

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD1666

Title: London Housing Bank Programme allocations variation

Executive Summary:

Initial allocations for the London Housing Bank were approved in March 2015 in MD1442. This Mayoral Decision approves an increase in the funding allocation to Wembley Canada Developments Limited (Quintain's bid) to a total allocation of £52.3m to deliver 489 intermediate rented homes.

Decision:

That the Mayor approves:

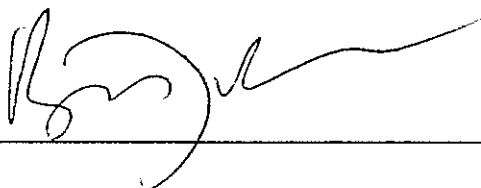
- The allocation of £52.3m loan funding (subject to contract) to Wembley Canada Developments Limited through the London Housing Bank Programme to deliver 489 intermediate rented homes.
- The remaining London Housing Bank budget available for on-going bidding of £147.7m with an aim of delivering 2,511 intermediate rented homes.
- The delegation of authority to the Executive Director – Housing & Land to approve the remaining allocations of the London Housing Bank programme, subject to detailed due diligence and available resources.

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:

4.5.2016

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

Decision required – supporting report

1. Introduction and background

Housing and the London Housing Bank

- 1.1 In September 2014 the Mayor approved the first phase of the London Housing Bank (LHB) offering £200m of loan funding to deliver up to 3,000 affordable homes by Mayoral Decision MD1393.
- 1.2 In accordance with MD1442 and DD1326, the GLA signed the facility agreement with the Department for Communities and Local Government in March 2015.
- 1.3 Allocations for the first phase were announced in March 2015 following Mayoral Decision MD1442, which approved (subject to the outcome of legal and financial due diligence) the total indicative allocation of £53.1m on the basis of the three bids shown in part 2 of MD1442 to deliver 643 homes.
- 1.4 There have been two changes from those set out in MD1442. Firstly, two of the bids have now withdrawn from the LHB programme, reducing the allocated funding by £14.1m and the number of homes to be delivered by 192.
- 1.5 The remaining bid, led by Quintain, can now deliver a larger number of intermediate rented homes. At the same time as working up a larger development the development costs have increased on a per unit basis. This has increased the loan funding request to £52.3m to deliver 489 intermediate rented homes which is an increase from £86,448 to £106,927 per unit and 60% higher than the programme target cost of £66,667 per unit. The original bid was based upon indicative designs which have now been fully worked up and costed.
- 1.6 The revised bid is based upon current costs to deliver the scheme, which have risen since the initial bid. The loan is proposed to fund 28% of the total development costs, the same proportion as the initial bid, which will enable Quintain to accelerate delivery of the project. Without this level of funding the scheme would be entirely at market rents, instead of the 489 intermediate rented homes, targeted at working Londoners on incomes below the thresholds set out in the London Plan.
- 1.7 The total loan amount allocated from the £200m budget for the LHB programme is £52.3m to deliver 489 units. This is a slight decrease in the initial allocation stated in MD1442. The remaining LHB programme budget is £147.7m and this will now be made available on the basis of continuous bidding.
- 1.8 Discussions are ongoing with a number of prospective bidders. The most progressed of these have an approximate funding ask of £100m.
- 1.9 In the time since the allocation under MD1442 was made to Quintain there has been detailed legal work to agree a suitable form of contract and funding structure. This work is ongoing and expected to be concluded in the near future. This will be formally signed off through a Directors Decision, in line with MD1442.

Assessment

- 1.10 The assessment process involved two stages i) assessment of the bid's eligibility and deliverability completed by H&L and ii) a financial assessment completed by GLA Finance on the creditworthiness of the bidding organisation. The assessment guidance was agreed by SMT on 10th November 2014.

- 1.11 Local Authorities were sent site information and asked to comment on the deliverability of the site, focusing on planning timescales and local market assessment. There are no particular concerns raised at this stage.
- 1.12 Additionally, there was an initial assessment of the GLA's Financial Transaction portfolio to identify its exposure on recoverable funding, evaluating the type of counterparty, the product, whether it is a bullet or interest repayment and the level and value of security being offered. In relation to the Quintain bid, this has subsequently been agreed subject to further detailed financial and legal due diligence.
- 1.13 The detailed due diligence also included an assessment of the risk against the GLA's overall Financial Transaction portfolio and forecast for interest repayments, to ensure sufficient cover has been offered to minimise the GLA's liability.

2. Objectives and expected outcomes

- 2.1 The London Housing Bank will deliver up to 3,000 affordable homes to assist in delivery of the affordable homes targets set out in the London Housing Strategy.
- 2.2 GLA funding will only be awarded to organisations whom the GLA is confident will be able to repay the funding independently of the project in question. GLA officers will initially assess the financial position of bidders, in line with normal processes for existing programmes.
- 2.3 New entities with no track record or assets will not be considered for investment, unless they are fully guaranteed by a financially sound, private sector organisation. In such cases the guarantor would be subject to the full set of financial checks of a bidding organisation.
- 2.4 For all loans the GLA will ensure that it obtains full security cover to the value of the loan provided. External lawyers have provided the GLA with initial security advice and the GLA will continue to draw on external legal expertise throughout the assessment and contracting process. In all funding agreements the GLA will ensure that it has a right to step in and complete the development/infrastructure enabling works. These will either be obtained through collateral warranties from the building contractor, or built into the funding agreement.

3. Equality comments

- 3.1 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 London Housing Bank contributes, were covered by the Integrated Impact Assessment (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.
- 3.3 For further equality comments, see section 4(c) below.

4. Other considerations

a) Key risks and issues

- 4.1 The primary risk to the GLA is in relation to non-repayment of loans allocated through the London Housing Bank. This is mitigated by investing only in financially sound organisations, obtaining robust security cover to the value of the GLA's loan, monitoring delivery and by isolating the financial risks to Housing and Land.

4.2 In the unlikely scenario that no repayment of principal or interest, at all, is received by the GLA then a potential shortfall of up to £200m could be faced by the GLA. The real risk is likely to be much smaller and will be spread across at least eight years. The GLA proposes to insulate the rest of the GLA from this risk by covering any shortfall in repayment from interest received from the LHB first and then the Housing and Land Directorate's budgets to repay DCLG.

b) links to Mayoral strategies and priorities

4.3 The Mayor published his intention to develop a London Housing Bank in his housing strategy, November 2013. The purpose of the London Housing Bank is to accelerate the pace of development and generate additional housing supply. By accelerating the pace of development on larger sites this aim will be more achievable.

c) impact assessments and consultations.

4.4 The proposals for a London Housing Bank and increasing the delivery of social housing are policies contained in the Mayor's London Housing Strategy which, as detailed in MD1331, was subject to consultation with the public and a whole range of relevant organisations from November 2013 – February 2014.

4.5 In January 2014 the GLA published an integrated impact assessment ("IIA"), including an equalities impact assessment and health impact assessment, of the London housing strategy, which included policies for the London Housing Bank, and increasing the delivery of affordable housing. The IIA concluded that delivering new housing, including affordable housing, is likely to have broadly positive benefits in relation to social and economic sustainability objectives such as improving health, reducing inequalities, increasing accessibility, and economic development. That IIA also cross-referred to the IIA conducted in respect of Further Alterations to the London Plan, which included a sustainability assessment, strategic environmental assessment, and equality impact assessment of the Mayor's proposals to increase levels of affordable housing in the Greater London.

4.6 The IIA was subject to public consultation alongside the London Housing Strategy from January 2014.

4.7 The maximum income caps that apply to First Steps housing, which will apply to homes delivered under the London Housing Bank, were addressed by the Integrated Impact Assessment of the 2010 London Housing Strategy. This found that the provision of a separate cap for families "strengthens the beneficial impact of this suite of policies in relation to many social issues and recognised the challenges faced by many families in London".

5. Financial comments

5.1 Detailed finance comments of this proposal will be scrutinised in the DD authorising the contract. This will need to include an up to date valuation, cashflow and relevant security.

5.2 The cost per unit has now increased to £106,927, substantially more than the target cost of £66,667 in the LHB prospectus.

5.3 The funding of up to £200m for the London Housing Bank is to be received as a loan and will be repayable to the DCLG.

6. Legal comments

6.1 Under section 30(1) of the Greater London Authority Act 1999 (as amended) ("the GLA Act"), the GLA has the power do "anything" it considers will further any one or more of its principal purposes;

which are promoting (i) economic development and wealth creation (ii) social development and (iii) the improvement of the environment - in Greater London.

- 6.2 Section 34 of the GLA Act empowers the Mayor to do anything (including the acquisition or disposal of any property or rights) which is calculated to facilitate, or is conducive or incidental to, the exercise of any functions of the Authority exercisable by the Mayor.
- 6.3 Sections 30(1) and 34, in combination with the GLA's housing and regeneration functions contained in Part 7A of the GLA Act, empower the GLA to provide financial assistance, including by way of loan, for the purpose of the recipient providing social housing. "Social housing" includes "low cost rental accommodation," which is accommodation that is made available for rent, below the market rate, and in accordance with rules designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market.
- 6.4 The initial phase of the London Housing Bank (LHB) will fund the delivery of the Government's Affordable Rent to Buy product; a national affordable housing product.
- 6.5 The model is predicated on new homes being let at sub-market rents (at no more than 80 per cent of market rents) during the period that repayment of LHB funding is outstanding. Provided these requirements are met, and provided that the provision of LHB funding is given on condition that homes delivered under the programme will be made available for rent in accordance with the GLA's income eligibility criteria (which is designed to ensure that it is made available to people whose needs are not adequately served by the commercial housing market), the funding provided will constitute social housing financial assistance, as defined under section 333ZE(2)(b) of the GLA Act.
- 6.6 Where the GLA provides social housing assistance, it must impose a condition ensuring that a Registered Provider of Social Housing is the landlord of the accommodation when it is made available for rent (for the period that it remains social housing).
- 6.7 In determining whether or how to exercise the power conferred by section 30(1) of the GLA Act, the Mayor must:
 - (i) have regard to the effect that his decision will have on the health of persons in Greater London, health inequalities between persons living in Greater London, the achievement of sustainable development in the United Kingdom and climate change and its consequences (sections 30(3-5) of the GLA Act);
 - (ii) pay due regard to the principle that there should be equality of opportunity for all people (section 33 of the GLA Act); and
 - (iii) have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and persons who do not share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010);
- 6.8 As noted in sections 3 and 4 above, in January 2014 the GLA published an integrated impact assessment ("IIA"), including an equalities impact assessment and health impact assessment, of the London housing strategy, which included policies for the London Housing Bank, and increasing the delivery of affordable housing. That IIA also cross-referenced an IIA of Further Alterations to the London Plan, which included a sustainability assessment, strategic environment assessment, and

equality impact assessment of proposals to increase levels of affordable housing; identifying broadly positive impacts.

- 6.9 When assessing specific bids for funding proposals and entering into loan and funding agreements, the Public Sector Equality Duty and the matters set out in section 30(3-5) of the GLA Act detailed above will need to be taken into account.
- 6.10 Section 34A of the GLA Act and the Greater London Authority (Specified Activities Order) 2013/973 require that the GLA can only carry certain activities, if done so through a company that is a subsidiary of the GLA. Those activities are the “management and exploitation (which includes acquisition, disposal, development and holding) of land on a commercial basis with a view to the realisation of a profit in connection with the GLA’s housing, regeneration and economic development functions under the GLA Act.” It is envisaged that the proposed lending under the LHB will not be a specified activity. Accordingly, it should be an activity that the GLA can undertake, and should not need to be undertaken by GLA Land and Property (GLAP). Further consideration will, however, need to be given to this issue prior to entering into specific loan agreements, including taking into account what security the GLA may require in respect of the loan.
- 6.11 The GLA has engaged external lawyers to assist with this project. These external lawyers have advised in general terms that the London Housing Bank product is, in State Aid terms, social housing or a sub-market rental product; and that, provided those eligible to be tenants of new homes meet the GLA criteria for income eligibility, then the programme should be capable of being implemented in compliance with State Aid rules, falling within the block exemption for programmes providing Services of General Economic Interest. It has been advised that this will require GLA loan agreements to include clauses requiring recipient organisations to collate and file returns which demonstrate compliance with State Aid rules; and providing for claw-back of any overpayment. The funding arrangements will also need to be established in a way which complies with the GLA’s fiduciary duty to use its public funds prudently and in a manner which affords value for money.
- 6.12 External lawyers have been engaged to assist with this project to prepare the relevant funding agreements and to ensure that the funding arrangements are established in a way that is compliant with state aid laws.
- 6.13 Officers must ensure that no legally binding commitment to the award of funding is given until the appropriate funding documentation is put in place between and executed by the GLA and recipients.

Procurement

- 6.14 The award of GLA funding under the London Housing Bank is not a procurement, and is not therefore subject to the requirements of the Public Contracts Regulations 2006. This notwithstanding, the GLA is still subject to the overarching duties of fairness and transparency.

Delegation to GLA Officers

- 6.15 Section 38 (1) of the Act provides that any function exercisable on behalf of the GLA by the Mayor shall also be exercisable on behalf of the GLA by any member of staff of the GLA if or to the extent that the Mayor so authorises, whether generally or specially, and subject to any conditions imposed by the Mayor. The exercise of such delegated powers must be in compliance with the Mayoral Scheme of Delegation.

7. Investment & Performance Board

- 7.1 The GLA's Housing and Investment Group considered the bids received and the recommendation to make conditional allocations through the London Housing Bank on 13 January 2015. The recommendations were endorsed by the Housing Investment Group.

8. Planned delivery approach and next steps

Activity	Timeline
Contracts signed	May 2016
Completions (earliest)	March 2019
Project Closure: [indicative repayments to GLA, then DCLG]	March 2027 – March 2034

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:

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 – No

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Alison Barnswell has drafted this report in accordance with GLA procedures and confirms the following have been consulted on the final decision.

✓

Assistant Director/Head of Service:

Jamie Ratcliff has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.

✓

Sponsoring Director:

David Lunts has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Edward Lister has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

M. J. Allge

Date

4.5.16

CHIEF OF STAFF:

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

Signature

E. Lister

Date

4.05.2016