

GREATER LONDON AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD1402

Title: Mayor's Housing Covenant 2015-18: Revolving Fund – Entry into Legal Agreement with Big Issue Invest

Executive Summary:

MD1425 approved the selection of two housing providers, including Big Issue Invest, for the allocation of up to £50m funding under the Mayor's Housing Covenant 2015-18 (Revolving Fund), subject to the successful completion of contract negotiations.

Contract negotiation on a Revolving Fund Facility Agreement has now successfully concluded and a Director Decision is required, in line with MD1425, to approve entry into legal agreements with Big Issue Invest, which makes available £10m of funding under the Mayor's Housing Covenant 2015-18 (Revolving Fund) to deliver 90 homes by March 2018, and a minimum of 200 but up to 400 homes by March 2027.

Decision:

That the Director:

- **APPROVES** entry by the GLA into a Revolving Fund Facility Agreement with Big Issue Invest Limited and any other legal agreements required in relation to the GLA's security in respect of the same, as summarised in Part 2 of this Director Decision form, in accordance with the delegation agreed in MD1425.
- **APPROVES** expenditure of up to £10m from the Mayor's Housing Covenant 2015-18 (Revolving Fund), in accordance with the delegation agreed in MD1425, and the setting up of a Charged Account to safeguard GLA investment.

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

Position: Executive Director Housing and Land

Signature:



Date:

01/10/15

PART I – NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

- 1.1 The Mayor's Housing Covenant 2015-18 (Revolving Fund) programme was launched in December 2013 as part of the Mayor's work to maximise delivery of affordable housing in London. The programme invited expressions of interest from housing providers for innovative ways of delivering affordable housing through a Revolving Fund.
- 1.2 Housing providers were invited to submit expressions of interest for funding to deliver homes to complete by March 2018. The Revolving Fund makes further provision to allow initial investment drawn down in 2015-18 to be recycled to deliver additional affordable homes after March 2018 in accordance with the terms and conditions agreed with the GLA. The capital sums invested by the GLA will be recovered and paid back to the GLA at the end of the agreed fund term, typically a ten year period.
- 1.3 The first stage of due diligence concluded at the end of May 2014, with MD1379 approving five proposals for taking forward to a second stage of due diligence. The second stage of due diligence addressed commercial, technical, legal, and regulatory matters. The second stage concluded at the end of September 2014. Two bids (Big Issue Invest and Gentoo Genie) were selected to enter into final contract negotiations.
- 1.4 On 5 January 2015, MD1425 approved the selection of Big Issue Invest and Gentoo Genie for the allocation of up to £50m funding under the Mayor's Housing Covenant 2015-18 (Revolving Fund), subject to contract negotiations being successfully concluded and the terms of the agreements finalised to the satisfaction of GLA. Authority was delegated to the Executive Director of Housing and Land in consultation with the Deputy Mayor for Housing, Land and Property to approve entry into the legal agreements. A legal agreement was entered into with Gentoo Genie on 24 January 2015.
- 1.5 Final contract negotiations have now been concluded with Big Issue Invest and it is proposed that the GLA will enter into a Revolving Fund Facility Agreement with Big Issue Invest. It is further proposed that the GLA enters into various additional agreements, including a Deed of Priority, to ensure that the GLA has adequate security in respect of this funding; this security is described in paragraphs 1.6 and 1.7 below and in Part 2. The Big Issue Invest proposal involves a revolving loan from the GLA, which would not benefit from interest but which must be repaid in full within ten years. GLA makes payments to Big Issue Invest, once certain conditions are satisfied in relation to each project, with Big Issue Invest drawing down funding in order to make repayable loans and investments (sub-loans) to social sector organisations (sub-borrowers) undertaking affordable housing-related projects.
- 1.6 Following initial drawdown of GLA funding, it is intended that all capital repayments (of sub-loans) to Big Issue Invest will be reinvested into further schemes to deliver more outputs than the initial number proposed. Big Issue Invest must pay all capital repayments into an account charged in favour of the GLA. GLA will have a debenture over Big Issue Invest. Under the terms of the debenture and the notice to be contained in each sub-loan, the GLA will have the benefit of each sub-loan – and any security granted in support of the sub-loan – assigned to it by Big Issue Invest. The GLA will have first call on the security granted in respect of the sub-loans and any credit standing to the account charged in favour of the GLA. The proceeds of any residual Big Issue Invest assets over which the GLA has security under the debenture will however be subject to the priority set out in the Deed of Priority with Big Issue Invest's other secured lenders referred to below.

- 1.7 A Deed of Priority will be entered into between the GLA, Big Issue Invest and other secured lenders which will set out the rights of respective lenders to take recourse to the assets of Big Issue Invest.
- 1.8 The Revolving Fund Facility Agreement has been drafted by Trowers & Hamlins LLP on behalf of the GLA, which fully reflects this proposal and suitably protects the GLA's position. Further details of the key terms are set out in Part 2.

2. Objectives and expected outcomes

- 2.1 It is recommended that GLA enter into legal agreement with Big Issue Invest.
- 2.2 Big Issue Invest will provide access to development finance for social sector organisations to deliver affordable homes (for affordable rent and shared ownership) that create jobs and skills for the most disadvantaged. GLA investment will be in the form of an interest-free revolving loan for on-lending to social sector organisations undertaking affordable housing-related projects. The revolving fund will be drawn down in stages by Big Issue Invest over three years between 2015/16 and 2017/18. Each draw down will be repaid to the GLA ten years after initial draw-down, with full repayment of the facility by March 2027.
- 2.3 The GLA's investment will deliver 90 homes between 2015 and 2018, and a minimum of 200 but up to 400 new homes by March 2027. The investment will help to increase housing supply to levels not seen since the 1930s, one of the key priorities of the Mayor's Housing Strategy, as well as supporting vulnerable and homeless adults to gain work experience and skills to help them into and sustain full employment.
- 2.4 It is anticipated that the allocation to Big Issue Invest will create 50 jobs and 50 apprenticeships. These outputs are contractually required from Big Issue Invest, and will be monitored on an ongoing basis.

3. Equality comments

- 3.1 The Mayor's Housing Covenant 2015-18 (Revolving Fund) programme implements the policies and priorities set out in the Mayor's London Housing Strategy. In January 2014, the GLA published an Integrated Impact Assessment (IIA), including an equalities impact assessment, of that strategy. The policies related to increasing housing supply, of which this paper relates, were covered by the IIA for the Further Alterations to the London Plan.
- 3.2 The IIA concluded that updating housing projections and targets would support the delivery of sufficient housing and may help stabilise housing prices, supporting equal opportunities throughout communities. Furthermore, the provision of housing, including maximising the delivery of affordable housing would be in line with other policies of the Plan (e.g. Policy 3.5), ensuring that the needs of different groups are taken into account in the housing design.
- 3.3 Big Issue Invest will look to target their loan finance at small to medium businesses, mostly community based groups that cannot access finance from mainstream lenders. These organisations focus their business on bringing empty properties back into use whilst engaging with some of the capital's most marginalised individuals that may have experienced continued periods of unemployment and or long term homelessness. By engaging with these groups that would otherwise not get a chance to learn a skill assisting with the refurbishment and then have the potential of housing at the end, address some of the Mayor's core objectives and creates more opportunities for those who may be unemployed or homeless to be treated equally within society.

4. Other considerations

4.1 Further due diligence has resolved the issues highlighted in MD1425 in relation to:

- i. EU State Aid compliance confirmation. Advice has been received from the GLA's external lawyers and incorporated into the contract.
- ii. A Deed of Priority to the satisfaction of GLA Head of Financial Services.

Further details of this due diligence are set out in Part 2.

4.2 Final contract negotiation has confirmed GLA will receive an appropriate level of security on its investment. Further details about the GLA's approach to safeguarding this investment are set out in Part 2.

4.3 Further risks have been mitigated as follows:

4.3.1 Risk: Big Issue Invest fails to deliver the homes forecast in the proposals

Mitigation: Strong programme management arrangements have been agreed, including formal quarterly funding agreement reviews. Pipeline projects and substitutes will be managed to ensure that slippage or non-delivery is mitigated with viable replacement projects.

4.3.2 Risk: Long-term management and recovery of investment

Mitigation: Robust legal agreements will be put in place to govern how parties manage investment for the duration of the fund term, including how and when investment is drawn down against project costs. Clear reporting and monitoring arrangements will proactively track and manage investment, supported by appropriate security packages to mitigate the risk of event(s) of default.

5. Financial comments

5.1 This allocation of £10m of revolving funding is to be made, interest free, to Big Issue Invest to finance sub-loans to social sector organisations to enable the delivery of affordable housing.

5.2 There is a risk inherent in making a loan that some or all of the funding will not be repaid. This risk will be borne by the Housing and Land revolving fund budget.

5.3 The funding for these loans makes up part of the Mayor's Housing Covenant 2015-18 programme and will be drawn down by Big Issue Invest as set out in the part 2 finance comments.

5.4 The GLA will have approval on the sub-loan parties and terms and will hold security as set out in the part 2 legal comments.

5.5 All loans will be repaid to the GLA by March 2027 and any returned funds will be held in a charged account, which will have named officers within the GLA as signatories, before it is recycled, which will require GLA approval.

5.6 Average loan funding per unit, based on the minimum target of 200 units receiving funding, will be a maximum of £50,000.

6. Legal comments

- 6.1 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), of the GLA Act are:
- 6.1.1 promoting economic development and wealth creation in Greater London;
 - 6.1.2 promoting social development in Greater London; and
 - 6.1.3 promoting the improvement of the environment in Greater London
- 6.2 and, in considering the proposed agreement described in this Director Decision form, officers confirm they have complied with the GLA's related statutory duties to:
- 6.2.1 pay due regard to the principle that there should be equality of opportunity for all people;
 - 6.2.2 consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and
 - 6.2.3 consider consulting with appropriate bodies.
- 6.3 Given the above, Section 34 of the GLA Act, which allows the Mayor to do anything which is calculated to facilitate or is conducive or incidental to the exercise of any of his functions (including his functions under section 30), and the Mayor's powers (under Section 38 of the GLA Act) to delegate to any GLA member of staff functions of the GLA that are exercisable by him, the foregoing sections of this form 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 MD1425).
- 6.4 External legal support has been procured from Trowers and Hamlins LLP who have been appointed by Legal to act for the GLA in the drafting and negotiation of the legal agreements with Big Issue Invest Limited and in relation to the state aid due diligence. Further legal comments appear in Part 2.

7. Planned delivery approach and next steps

Activity	Timeline
Big Issue Invest enter into contract with GLA	September 2015
Press release and publicity, including through Big Issue	October 2015
Revolving Fund begins to operate with funds drawn down	December 2015
GLA undertake strategic review of Revolving Fund principles and progress to determine success and replicability to further deliver Mayor's strategic objectives	March 2016
Revolving Fund investment fully recovered	March 2027

Appendices and supporting papers:

MD1379
MD1425

{Both available on GLA external website}

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? YES**

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

Until what date: Friday 9 October 2015

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**X****ORIGINATING OFFICER DECLARATION:**

Drafting officer to
confirm the
following (✓)

Drafting officer:

Andrew Williams has drafted this report in accordance with GLA procedures and confirms that:

✓

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.

✓

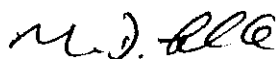
Financial and Legal advice:

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

✓

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature**Date**

1.10.15

