

REQUEST FOR MAYORAL DECISION – MD1442

Title: London Housing Bank Programme allocations

Executive Summary:

The London Housing Bank prospectus was published in September 2014, inviting bids from private sector organisations for loan funding to accelerate the delivery of approximately 3,000 homes, which will be let at intermediate rents for an initial period. This Mayoral Decision approves conditional allocations totalling £53.1m and the commencement of a Continuous Market Engagement bidding programme for further bidding, up to the programme total of £200m.

Decision:

That the Mayor approves:

1. The allocation of loan funding (subject to satisfactory completion of detailed due diligence and subject to contract both with the Department for Communities and Local Government and the successful bidders) for a total funding of £53.1m from the London Housing Bank Programme to deliver an initial 643 homes.
2. The re-opening of the remaining London Housing Bank budget of £146.1m for on-going bidding on the basis of continuous market engagement.

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:

30/1/15.

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 London faces a significant challenge to increase housing supply. The London Housing Strategy sets out a requirement to build at least 42,000 homes a year to meet London's historical and arising housing demand. This number is also reflected in the Further Alterations to the London Plan, which was submitted to the Secretary of State for Communities and Local Government in December 2014 following which it will go before the London Assembly with the aim that it is adopted by March 2015. This will require a near doubling of current output, to a level of supply not seen since the 1930s. The shortage of housing puts up rents and house prices, increasing the cost of the housing benefit bill and lengthening waiting lists for social housing.
- 1.2 Housing affordability now regularly tops polls of Londoners' concerns. In response to this, the Mayor has set out an ambition to see one million homes built in London by the 2030s and called for an accelerated programme of home building in his Vision 2020.
- 1.3 House-building creates jobs directly in construction and the related supply chains that include London, but also extend far beyond, London's boundaries. Housing construction supports more jobs per pound invested than most other sectors because it sponsors a range of related activity such as concrete production, and glass and brick manufacturing. Construction-related activity is also very largely sourced from across the UK. Every new home built creates two jobs for at least a year, and house builders are significant providers of apprenticeships. Every £1 of investment in construction is estimated to generate a total of £2.84 in total GDP. Housing construction, repairs and maintenance have accounted for an average three per cent GDP in the last decade.
- 1.4 The delivery rate of large sites is partly set by the challenge of absorption, where developers find it uneconomic to release more than a given volume of new homes onto the market in any period. Within the London Housing Strategy, there is an intention to develop a London Housing Bank to accelerate the pace of development and generate additional housing supply, particularly on large sites where speed of delivery would potentially be most strongly constrained by absorption rates. The London Housing Bank is a programme title only and will not be a separate corporate entity.
- 1.5 In the Spending Review (*Investing in Britain's Future*) the Government announced £400m of funding for a new affordable housing product, "Rent to Buy". 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 public funds loaned to the developer or provider remains outstanding; anticipated to be for a minimum of 7 years, no more than 15 years, and an average of 10 years. After this time the homes may be sold or refinanced as a market-value product, or retained as affordable housing. The lower-than-market rents on properties will be attractive to eligible consumers and therefore reduce initial development risk.
- 1.6 In London "Rent to Buy" is being administered through the London Housing Bank and formed the initial phase of its activity to deliver up to 3,000 additional affordable homes. The Prospectus was published in September 2014 with an initial deadline of November 2014. This decision approves the full £200m budget for the London Housing Bank programme enabling it to re-open for continuous market engagement immediately with approvals for further allocations in line with existing Housing and Land processes for affordable housing programmes.

DCLG Funding to the GLA

- 1.7 Through the London Growth Deal, Government has confirmed £200m for the London Housing Bank, to maximise opportunities accelerating housing supply to meet London's acute housing needs. This Government funding is in the form of a Financial Transaction, a fully recoverable loan, which Government has used to fund a number of housing and regeneration programmes since 2011, including programmes operated by the Homes and Communities Agency ("HCA") nationally, including in Greater London under delegated authority of the Mayor.
- 1.8 As the proposed £200m funding from Government ("the Funding") is in the form of a Financial Transaction in order for the GLA to receive the Funding it will be required to enter into a contractual funding agreement with the Department for Communities and Local Government ("DCLG") committing to fully repay the money according to a repayment schedule, to use the funding for onward lending only for the set purposes for which it is provided, and to only lend to organisations classified, for accounting purposes, as private sector. GLA has provided a draft Facility Agreement to DCLG which is expected to be concluded by the end of February 2015 to enable GLA to make announcements on the initial bids received.
- 1.9 As Financial Transactions are a new type of funding for the GLA, DCLG and GLA agreed to carry out a joint review of the GLA's capacity, skills and management structures to ensure robust processes are in place to manage risks associated with the collective investment portfolio. This assurance review was undertaken from September to November 2014 and concluded that the GLA had the relevant knowledge and skills to manage Financial Transactions, with some recommendations for where improvements in skills, capacity and processes are required.
- 1.10 MD1393 approved the publication of the prospectus and set out the anticipated terms and conditions on which the funding would be provided to the GLA. However, it should be noted that there are two changes from those terms set out in MD1393.
- 1.11 Firstly, the rate of interest which the GLA would charge to developers/providers has been confirmed as 1% for the first 8 years, rising to 1.25% in year 9 and then by 0.25% each year thereafter. Secondly, the maximum loan period is 16 years from drawdown.
- 1.12 Initially it was thought that the GLA could retain any interest payments received above the £200m threshold but due to the terms of DCLG's agreement with HM Treasury all interest not required to repay any shortfall of the principal loan will have to be returned to DCLG. This does not affect the GLA's risk position but removes the prospect of upside gain from these Financial Transactions.
- 1.13 MD1393 approved entry into a funding agreement with DCLG for the £200m repayable loan funding and the Mayor is now asked to approve the initial allocation of £53.1m of funding on the basis of the bids shown in part 2 of this paper and delegate authority to the Executive Director of Housing and Land to approve entry into contractual funding agreements in respect of these bids, subject to the GLA first having entered into a funding agreement with DCLG. The Mayor is also asked to approve the re-opening of the programme to further bids up to the programme total of £200m on the basis of continuous market engagement.

Assessment

- 1.14 The assessment process involved two stages i) assessment of the bid's eligibility and deliverability completed by Housing and Land 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.

- 1.15 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.
- 1.16 Registered Provider (RP) bids were sent to the Social Housing Regulator for confirmation of financial standing and suitability of loan funding. These comments have informed the assessment process. One RP has bid in its own right and one as a potential joint venture partner. The actual level of liability to be taken on by the latter RP is not clear at this stage.
- 1.17 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. For the latter, this is likely to require further financial and legal due diligence, where the collateral to cover the loan has not been quantified as part of the bid. On this basis the recommendations at this stage are for conditional allocations, subject to satisfaction of the legal and financial matters.
- 1.18 The detailed due diligence will also include a further assessment of the collective risk of allocations 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.
- 1.19 Against the £200m, the current London Housing Bank portfolio risk exposure is on £53.1m as the GLA liability crystallises only when onward lending to a private sector organisation has occurred. On the basis of the current interest profile, circa £5.6m will have been accrued over the lifetime of the outstanding loan, with annual rates of interest showing as £526k for the programme.

2. Objectives and expected outcomes

- 2.1 The London Housing Bank will deliver up to 3,000 affordable homes. The funding will be used to accelerate additional housing completions and assist in delivering the target of 45,000 affordable homes in 2015-18, as set out in the London Housing Strategy.
- 2.2 The initial bidding round resulted in a total 643 homes likely to be accelerated by at least 2 years, with 106 completions forecast to complete by March 2018.
- 2.3 GLA funding will only be awarded to organisations whom the GLA is satisfied 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.
- 2.4 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.
- 2.5 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.
- 2.6 Full financial protection will be afforded in accordance with the hierarchy outlined below:

Project	<ul style="list-style-type: none"> Lend to financially strong Registered Providers, and other financially sound private sector organisations where appropriate
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	<ul style="list-style-type: none"> ○ Financial assessment – public data, commissioned credit rating and other relevant analysis • Charge interest • Ability to recover funds due <ul style="list-style-type: none"> ○ Step in rights, guarantees, offset against other payments, seize assets, collateralisation, etc
Programme	<ul style="list-style-type: none"> • Other Housing and Land programmes
GLA	<ul style="list-style-type: none"> • Year-end flexibility • Treasury management/cash flow flexibility • Strong GLA balance sheet

2.7 The GLA will charge interest to the recipient of the loan. The exact timings of when the GLA is required to pass this to DCLG will be captured in the loan agreement between GLA and DCLG.

3. Equality comments

3.1 The London Housing Bank initiative implements the policies 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, to which this paper relates, 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 Expectations were high, based on provider appetite following the consultation and launch event for the London Housing Bank. Given the initial bidding was only 6 weeks. The Continuous Market Engagement process should give providers more time to consider the product and availability of sites. Although low take up could have an impact in terms of delivery of early outputs by March 2018, the financial risks to GLA are limited. Most of the provider concerns should be easier to manage in a continuous bidding process, albeit achieving completions by 2018 will become more challenging over time.

- 4.3 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 its Housing and Land Directorate's budgets to repay DCLG.
- 4.4 The GLA will monitor the anticipated levels of repayment on an ongoing basis and take action to ensure that any shortfall can be met by resources available within Housing and Land budgets, which could involve holding capital resources back.
- 4.5 The loans will be managed within the GLA's Treasury Management team, also responsible for the GLA's other borrowing and lending activity. GLA officers will also carry out ongoing stress testing of the outstanding loans in line with the updated financial standing of the counterparty and the London property market (for equity based loans). This will be reported to the GLA's Investment and Performance Board if appropriate and, at least, on an annual basis.
- 4.6 Rent to Buy is a national investment programme, which could operate in London without the GLA assuming the associated financial risk. This risk must be balanced against the benefits of the GLA having direct control of the funding in London, as set out in paragraph 4.9 of MD1393.

b) links to Mayoral strategies and priorities

- 4.7 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 and contribute towards the target of 45,000 completions by March 2018. This proposal will support the aim in the Further Alterations to the London Plan, which it is hoped will be adopted by March 2015, to deliver at least 42,000 homes a year. By accelerating the pace of development on larger sites this aim will be more achievable.

c) impact assessments and consultations.

- 4.8 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.
- 4.9 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.
- 4.10 The IIA was subject to public consultation alongside the London Housing Strategy from January 2014.
- 4.11 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 can be found in the confidential Part 2 section.
- 5.2 Each bid is subject to an up to date scheme valuation, cashflow and confirmation of sufficient financial security. One bid is proposing to set up a Special Purpose Vehicle for the development. This structure of this and confirmation of how the loan will be repaid will need to be clarified further through the due diligence stage.
- 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 DCLG.
- 5.4 The cost per unit for each of these three bids is in excess of the target cost per unit of £66,667. Future bids will therefore need to be received at a cost per unit of around £50,000 in order for the target of 3,000 homes to be met.

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.
- 7.2 Satisfactory due diligence for the loan funding allocations, and the fulfilment of the other conditions, will be confirmed through a Directors' Decision, including any variations to the outputs and allocations, unless substantial. With regards to the remaining £146.1m remaining to be allocated, the funding decision will be through Mayoral Decision as this decision only concerns the reopening of the bidding process.

8. Planned delivery approach and next steps

Activity	Timeline
GLA/DCLG contract signed	January/February 2015
Announcement of funding decisions	January/February 2015
Contracts signed (with providers)	April 2015 to Summer 2016
Completions (earliest)	March 2018
Project Closure [indicative repayments to GLA, then DCLG]	March 2027 – March 2034

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**

If YES, for what reason: To enable the GLA to manage the announcement of allocations, which are subject to a Facility Agreement being entered into with DCLG.

Until what date: 30 April 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

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Amena Matin 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:

Richard Blakeway 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. D. Allen

Date

28.1.15

CHIEF OF STAFF:

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

Signature

Edmund Hill

Date

29.01.2015