

GMCA OVERVIEW & SCRUTINY COMMITTEE

DATE: Wednesday, 14th August, 2024

TIME: 1.00 pm

VENUE: The Tootal Buildings - Broadhurst House , 1st Floor, 56
Oxford Street, Manchester, M1 6EU

SUPPLEMENTAL AGENDA

6. GM Investment Funds

1 - 18

Report of Laura Blakey, Director of Strategic Finance &
Investment

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www.greatermanchester-ca.gov.uk. Alternatively, contact the following

Governance & Scrutiny Officer: Karen Chambers, Senior Governance & Scrutiny Officer

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This supplemental agenda was issued on Thursday, 8 August 2024 on behalf of Julie Connor, Secretary to the Greater Manchester Combined Authority, Broadhurst House, 56 Oxford Street, Manchester M1 6EU

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Greater Manchester Combined Authority

Scrutiny Committee

Date: 14 August 2024

Subject: GM Investment Funds

Report of: Laura Blakey, Director of Strategic Finance & Investment, GMCA

Purpose of Report

This report includes:

- The background to the GM Investment Funds including the GM Housing Investment Loans fund;
- The governance process for the GM Housing Investment Loans Fund; and
- The future of GM Investment Funds under further devolution and the Integrated Settlement.

Recommendations:

The GMCA Overview & Scrutiny Committee is requested to note the background and governance process and provide comments on the future strategy for the GM Investment Funds.

Contact Officers

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1. Introduction/Background

1.1 GMCA has been operating a series of investment funds since 2013, collectively referred to as the GM Investment Funds – a summary of the Funds, which operate across business, commercial property and housing is included in Appendix 2.

1.2 The paragraphs below include the detail on those Funds that are directly managed by the GMCA.

Core funds

1.3 The Fund size is c£70m investing in a mixture of business and commercial property investments. The origin of the funding was Regional Growth Fund and Growing Places monies received in 2012/13.

1.4 Funds have been invested through both debt and equity on a commercial basis into businesses and developers in GM with viable propositions, but a demonstrable funding gap.

1.5 Historically business investments have typically been higher risk and therefore over time have lost money. This has largely been compensated for by interest and other fees received.

1.6 Commercial property investments have been lower risk and there have been no losses to date on commercial property investments.

1.7 The strategy to date has been very much focused on jobs on the business side and on providing match for the Evergreen funds on the property side. To date the core funds have supported the creation and safeguarding of 8,391 jobs.

1.8 Evergreen funds are commercial property funds managed by CBRE and arose from previous ERDF programmes. Those funds required a 50:50 match before they started to recycle and therefore GMCA's core funds have historically been used to provide this match, when required.

GM Advance

1.9 GMCA launched GM Advance in May 2024 following a £10m allocation from the Investment Zone funding. GM Advance is a new fund focused on driving growth in the Advanced Manufacturing and Materials sector.

1.10 The Fund provides equity, debt and micro-equity to businesses operating in the sector at subsidised rates.

1.11 The Fund represents the first i) sub-commercial fund and ii) micro-equity fund that has been launched by the Team and learnings will be key for informing the future strategy of wider business investment.

GM Housing Investment Loan Fund (“GMHILF”)

1.12 GMHILF was established in 2015 as a £300m loan from MHCLG (previously DLUHC) to deliver a target of 10,000 new homes in Greater Manchester. Since its launch, the Fund has considered detailed proposals for lending to 131 schemes, with 103 of these having progressed to a funding approval (a list of the schemes approved is included in Appendix 1). Funding approvals totalling £1.2bn have been made by the GMCA since the Fund’s inception, of which £885m has been contracted to date.

1.13 The primary objective of the GMHILF is the creation of new homes in the Greater Manchester area and it should exceed its target of delivering 10,000 homes in the Greater Manchester area by the time that the fund closes in 2028, with the current total of new homes being 11,073. Other objectives include supporting SME developers and generating income for the GMCA to support wider housing priorities.

1.14 Under the terms of the agreement with MHCLG, GMCA has underwritten 80% of the £300m original loan. To date, the GMHILF has not lost any money, while extensions to the payment terms of the loans have been agreed with borrowers, no enforcement action to recover outstanding loans has been taken to date, and where repayment terms have been extended, interest has continued to accrue and be payable to GMCA.

1.15 Until recently, the agreement with MHCLG allowed for funding to be re-lent once repaid providing the re-lend took place within the financial year resulting in any funds not being lent out at the March year end being repaid to MHCLG. The impact of this is that the current capacity in the loan fund is c£180m with £120m having being repaid. Over

recent years, there has been a focus on maintaining the Fund at its current capacity in order that it is available for Developers and to support key regeneration schemes such as:

- Stockport Interchange - Stockport Interchange sits at the heart of Stockport Town Centre and is a key regeneration project for the town to drive town centre living and animate the area. The apartment block is part of a wider redevelopment of the previous dated bus interchange into a modern transport hub with new park and open spaces. The wider scheme has provided new active transport links between the railway station, bus interchange and town centre. The scheme is delivering 196 apartments and received £9.3m of patient equity funding and £22.6m of debt from the GMHILF.
- Farnworth Green – this scheme represents a high priority for Bolton Council being in Farnworth, a key area for regeneration. GMHILF has provided a loan of up to £11.6m towards the development of the scheme, which comprises 51 one-bedroom apartments, 34 two-bedroom apartments, 12 townhouses units, eight commercial units, and a Community Hub.

1.16 The terms of the GMHILF require it to be operated on a commercial basis, and specifically that loan funding must be repayable and that a minimum of a ‘State Aid’ compliant interest rate must be charged. The ‘State Aid’ interest must be repaid to MHCLG – GMCA is able to keep interest earned over and above the State Aid rate up to an annual cap of £2.5m, alongside any fees earned. Income that is generated and retained through the investment funds has been used to fund the investment and delivery teams, with the balance ringfenced to support wider housing priorities including supporting the establishment of the Good Landlord Charter and Growth Locations.

1.17 The GMHILF will close for new investment in March 2025, after which GMCA will be unable to use it to award loans. There will be a three-year runoff period which will end in 2028.

2. GMCA Process for awarding GMHILF loans

Initial consideration of the loan

2.1 There is no formal application form for GMHILF loans. Would-be borrowers enquire about the specifics of the loan that they might receive. The form of this enquiry will depend on what their position is: for example, do they have a brownfield development, have they been referred to GMHILF by a local authority or have they borrowed from the GMHILF before? The Fund is openly available to all Developers and the Team spend time talking to the market about what is available. For example, the Director of Strategic Finance & Investment presented at a joint event with Homes England for Developers in January 2024 on funding available for housing developments.

2.2 At this initial stage, the GM Investment team will consider the nature of the loan requested. The proposal may be rejected for seeking a loan that is too small (e.g. seeking to borrow to construct two houses). In the event that the loan is too large for GMHILF to fund on its own, GMCA may consult with other potential lenders about whether a club loan would be viable.

2.3 The GMCA Director of Strategic Finance & Investment will allocate a lead manager (the 'Transaction Manager') for each potential application. The Transaction Manager will typically ask for a development appraisal and a cash flow report as an initial request, following up with a detailed list of requirements to meet the requirements of the gateway paper (see 2.6).

2.4 The manager will initially be looking at the amount of leverage being envisaged, the strength of the security being offered, the strength of the cost overrun protections offered, the borrower's track record (not necessarily with GMCA but overall, in terms of delivery).

2.5 The investment team will discuss proposals with the Director of Strategic Finance & Investment at a high level at this stage, particularly if they have concerns regarding the loans. If those concerns are shared by the Director of Strategic Finance & Investment but they consider the project itself viable, a high-level overview will be drafted to be run past members of the credit committee (clause 2.11) on how to strengthen the proposal.

2.6 If, following the initial work, the manager is satisfied that the application is potentially viable, they will write a gateway paper which includes detail such as:

- Details of the proposal
- Loan to value and loan to cost covenants
- Track record of the borrower and key personnel;

- Borrower financial information;
- Security;
- Market due diligence;
- Key risks and mitigants;
- Sensitivities; and
- Proposed commercial terms.

Gateway panel

2.7 Once the initial information gathering has been done and the project appears to be viable, loans of over £2m proceed to the gateway panel phase (loans of under £2m go straight to the credit committee stage detailed below).

2.8 The gateway panel is advisory only and consists of three independent external advisors who all have significant experience in the private housebuilding sector. The gateway panel is there to assess the robustness of the investment case.

2.9 The gateway panel will not necessarily provide a straight yes/no answer. The panel can provide a qualified approval based on due diligence of a specific point, or it could request further information be provided

Credit committee

2.10 The credit committee receive the same gateway paper that the gateway panel received and may ask how the gateway panel considered the paper. Additional comments are provided on a one-page document by an individual in the Investment Team (the "Credit Manager") not associated with the deal on the credit implications of the proposed loan. This focusses on the financials: security offered; costs overrun guarantee etc.

2.11 The credit committee is advisory only and consists of a mixture of senior GMCA staff members and external advisers.

2.12 The credit committee's focus is on how robust the proposal is in terms of the likelihood of repayment of the loan.

Chief Executive and Treasurer

2.13 Once the gateway panel (where relevant) and credit committee have considered the loan application, the application together with the advice of the committee will be considered by the GMCA Chief Executive and the Treasurer.

2.14 A summary paper is provided to the portfolio lead for Housing which is similar to the Part B reports that are prepared for the GMCA decisions. Once the portfolio leader is content with the recommendation, the proposal is taken to a formal GMCA meeting to seek approval from the Combined Authority for the loans to be progressed to final agreement. GMCA approval will delegate authority to the GM Treasurer in conjunction with the GM Monitoring Officer to review the due diligence and sign off on the final commercial terms and legal documentation.

2.15 By the time of the GMCA meeting enough information needs to have been assessed on the proposal in order to recommend it for approval. However, this is not the end of the process as this stage will be followed by an extensive external due diligence process.

Further due diligence

2.16 While a desktop valuation of the property to be lent against will have usually been done prior to the GMCA public meeting, a Red Book valuation is usually only done after the meeting has taken place. A Red Book valuation is a valuation by a Royal Institute of Charter Surveyors ("RICS") accredited surveyor in accordance with their principles.

2.17 There is also a report by an external Monitoring Surveyor who is appointed at this stage, who reviews and opines on the construction costs and other construction matters. This report will recommend what collateral warranties GMCA may want to take (which is a way to tie the contractor and subcontractor into the agreement with the borrower).

2.18 Letters of reliance may also be recommended at this stage by the monitoring surveyor: for example, in relation to any environmental reports or rights to light reports.

2.19 At this stage, GMCA will also instruct legal advisors to carry out legal due diligence, including a review of the report on title, which sets out whether the borrower has good marketable title to the land being lent against as well other property matters such as the status of any leases on the land. Lawyers will also produce a construction report detailing key issues to consider in the construction documentation.

Sign-off by the Director of Strategic Finance & Investment, and then Treasurer

2.20 A summary of the due diligence is produced and reviewed by the Director of Strategic Finance & Investment and signed off by the Treasurer. The loan can then be given.

Drawdown

2.21 Following completion of the loan, the Monitoring Surveyor will engage in a monthly site visit alongside the Transaction Manager and GMCA's in-house surveyor. The Monitoring Surveyor will prepare a report following this site visit, which contains a recommendation of the drawdown amount as well as any conditions recommended for that drawdown (e.g. renewal of professional indemnity cover if cover has since lapsed).

2.22 The Transaction Manager summarises the Monitoring Surveyor's report in their own report as well as adding further information on the status of sales and exit for the development. The Credit Manager receives the Transaction Manager's summary and the Monitoring Surveyor's report to review in order to sign off on drawdown.

2.23 The reports and summary are then reviewed by the Director of Strategic Finance & Investment who signs off the drawdown and the paperwork is then passed to the Finance team for payment. Payment follows the standard procedures for Finance including the sign off by the Treasurer plus one other senior member of the Finance team.

Commercial Terms - How loans are priced

2.24 As stated in the introduction to this paper loans made from the GMCA HILF are made on a commercial basis.

2.25 The approach to the interest rate applied to individual loans is that loans are priced at the minimum of the State aid rate (which is set out in the State Aid regulations based upon a matrix considering the strength of security and the strength of the Borrower). A risk margin is then applied on top of this State Aid rate reflecting the risk associated with the individual loan being considered (developer, market, construction and security risk). This approach is documented through an Interest Rate Setting Paper.

2.26 The GMHILF loans also have arrangement and other fees applied.

2.27 GMCA does not tend to look formally at other loans available on the market but does have market intelligence on what other lenders are charging from various sources. One

such source is borrowers who may come to GMCA with an indication of the rate being offered. Additionally, GMHILF has lent side-by-side with commercial lenders, in club loans where the GMHILF lends on the same terms as those lenders. GMHILF has been involved in several club loans with other commercial lenders such as the Greater Manchester Pension Fund, which is independently run on a commercial basis.

GMHILF and Affordable Housing

2.28 Affordable home requirements are determined by Local Planning Authorities and GMCA have no role in this.

2.29 GMCA have lobbied through the devolution trailblazer and through recent discussions with the new government for a relaxation to the requirements of an extended GMHILF. The rationale being that if the Fund were able to offer subsidies, it would be better placed to drive developer behaviour and the strategic objectives of affordable and net zero housing. It isn't viable to drive these objectives through a purely commercial fund.

2.30 The principal lever that GMCA currently has to support the delivery of affordable housing is the Brownfield Housing Fund which to date has awarded grants for 194 schemes that will support the delivery of 19,314 new homes of which 11,316 are for affordable housing.

3. Future for GMCA Investment Funds

Housing Investment Loan Fund

3.1 It is the intention for the GMCA Spending Review submission to contain a request for an extension to the Fund beyond March 25 with this to be included as part of the wider integrated settlement to allow for the flexibility noted above.

3.2A proposal to utilise further surpluses that have been generated to support the GM Housing Strategy is currently being developed.

Future approach to Core Funds

3.3 The previous strategy for the Core Funds has focused on job creation and recycling. In order to more closely align the strategy of the Funds with the strategic objectives of the organisation, a revised investment strategy is being considered.

3.4 The new proposed criteria and outline allocations of the fund are:

- £20m for commercial property – parameters: i) must be in a growth location or supporting a strategic site (requires Place recommendation), or ii) to provide capacity for the Evergreen funds and iii) ability to offer sub-market rates where loan is being offered as an alternative to grant.
- £15m for social impact investing – either business or housing – preference given to projects that recycle within 5 years and deliver strong value for money (requires PSR/Strategy recommendation).
- £30m for business investment of which £10m is ringfenced for the Life Sciences Fund – i) must be in a key sector ii) businesses must sign up to the Good Employment Charter iii) businesses must have a physical location in GM and be delivering jobs in the region (requires LA recommendation).
- £5m free to be allocated across the three categories as needed.

APPENDIX 1

HOUSING INVESTMENT LOANS FUND LOANS APPROVED BY GMCA¹

SCHEME	DISTRICT	HIF LOAN £000s	UNITS
Hulton Lane*	Bolton	950	
Temple Road*	Bolton	3,534	
Hartley's Farm	Bolton	4,381	23
Garnet Fold*	Bolton	6,800	
Moor Lane	Bolton	3,314	44
Farnworth Green	Bolton	12,563	97
Moor Lane PRS	Bolton	12,778	114
Perseverance Mill*	Bolton	2,215	
Lowes Road*	Bury	1,374	
Brook St	Bury	1,556	22
Radcliffe Times	Bury	792	10
Jubilee Way Estates	Bury	4,344	49
Park Road, Prestwich*	Bury	1,253	
HS Property*	GM Wide	1,000	
Bricks & Soul	GM wide	750	25
Marshmallow Properties	GM Wide	1,000	36
Water St	Manchester	23,731	307
Tariff St	Manchester	13,200	91
Charminster Drive	Manchester	958	23
Edinburgh Castle	Manchester	3,577	23
Islington Wharf Phase 3	Manchester	10,144	101

¹ The loan offers for schemes marked with an asterisk have not gone forward and therefore no new homes are attributed to these schemes

Owen St	Manchester	140,000	1508
Baguley Police Station	Manchester	1,866	33
Circle Sq	Manchester	36,300	677
Princess St	Manchester	77,700	351
Princess St refi ²	Manchester	26,700	
Crusader Works	Manchester	25,450	201
Vesta St	Manchester	20,694	172
New Little Mill	Manchester	10,517	68
Lampwick St	Manchester	24,500	213
Clarkesville Farm	Manchester	4,154	44
Stagecoach	Manchester	5,620	92
40-42 John Dalton St	Manchester	800	4
Brunswick St*	Manchester	2,088	
Daisy Bank Mill*	Manchester	2,338	
Withington Bank	Manchester	2,043	12
Richmond Street	Manchester	2,541	7
Stagecoach Phase 2*	Manchester	5,132	
The Blade	Manchester	32,400	414
Islington Wharf Phase 4*	Manchester	8,300	
Albell*	Manchester	1,000	
Three60	Manchester	62,300	441
Trinity D2	Manchester	65,646	483
Trinity D1	Manchester	70,800	532
Contour	Manchester	69,200	494

² All new homes are shown next to the original funding approval above.

Victoria Park*	Manchester	9,632	
Royley, Royton*	Oldham	1,543	
Hillside Avenue*	Oldham	525	
Hebron St	Oldham	810	6
Diamond Hall*	Oldham	1,967	
Medlock Road*	Oldham	1,670	
Vernon Gardens	Oldham	4,163	99
Ladhall Lane	Oldham	957	5
Boundary Park	Oldham	1,450	20
Star Inn	Oldham	1,228	15
Delph Chapel*	Oldham	987	
Hare Hill Mill	Rochdale	2,215	36
Don Street	Rochdale	12,580	311
Wilburn Basin	Salford	42,500	491
Lightbox	Salford	8,303	238
Trinity Way*	Salford	22,500	
Charlestown Riverside	Salford	3,320	425
Radclyffe*	Salford	2,661	
Willows Road	Salford	1,741	24
Hurstfield Road	Salford	1,355	8
Simpsons Grove*	Salford	2,671	
Greengate	Salford	37,600	559
Kara Street	Salford	5,126	66
Old Hall Road*	Salford	1,455	
Bankside	Salford	54,143	444
Bretherens Hall	Stockport	3,900	

Stonepail Close	Stockport	4,220	26
Extra Care*	Stockport	8,153	
Dale House	Stockport	1,321	14
Former Royal Mail Sorting Office	Stockport	5,400	117
St George's Vicarage	Stockport	1,227	11
Stockport Interchange	Stockport	22,680	196
Aldersgate Road	Stockport	1,464	5
St Stephens	Tameside	2,534	30
Carrhill*	Tameside	5,410	
Slateacre Road	Tameside	1,916	11
Vernon Street*	Tameside	1,366	
Rowbotham Street	Tameside	2,677	20
Pomona Wharf	Trafford	11,146	164
Woodfield Road	Trafford	3,760	41
The Place	Trafford	6,915	24
Bridgewater Road	Trafford	1,146	10
City Branch*	Trafford	12,931	
Trafford Plaza*	Trafford	6,010	
Laurel Banks	Trafford	921	5
The Green, Urmston	Trafford	1,621	6
Heath Farm*	Trafford	5,000	
Rileys Snooker Centre	Trafford	2,067	8
Wharf Road*	Trafford	6,397	
Alexander House	Trafford	11,685	110
Highline	Trafford	12,261	68
Harvey Street	Wigan	664	8

Hilda St	Wigan	600	9
Wigan Pier	Wigan	1,134	8
Pemberton*	Wigan	10,800	
Elliott St*	Wigan	1,794	
Stubshaw Gardens*	Wigan	2,154	
Rectory Gardens	Wigan	967	10
TOTAL		1,193,646	10,367


HOUSING INVESTMENT LOANS FUND EQUITY INVESTMENTS APPROVED BY GMCA

FUND / SCHEME	DISTRICT	INVESTMENT	NEW HOMES
Social & Sustainable Housing Fund	GM wide	5,000	50
Resonance Supported Homes Fund	GM wide	5,000	42
National Homelessness Property Fund 2	GM wide	5,000	262
Registered Provider Joint Venture	GM wide	2,000	352
Stockport Interchange	Stockport	9,300	- ³
TOTAL		26,300	706

³ New homes recorded against the loan funding in table above.

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Appendix 2 - Fund overview

	Core Funds	GM Advance	Housing Investment Fund	City Deal Receipts	Life Sciences Fund	Evergreen	Low Carbon Fund
Fund source	RGF and Growing Places	Investment Zone	Loan from DLUHC	Homes England	Fund 1: LGF Fund 2: GMCA	ERDF	ERDF
Fund size	£67m	£10m	£180m	£30m	Fund 1: £30m Fund 2: £20m	Fund 1: £60m Fund 2: £60m	£30m
Funding criteria	<ul style="list-style-type: none"> Debt and equity for business and commercial property schemes £250k to £5m 	<ul style="list-style-type: none"> Subsidised debt and equity products focused on Advanced Manufacturing and Materials 	<ul style="list-style-type: none"> Debt and equity for residential housing schemes. £1m to £70m 	<ul style="list-style-type: none"> Debt and equity for residential housing schemes. 	<ul style="list-style-type: none"> Equity for Life Sciences businesses in GM and Cheshire. £50k to £2m 	<ul style="list-style-type: none"> Evergreen 1 - Commercial property debt fund invested to deliver urban regeneration projects. Evergreen 2 - Commercial property debt funding focusing on: <ul style="list-style-type: none"> Research and Innovation (£30m) Energy efficiency of buildings (£30m), including new and refurbished office development. £2m to £20m per fund 	<ul style="list-style-type: none"> Debt and equity up to £15m Maximum term of 15 years Aimed at energy efficiency and renewable/low carbon technology installations and district energy networks
Fund performance – net realised profit/(loss)	(£1.4m)	N/A	<ul style="list-style-type: none"> £29.5m retained by GMCA £22m passed to MHCLG 	No defaults to date – income is not retained by the GMCA	Not available	There have been no defaults on the funds to date	There have been no defaults on the fund to date
Managed by	GMCA	GMCA	GMCA	GMCA	Fund 1: Catapult Ventures Fund 2: Praetura Ventures	CBRE	 <small>CBRE GREATER MANCHESTER COMBINED AUTHORITY</small>

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