1.13. The proposed grant agreement will require Lewisham Council to monitor its ongoing performance and practice in delivering the homes, with reporting and dissemination obligations to include Lewisham's team presenting at open learning sessions hosted by the GLA, written case studies and ad hoc engagement from Lewisham's team with interested local authorities.
- 1.14. £100,000 is allocated within the overall £13.85 million funding envelope to support a monitoring and reporting regime to quantify the performance of the PMH delivery programme, including the building performance post-occupancy. This amount will be capitalised within this funding arrangement, making the effective grant rate £110,800 per home.

#### *Stakeholders / Contractual Arrangements*

- 1.15. The counterparty in respect of the ACF grant agreement for 125 affordable homes is Lewisham Council.
- 1.16. Subject to satisfaction of certain conditions precedent and satisfactory progress in delivery against project milestones, the GLA will provide grant in the following instalments for each site:
  - a) 50% upon entry into the manufacturing contract,
  - b) 30% at start on site,
  - c) 10% at installation of modular homes on site, and
  - d) 10% at practical completion,
- 1.17. The contractual arrangements proposed include the majority of provisions featured in the Building Council Homes for Londoners programme. Failure to deliver any of the homes by 31 March 2023 will trigger a proportionate clawback of grant. Further details of proposed risk mitigation are contained at Para 4.1 to 4.5 below.
- 1.18. The GLA will report on progress to MHCLG in accordance with the terms of the Memorandum of Understanding which covers the Accelerated Construction Fund.

#### *Governance*

- 1.19. An Area Manager from the GLA Housing and Land Directorate will manage the relationship with the Council, chairing quarterly progress and monitoring meetings as appropriate.
- 1.20. The officer will ensure the reporting obligations on Lewisham Council are met, by monitoring progress against programme milestones and ensuring the wider learning is shared across relevant partners in London.

#### *Legacy*

- 1.21. The grant will enable Lewisham Council to deliver 125 additional affordable homes, to be completed by 31 March 2023.
- 1.22. Upon completion of the programme, Lewisham Council and the GLA will have delivered a joint programme of learning events and materials to inform London's housing sector in the adoption of precision manufactured approaches to construction and development.

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

- 2.1. The grant will accelerate the delivery of 125 affordable homes in the borough of Lewisham and build the capacity of London's housing sector to adopt precision manufacturing approaches.

## **3. Equality comments**

- 3.1. This funding will increase the number of affordable homes in London, in turn helping to implement the current policies set out in the London Housing Strategy, published in May 2018. In September 2017 the GLA published an Impact Assessment, including an equalities impact assessment, of that strategy.
- 3.2. Delivery of additional affordable rented homes in London is likely to help many of those with protected equality characteristics, as many of these groups are disproportionately represented among those in need of affordable housing. This is in part because they are more likely to experience homelessness or overcrowding, or to have low incomes that make it difficult for them to afford market housing.
- 3.3. In order to access funding, Lewisham Council will be required to enter in to contract with GLA. With regard to project delivery, the GLA's affordable housing contracts place the following standard obligations in respect of the Equality Act 2010 upon the counterparty:
  - The Grant Recipient will comply in all material respects with all relevant Legislation relating to health and safety, equality and relevant employment matters and will use reasonable endeavours to procure that all Grant Recipient Parties do likewise.
  - The Grant Recipient 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.
  - The Grant Recipient shall have due regard to the public sector equality duty under Part 11 of the Equality Act 2010 insofar as its activities under this Agreement could reasonably be deemed to be functions of a public nature for the purposes of that Part.

## **4. Other considerations**

### *Key Risks and Mitigation*

- 4.1. *Housing development using precision manufactured approaches is not viable with agreed grant rates.* The grant agreement will only be executed once Lewisham Council has entered into contract with a manufacturer for the first two schemes, having assessed overall financial viability.
- 4.2. *Housing delivery is delayed.* Lewisham Council has already completed the tendering phases of procurement and received a viable number of responses, such that it is currently assessing the preferred manufacturer. For the two named schemes – Home Park and Mayfield – site preparations for the construction timetable have progressed during 2019, and the GLA has been assured vacant possession will be achieved in accordance with project milestones and minimise the amount of time needed for construction on site.
- 4.3. Further to the 78 homes to be built at Home Park and Mayfield, the grant agreement provides for additional schemes to be named before 30 June 2020, to fully deploy the grant allocation (otherwise the remaining grant allocation will be forfeited). Any further scheme will be authorised at the discretion of the GLA and must, amongst other matters, satisfy the following criteria:
  - the site is located in the borough of Lewisham;
  - all homes are at London Affordable Rent benchmarks or below;
  - the scheme is to be procured to be delivered using precision manufacturing methods;

- there is robust evidence that the scheme will be able to start on site before 31 March 2022 and complete by 31 March 2023 and
- the scheme achieves a benefit-to-cost ratio of greater than 1.5.

4.4. *Housing outputs delivered in a novel contracting and procurement process fall short of standards, regulations and safeguards expected by GLA investment.* The contractual arrangements proposed include the majority of provisions featured in the Building Council Homes for Londoners programme. The precision manufactured homes to be delivered under this grant will all require standard planning permission, and the GLA contract will require that all homes:

- meet Mayoral space standards;
- have secured all relevant consents including but not limited to building control; and
- must be let by Lewisham Council to households who are in housing need

4.5. The grant is social housing assistance and both parties acknowledge that the Recovery of Capital Grant General Determination applies, meaning grant would become recoverable in the event of:

- failure by Lewisham to use Capital Grant for the purpose for which it was paid; or
- disposal of property or land funded by Capital Grant, except in the limited circumstances set out in the Recovery Determination

#### *Links to Mayoral Strategies and Priorities*

- 4.6. The Mayor's Housing Strategy dedicates a whole chapter to delivering genuinely affordable homes. Contained within this chapter there are three policies (4.1 – genuinely affordable homes; 4.2 – increasing delivery of affordable homes; and 4.3 – protecting London's affordable homes) which set out the need and means for delivering many more genuinely affordable homes for Londoners. This funding responds to that strategic priority.
- 4.7. The Mayor's Housing Strategy highlights that precision manufacturing of homes has the potential to offer greater consistency and quality control, alongside additional benefits in terms of speed of delivery, cost efficiencies and safety on construction sites.

#### *Declarations of Interest*

- 4.8. 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 £13.85 million of Accelerated Construction Fund (ACF) grant to LB Lewisham for delivery of 125 affordable homes at London Affordable Rent benchmarks or below using precision manufacturing methods of construction.
- 5.2 The ACF expenditure will be funded from the MHCLG Land Fund (capital grant of £486m approved by MD2396). Any project overspend and delivery risk will 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 facilitate the delivery of 125 affordable rented homes, 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 MD2396 relating to the Accelerated Construction 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 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**

<b>Activity</b>	<b>Indicative Date</b>
Execute contract with LB Lewisham	31 March 2020
First homes start on site	30 June 2020
All homes completed on site	31 March 2023

### **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:**

Heather Juman 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 16 March 2020.

**EXECUTIVE DIRECTOR, RESOURCES:**

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

Signature

*M. D. Bllc*

Date

*16.3.20*

