

Date: 24 September 2021

Subject: GM Housing Investment Loans Fund: Update

Report of: Salford City Mayor Paul Dennett, Portfolio Leader for Housing, Homelessness and Infrastructure, Steve Rumbelow, Portfolio Lead Chief Executive for Housing, Homelessness and Infrastructure

PURPOSE OF REPORT

This report sets out an update on the GM Housing Investment Loans Fund.

RECOMMENDATIONS:

The GMCA is recommended to note the contents of this report.

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BACKGROUND PAPERS:

- Housing Investment Fund (report to GMCA, 27 February 2015)
- GM Housing Investment Loans Fund – Revised Investment Strategy (report to GMCA, 25 October 2019)

TRACKING/PROCESS		
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		YES
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the relevant Scrutiny Committee on the grounds of urgency?		NO
TfGMC	Overview & Scrutiny Committee	

1. INTRODUCTION & OVERVIEW

- 1.1 The GM Housing Investment Loans Funds (“GMHILF” or “the Fund”) was launched in 2015 with the target of supporting the delivery of at least 10,000 new homes over its 10-year investment timeframe.
- 1.2 The £300m provided by Government (through the Ministry of Housing, Communities and Local Government, “MHCLG”) for onward investment by the Fund is drawn down by GMCA in annual tranches. Any funds not invested (i.e. drawn down under loans made by GMCA to developers) at the end of the financial year are returned to Government.
- 1.3 In the early years of the Fund, any funds returned to Government at financial year end were available for GMCA to re-draw the following year. However, this arrangement came to an end in March 2020. At 31 March 2021, the value of the Fund drawn was £181.1m, in line with the position at the previous financial year-end and with no funds returned to Government as a result. The £181.1m drawn at 31 March 2021 represents the Fund’s maximum capacity going forward.
- 1.4 Under the terms of the GMHILF loan agreement with MHCLG, GMCA has underwritten the repayment of 80% of the funds received from Government when the Fund comes to an end in 2028. This equates to £60m to absorb losses on the Fund, or cover investments out past the final repayment date. To date there have been no losses on the Fund and the full £60m buffer remains available.

2. CURRENT COMMITMENTS

- 2.1 To date the Combined Authority has approved £549.1m of GMHILF loans to 61 schemes across GM, delivering a total of 7,463 units against the Fund’s lifetime target of 10,000 units¹.
- 2.2 In the 6 month period since the last update on the Fund was provided to the Combined Authority, the Combined Authority has approved a £21.5m senior loan alongside a £9.3m patient equity investment in the Stockport Interchange development, £17.6m of lending across two large housing schemes in Wigan and Bolton, together with 3 further loans totalling £7.8m to SME developers for schemes in Salford and Bury. 6 loans have also fully repaid in the period, most significantly the £70m provided for Renaker’s Deansgate Square development.
- 2.3 The Combined Authority has also approved a total of £26.3m by way of GMHILF equity investments. Alongside the equity investment in the Stockport Interchange development, £2m is being invested through a joint-venture between GMCA and various GM Registered Providers aimed at bringing forward the development of multiple sites across GM. A further £15m is being invested across three Social Impact Investment Funds managed by external partners and targeting the provision of new housing for vulnerable people across GM.

¹ This excludes loan offers approved by the Combined Authority which have not been taken up, and the offer has therefore been withdrawn.

- 2.4 The distribution of GMHILF investments is shown by local authority area in the graph at appendix 1.
- 2.5 Of the 61 approved loans, 31 have now repaid. There have been no payment defaults. While some schemes have inevitably encountered construction delays or have experienced sales at a slower rate than had been expected, in part due to the pandemic and lockdown, and have required the loan repayment dates to be pushed back as a result, there is currently no indication that any loans will default on repayment obligations.

3.0 GMCA HOUSING PRIORITIES

- 3.1 By value, a large proportion of the Fund's investment have constituted senior debt for large city centre developments for which there has been clear demand and which has been key to maximising the funds available from Government. As well as delivering 5,351 units in support of the Fund's overall target, lending to city-centre developments has been key to generating approximately £10m of surplus income to GMCA to date, with a further £5m forecast to be generated going forward.
- 3.2 The Combined Authority has allocated £1.75m of the surplus income over a three year period to support the formation of the GM Delivery Team to further accelerate the supply of new homes and unlock some of GM's most challenging opportunities for housing growth. In addition to working with local authority partners to progress delivery of priority schemes, the GM Delivery Team has supported the successful bid for £54m of Getting Building funding across 7 schemes within GM, and the £81m Brownfield Land Fund to deliver over 5,500 new homes over a 5 year period, which was more recently increased by an additional £15.8m. The Team have allocated Tranche 2 which ensures the full £97m is either secured by grant agreement or with solicitors, with the first schemes on site. Most recently the Team have supported the Districts with allocations of Evergreen surpluses as revenue grant to progress a further pipeline of schemes across GM targeting Growth Locations.
- 3.3 In addition to helping create the capacity needed by GM to realise its ambitions for housing growth, the surplus income generated by GMHILF has also been ringfenced to support wider housing objectives in the following areas:
- Delivery of truly affordable housing;
 - Bringing back into use Empty Homes;
 - Addressing issues arising from rogue landlords; and
 - Creating a fund to buy out landlords operating poor / unfit private rented stock across GM.
- 3.4 The Combined Authority has approved a further £1.5m of surplus income being utilised over three years to support implementation of the GM Good Landlord Scheme.
- 3.5 The developments for which GMHILF lending is being provided are expected to deliver 165 affordable units. The current pipeline includes new investments which would deliver around a further 350 affordable units.

- 3.6 The equity investments in the three Social Impact Investment Funds are, working in partnership with Registered Providers and charities, expected to deliver around 330 new homes for vulnerable people, including people with learning disabilities, those sleeping rough or at risk of becoming homeless, people fleeing domestic violence, care leavers and asylum seekers.
- 3.7 Of the 61 loans approved to date, 37 have been to SME developers amounting to £70m of lending, the vast majority of which has been for schemes outside the city-centre. The Fund has adopted a number of measures to support the SME sector including:
- the creation of a Small Loans Fund for lending of up to £2m, offering a streamlined process and simplified lending requirements specifically designed to support SME housebuilders;
 - a loan pricing framework which does not include the commitment and exit fees often charged by mainstream lenders, reducing the costs of finance which can be a constraint on scheme viability for SME housebuilders; and
 - an Investment Strategy which allows GMCA to consider flexible lending structures, including higher loan to cost and loan to value lending ratios than are often applied by mainstream lenders, and the recycling of receipts to allow phased completion of schemes, in both cases reducing the amount of funding of their own that SME housebuilders have to provide to deliver schemes.
- 3.8 The Fund is also continuing to work with local authorities to bring forward projects into which GMHILF can be invested in a more flexible way to help overcome the viability constraints that are evident in the existing Town Centres. Having brought forward approval of a patient equity investment in the Stockport Interchange development, GMCA is continuing to work with other local authority and private-sector partners to bring forward similar investments into further schemes which contribute to wider regeneration strategies for their locations through physical renewal and increasing town centre living to support local economic growth.

4. CONCLUSIONS

- 4.1 The Fund will continue to prioritise support for SME developers and enabling marginal developments that bring forward challenging sites and can help establish new residential markets in priority town centres across GM. In line with the GMHILF Investment Strategy, this approach will be blended with continuing investment into city-centre developments in order to maintain the Fund's investment capacity and generate ongoing surplus income to support delivery of GM's wider housing objectives.

APPENDIX 1: DISTRIBUTION OF GMHILF INVESTMENTS BY LOCAL AUTHORITY AREA

