

# GREATER LONDON AUTHORITY

## REQUEST FOR MAYORAL DECISION – MD2267

### Title: Heart of Harrow (LB Harrow) Housing Zone – Former Cumberland Hotel

#### Executive Summary:

The purpose of the Housing Zones programme is to increase housing supply by accelerating and/or unlocking development. This Mayoral Decision allocates £42.501m to accelerate housing delivery within the Heart of Harrow (LB Harrow) Housing Zone, as an interest-bearing loan facility to fund construction of 204 homes, of which 40% will be affordable, on the Former Cumberland Hotel scheme in LB Harrow.

#### Decision:

That the Mayor:

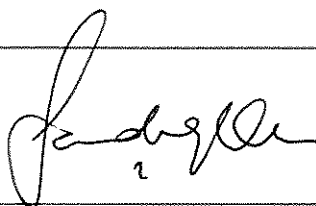
- approves the allocation of £42.501m of Financial Transaction funding to be made available for the purposes of accelerating housing delivery within the Heart of Harrow (LB Harrow) Housing Zone; and
- approves contractually committing this Financial Transaction funding to the borrowers in the form of an interest-bearing loan facility to accelerate housing delivery within the Heart of Harrow (LB Harrow) Housing Zone, noting that legal and financial due diligence has been satisfactorily completed as described in the report below.

#### Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision, and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

29/5/18

## **PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR**

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

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

##### Introduction

- 1.1 MD1457 designated Heart of Harrow (LB Harrow) as a Housing Zone (HZ) and indicatively allocated £31.4m to unlock and accelerate housing in the area. Following this designation, the GLA and LB Harrow entered into an Overarching Borough Agreement (OBA) in September 2015. After the signing of the OBA, MD2139 allocated an additional £25.3m of HZ funding to the Heart of Harrow HZ to accelerate the delivery of housing in the area.
- 1.2 This report seeks the Mayor's approval to allocate £42.501m of Financial Transaction (interest-bearing loan) funding to the Heart of Harrow (LB Harrow) HZ. It is proposed that GLA Land and Property Limited (GLAP) commits this funding to two borrowers in the form of an interest-bearing loan to facilitate development of the Former Cumberland Hotel site in LB Harrow. This decision takes the form of an MD rather than a Director Decision because no indicative funding allocation currently exists in the Heart of Harrow (LB Harrow) HZ.
- 1.3 The loan funding will support the delivery of 204 new homes on the site, of which 81 will be affordable (40%).
- 1.4 The borrowers approached the GLA to explore options to fund development costs for the site. If the proposed interest-bearing loan is not approved, the borrowers would need to access the financial markets to fund development, which would slow down delivery of the Former Cumberland Hotel scheme. The loan funding will therefore accelerate the delivery of housing.
- 1.5 Due diligence has been completed in respect of the proposed intervention. The details of this work are set out below and in Part 2 of this report.
- 1.6 The £42.501m will be funded through the £200m facility that government awarded the GLA to support the HZ programme. This facility is currently overprogrammed in that contractual commitments represent approximately £202m, but the GLA is in negotiation with government to recycle £150m of the £200m facility. The GLA's Interest Rate Setting Board (IRSB) approved the proposed funding of £42.501m on the basis that either the recycling proposal is agreed or, as an exit strategy, the funding comes from existing, uncommitted funding programmes within the Housing and Land Directorate.
- 1.7 Approximately £3m of additional funding from the Mayor's Affordable Homes Programme 2016-21 has been approved to facilitate the delivery of 40% affordable housing on the site. This is in line with the Mayor's Affordable Housing and Viability Supplementary Planning Guidance, published in August 2017. This Mayoral Decision does not seek approval for funding from the Affordable Homes Programme 2016-21 for this scheme. Any further funding other than the £42.501m loan facility described in this document either already has, or will require, separate approval.
- 1.8 LB Harrow will retain oversight of delivery across the HZ by implementing the governance arrangements outlined in the OBA between LB Harrow and the GLA.

##### Summary

- 1.9 The Former Cumberland Hotel site is located within Harrow Town Centre East within the Heart of Harrow HZ. GLA funding improves the risk profile of the scheme and will accelerate delivery of the site compared with a situation requiring the need to secure funding from other sources.

### Proposition

- 1.10 The proposed commercial loan will support the Former Cumberland Hotel scheme. The scheme is expected to deliver 204 homes, of which 81 will be affordable (40%), by February 2021. The scheme is in conformity with the vision for the Heart of Harrow HZ.

### Funding

- 1.11 The Heart of Harrow (LB Harrow) HZ does not currently have an indicative allocation for Financial Transaction funding. Consequently, this report seeks the Mayor's endorsement to commit £42.501m of Financial Transaction funding (see MD1481 regarding Financial Transactions) in the form of an interest-bearing loan facility from the HZ loan programme on the basis it will be repaid in full the earlier of the sale of the last home in the development or 5 years from the point of the initial investment.

### Stakeholders / Contractual Arrangements

- 1.12 The £42.501m is to be split into two loans to different borrowers as follows albeit both loans relate to the same development:
- loan 1 – £25,501,000 loan to Central Harrow LLP (the joint venture);
  - loan 2 – £17,000,000 loan to Origin Housing Limited (the registered provider).
- 1.13 The borrower for loan 1 is a joint venture (JV) between Hill Residential Limited (HRL) and Origin Housing Developments Limited (OHDL). This loan is funding the private sale and non-residential element of the development. HRL is a medium sized housebuilder operating across London and south-east England. It has previously benefitted from GLA loan funding for the Northolt Road scheme through its joint venture with OHDL on this scheme (see DD2160 for further information on this scheme). OHDL is a wholly owned subsidiary of Origin Housing Limited (OHL).
- 1.14 Loan 2 to OHL is funding the affordable housing element of the development. OHL is a registered provider (RP) and GLA Investment Partner. Separately from its JV with HRL on the Northolt Road scheme through its wholly owned subsidiary OHDL, OHL accessed HZ loan funding on the Northolt Road scheme to develop the affordable housing element of that scheme.
- 1.15 The £42.501m loan facility will be split across two loans in the way described above. Separate loan facility agreements and associated security documentation will be used to contract for both loans.

### Appraisal

- 1.16 Project due diligence and an assessment of creditworthiness has been undertaken. The GLA's retained property consultants, Savills, reported that cost and value assumptions are generally in line with its expectations. Further detail is included in Part 2. The creditworthiness assessment did not reveal any factors that would prevent GLAP funding the JV or the RP.
- 1.17 The GLA's IRSB considered a report summarising the scheme and borrower creditworthiness on 20 December 2017. Guided by the methodology in the European Commission's communication in relation to setting interest rates and in accordance with State Aid rules, including a consideration of borrower creditworthiness and the security on offer, IRSB determined that the interest rate for both loans has been made on the basis that they are equivalent to a market rate and are subject to contract. The rates are detailed in Part 2.

## Project Milestones

- 1.18 The site is owned by the RP. The scheme received planning in December 2017, is due to start on site by June 2018 and complete by February 2021.

## Governance

- 1.19 GLAP will enter into two separate loan agreements, the first with the JV and the second with the RP. A designated officer from the GLA's Housing and Land Directorate will manage this relationship across both loans through quarterly meetings, with overview from the Housing and Land Directorate Management Team. The funding agreements will place reporting obligations on the borrowers linked to project milestones.

## Conclusion

- 1.20 The proposed funding will facilitate and accelerate delivery of the Former Cumberland Hotel site.

## **2. Objective and expected outcomes**

- 2.1 The proposed funding will accelerate the delivery of a residential led development scheme comprising 204 new homes, including 81 affordable homes.

## **3. Equality comments**

- 3.1 The Mayor published a draft London Housing Strategy in September 2017. The strategy has a three-month consultation period and an equality impact assessment will also be undertaken in parallel.
- 3.2 The Mayor's Vision for a Diverse and Inclusive City was issued as a consultation draft in June 2017. The first chapter of this document is entitled "A Great Place to Live". Priority outcome 1.1 in the vision refers to delivering affordable, accessible and decent homes. This loan funding will help to deliver new affordable homes in London.
- 3.3 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.
- 3.4 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'.
- 3.5 The designation of a HZ within an area is designed to identify a site or sites as an area for housing growth and delivery within London. It is often partnered with a series of funding streams and non-financial assistance to deliver these new homes. This decision will facilitate these goals and ultimately ensure that the needs of different groups are considered in the design and development of housing.

- 3.6 The Heart of Harrow (LB Harrow) HZ will contribute towards the implementation the policies as set out in the existing 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, to which the Former Cumberland Hotel scheme will contribute, were covered by the IIA for the Further Alterations to the London Plan.
- 3.7 The IIA concluded that updating housing projections and targets would support the delivery of sufficient housing and may help to stabilise housing prices, thereby promoting 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 London Plan (such as Policy 3.5), which ensure that the needs of different groups are taken into account when designing housing.
- 3.8 To access funding, the borrowers will be required to enter into a contract with GLAP. The contract places the following obligations (or substantially similar obligations) on borrowers in respect of the Equality Act 2010:
- The borrower shall 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.
  - The borrower shall have, and fully comply with, a policy covering equal opportunities designed to ensure that unfair discrimination on the grounds of colour, race, creed, nationality or any other unjustifiable basis directly or indirectly in relation to the Works is avoided at all times. It will also provide a copy of that policy and evidence of the actual implementation of that policy upon request by GLAP.

#### **4. Other considerations**

##### *a) Key risks and issues*

- 4.1 Key risks to the success of this HZ intervention as identified in the due diligence include planning, restrictive covenants and third-party land ownership. Further information is included in Part 2 of this decision.

##### *b) Links to Mayoral strategies and priorities*

- 4.2 The Former Cumberland Hotel development will contribute to the ambition in the draft London Housing Strategy to invest in London's growth areas, which include HZs. 81 affordable homes accelerated by this loan funding are required to start on site prior to 31 March 2021, thereby contributing to the Mayor's target to deliver 90,000 genuinely affordable housing starts by this date.
- 4.3 The purpose of the HZ programme is to increase housing supply by accelerating and/or unlocking development to deliver over 75,000 homes by 2026. The redevelopment of this site, and the levels of affordable housing proposed, will contribute towards this objective and support the aim to deliver at least 64,935 homes per annum as set out in the draft London Plan.

##### *c) Impact assessments and consultations*

- 4.4 The GLA has engaged with relevant stakeholders, including LB Harrow, with regards to this proposal. It is not considered necessary or appropriate to consult any other persons or bodies including those specified in section 32(1) of the Greater London Authority Act 1999 for the purposes of this Mayoral Decision.

*d) Know your customer*

- 4.5 In line with its Anti-Money Laundering Policy as approved by DD2095, GLA officers have carried out Know Your Customer (KYC) checks to verify the identity of the contracting entities. Consistent with the GLA's Anti-Money Laundering Policy, reliance has been placed on the KYC checks carried out for the Northolt Road loans in July 2017 because the (i) same borrowers and/or individuals are involved; (ii) the previous KYC due diligence was carried out less than two years ago; and, (iii) the risk profile of the borrowers has not changed.

*e) Environmental considerations*

- 4.6 The scale of the HZ 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 HZ 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.

**5. Finance comments**

- 5.1 This decision requests the approval of an allocation of two interest bearing loans totalling £42.5m to accelerate housing delivery within the Heart of Harrow housing zone in the London Borough of Harrow. It will facilitate the accelerated construction of 204 homes; 81 of which are affordable (40%). The funding could be sourced from the market, but the delivery would be delayed.
- 5.2 The loan will be repaid at the earlier of:-
- (i) the sale of the last home on the development
  - (ii) 5 years after the initial investment
- 5.3 The loans are made up of:
- £25,501,000 to Central Harrow LLP, a joint venture between Hill Residential Limited and Origin Housing Developments Limited to fund the private housing and non-residential element
  - £17,000,000 to Origin Housing Limited, a registered provider, to fund the affordable housing
- 5.4 Interest rates on the loans have been set at a market equivalent rate, bearing in mind the security and credit worthiness of the borrowers.
- 5.5 Due diligence has been undertaken on the project by Savills and cost and value assumptions are generally in line with expectations. A creditworthiness assessment of the borrowers has also been undertaken which did not reveal any factors to prevent GLAP funding the loans.
- 5.6 The total of £42.5m will be funded from the £200m the Government awarded the GLA to support housing zones.
- 5.7 An additional £3m of grant funding has already been approved under the Mayor's Affordable Housing Programme 2016-21 to facilitate 40% affordable housing on the site.
- 5.8 Further comments are contained in Part 2.

## **6. Legal comments**

- 6.1 Under section 30(1) of the GLA Act 1999, the GLA has the power to provide the loan funding for the interventions explained above, on the basis that to do so will further one or more of the GLA's principal purposes. In exercising the power in section 30(1), the Mayor must have regard to the matters set out in section 30(4-6A) of the GLA Act. Those matters have been taken into account as considered appropriate by the GLA in respect of these Housing Zones (see MD1457) and, in respect of this intervention, as detailed in this report.
- 6.2 The provision of the proposed loan on market terms is likely to constitute a specified activity, as defined under section 34A of the GLA Act and the Greater London Authority (Specified Activities) Order 2013/973. Accordingly, it will need to be provided by a subsidiary company of the GLA, as is proposed. GLA Land and Property Limited (GLAP) is a subsidiary of the GLA.
- 6.3 Further legal comments are set out in Part 2.

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

<b>Activity</b>	<b>Timeline</b>
Completion of loan agreement	March 2018
Start on site	June 2018
Completion of development	February 2021
Repayment of loans	The earlier of the sale of the last home or 5 years from the point of initial investment

**Appendices and supporting papers: None**

**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:**

Fred Keegan has drafted this report in accordance with GLA procedures and confirms the following:

✓

**Sponsoring Director:**

Jamie Ratcliff, under Director delegation, has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

**Mayoral Adviser:**

James Murray has been consulted about the proposal and agrees the recommendations.

✓

**Advice:**

The Finance and Legal teams have commented on this proposal.

✓

**Corporate Investment Board**

This decision was agreed by the Corporate Investment Board on the 26 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**

*26.3.18*

**CHIEF OF STAFF:**

I am satisfied that this is an appropriate request to be submitted to the Mayor

**Signature**

*D. Bellamy*

**Date**

*26 / 3 / 2018.*