

**Date:** 14 February 2020

**Subject:** GM Housing Investment Loans Fund: 2019/20 Update Report

**Report of:** Salford City Mayor Paul Dennett, Portfolio Lead for Housing, Homelessness and Infrastructure, and Steve Wilson, Treasurer, GMCA

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#### **PURPOSE OF REPORT**

This report is to inform the Combined Authority of the position the GM Housing Investment Loans Fund at 30 September 2019, i.e. the mid-point of the current financial year.

#### **RECOMMENDATIONS:**

The GMCA is requested to:-

1. Note the position of the GM Housing Investment Loan Fund at 30 September 2019, noting that there has been no requirement for GMCA to account for any impairments as a result of the performance of the Fund.

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#### **BACKGROUND PAPERS:**

Housing Investment Fund (report to GMCA, 27 February 2015)  
GM Housing Fund – Investment Strategy (report to GMCA, 26 June 2015)  
GM Housing Fund: Updated Investment Strategy (report to GMCA, 29 July 2016)  
GM Housing Investment Loans Fund: Revised Investment Strategy (report to GMCA, 25 October 2019).

**Equalities Implications:** none

**Climate Change Impact Assessment and Mitigation Measures:** none

**Risk Management:** see section 7

**Legal Considerations:** none

**Financial Consequences – Revenue:** see section 5

**Financial Consequences – Capital:** see section 4

**Number of attachments to the report:** none

**Comments/recommendations from Overview & Scrutiny Committee:** N/A

<b>TRACKING/PROCESS</b>		<b>[All sections to be completed]</b>
Does this report relate to a major strategic decision, as set out in the GMCA Constitution		No
<b>EXEMPTION FROM CALL IN</b>		
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?		<b>Report is for information not decision</b>
GM Transport Committee	Overview & Scrutiny Committee	
<b>[Date considered at GM Transport Cttee if appropriate]</b>	<b>[Date considered by the relevant Overview &amp; Scrutiny Committee]</b>	

## 1 INTRODUCTION

- 1.1 The £300m GM Housing Investment Loans Fund (“GMHILF” or “the Fund”) was approved by the GMCA in March 2015 along with the initial Investment Strategy. The GMHILF was publicly launched in June 2015.
- 1.2 In March 2019, the Fund transferred from Manchester City Council to GMCA. Under the terms of the loan agreement with Government, GMCA has underwritten 80% of the Loan Fund.

## 2 PROGRESS OF THE FUND

- 2.1 To 30 September 2019 GMCA has approved a total 49 loan offers amounting to £442m, together with a £2m GMHILF equity investment in a joint-venture with various GM-based Registered Providers. Excluding 10 loan offers which have not been taken up and have therefore been withdrawn, the status of the approved loans is summarised in the table below.

Status	No Of Projects	Total Units	Total Loans
Repaid Funds	20	2,116	£144m
Drawing Funds	18	3,337	£240m
Approved	11	619	£58m
<b>Total Committed</b>	49	6,072	£442m

- 2.2 The distribution of approved loans and equity investments by local authority area, according to both the number of schemes supported and the value of the GMHILF loan/equity investment being provided is illustrated at Appendix 1<sup>1</sup>.
- 2.3 The £300m being provided by Government is drawn down in yearly tranches, with funds not deployed at the end of the financial year returned to Government and, during the early years of the Fund, available to be re-drawn. To 30 September 2019 a total of £437.8m had been drawn down with £264m returned, leaving a balance of £173.8m. A further £28.3m is expected to be drawn down from Government during the remainder of 2019/20. Any funds not deployed at the end of the 2020/21 financial year and returned to Government will no longer be available for re-drawing.
- 2.4 A large proportion of the Fund’s first cycle of investments constituted senior debt for city centre developments, for which there has been clear demand. No loans to city centre schemes have been approved by GMCA since December 2017. As shown in the graph at Appendix 2, since December 2017 GMCA has approved 25 loans for schemes outside the city centre with a total commitment of £66.2m.
- 2.5 The revised GMHILF Investment Strategy approved by the GMCA in October 2019 established that, alongside continuing investment in city centre schemes, the Fund would in future adopt a more flexible approach to the type and structure of investments that may be necessary to unlock higher risk schemes outside the city centre. The approach fully supports the objectives of the GM Housing Strategy to deliver mixed housing tenure across the whole of Greater Manchester.

<sup>1</sup> The £24.450 loan for the Crusader Works scheme approved by GMCA in July 2017 has been split into two separate facilities, and therefore shows as two schemes in the graph.

### 3 MEETING GM HOUSING OBJECTIVES

- 3.1 Within the portfolio of approved loans there are 5 schemes which include an element of affordable housing and which will together deliver 131 affordable units. Further work is ongoing to support the delivery of a greater number of affordable units in the coming years.
- 3.2 Of the units whose delivery the GMHILF is supporting, over 5,500, 91% of the total, are being delivered on brownfield land. This is supporting the objectives and principles being developed as part of the GM Spatial Framework to deliver housing within Town Centres and on brownfield in preference to building on important green spaces and the Green Belt.
- 3.3 Work is ongoing with Local Authorities to bring forward projects into which the GMHILF can invest in a more flexible way that helps overcome viability challenges that are evident in the existing Town Centres. The GMCA has already provided in principle approval to invest in both the Stockport Interchange and Rochdale Riverside Phase 2 schemes.

### 4 OUTTURN AND FORECAST CAPITAL EXPENDITURE

- 4.1 Based on those projects approved to date, the actual and forecast capital expenditure position for the Fund at 30 September 2019 and in the coming financial years is as follows:

Financial Year	Actual/ Forecast Capital Expenditure	Actual/ Expected Repayment	Net Capital Exposure at period end
2015 / 16	£17m	-	£17m
2016 / 17	£54.1m	(£29.3m)	£42m
2017 / 18	£55.2m	(£53.8m)	£43.2m
2018 / 19	£90.3m	(£15.4m)	£118.1m
2019 / 20 (Actual to 30/09/2019)	£46.8m	(£16.1m)	£148.7m
2019 / 20 (Actual plus forecast 01/10/2019-31/03/2020)	£71.2m	(£27.4m)	£192.6m
2020 / 21	£69.7m	(£111m)	£165.3m
2021 / 22	£13.6m	(£170m)	9.1m

- 4.2 The CA loans approved to 30 September 2019 equate to an outstanding commitment of £439m. Of this commitment, 15 loans have been repaid in full resulting in a commitment to fund £313m. The maximum forecast Fund investment against the CA approved commitments is £192.6m.

- 4.3 Work is ongoing to bring forward the pipeline of further loans, with particular focus on 2021/22 onwards given that a significant amount of current commitments are expected to repay during the course of 2020/21.

## 5 OUTTURN REVENUE COSTS AND GMCA BUDGET

- 5.1 With the exception of the first year of GMHILF's operation, when operating costs were largely met through the agreed budget for the GMCA Core Investment Team, the GMHILF is expected to be self-financing. The agreement with Government allows GM to retain the loan arrangement and management fees charged on lending and up to £2.5m per annum of the interest generated on loans made by the Fund (over and above the minimum amount of interest levied for the purpose of state aid compliance, which passes back to Government). This income is used to fund the operation of the Fund (primarily GMCA Core Investment Team staff costs and consultancy inputs).
- 5.2 The table below sets out on a cash basis the actual and forecast income to be retained by GM that will be generated by GMHILF loans approved prior to 30 September 2019:

Financial Year	GMHILF Retained Income	GMHILF Operating Budget	Cumulative End Net Revenue Position
2018 / 19	£3.1m	£1.7m	C/F £4.2m
2019 / 20 (Actual to 30/9/19)	£1.4m	£0.8m	£4.8m
2019 / 20 (Actual plus forecast 01/10/2019-31/03/2020)	£3.5m	£1.6m	£6.7m
2020 / 21	£3.6m	£1.7m	£8.6m
2021 / 22	£2.3m	£1.8m	£9.1m

- 5.3 Based on the portfolio of loans approved prior to 30 September 2019, total surplus income from the Fund is forecast to be £9.1m. The surplus income generated by the GMHILF as at the end of September 2019 amounts to £4.8m with this forecast to increase to £6.7m by the end of the year. The surplus forecast to be generated from those projects currently approved through the GMCA is £9.1m, assuming the team costs remain unchanged. With eight years of operation of the fund remaining, and based on performance to date, it is reasonable to assume that an annual surplus of £1m can be generated per annum through continued investment. This would result in a surplus position over the Fund's life of c. £17m.
- 5.4 In December 2018, GMCA agreed that going forward surplus income would be used to support GM's wider housing objectives across 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.

5.5 To date, GMCA has approved the use of £1.75m of GMHILF surpluses over the course of the 2019 to 2022 to resource the establishment and operation of the GM Delivery Team. Further proposals for the use of GMHILF surpluses are being worked up and will be brought before GMCA for approval in due course. Subject to successfully bringing forward the pipeline of further GMHILF investments, additional surplus revenue will be generated.

## 6 FUND IMPAIRMENTS, DEFAULTS AND WRITE-OFFS

6.1 The Fund's Underperforming Debt / Default Management Policy describes the approach and process that the Fund will follow in the event that a borrower experiences financial problems or defaults on its loan obligations.

6.2 As at 30 September 2019, 15 of the loans GMCA has provided have been fully repaid. There have been no payment defaults and, while some schemes have inevitably encountered construction delays which have required the loan repayment dates to be pushed back, nor is there currently any indication that any loans will default on repayment obligations.

## 7 SUPPORTING PORTFOLIO ANALYSIS

7.1 The graphs included at Appendix 1 shows the split of loans approved by GMCA as at 30 September 2019 across the GM Local Authorities. The graph at Appendix 2 shows the increase in GMHILF commitments in both city centre and non-city centre schemes over time.

7.2 Apartments in the City Centre includes flats or apartments in Manchester city centre and those parts of Salford and Trafford which adjoin the city centre. The original guidelines proposed and the cash position of the Fund against these guidelines are as follows:

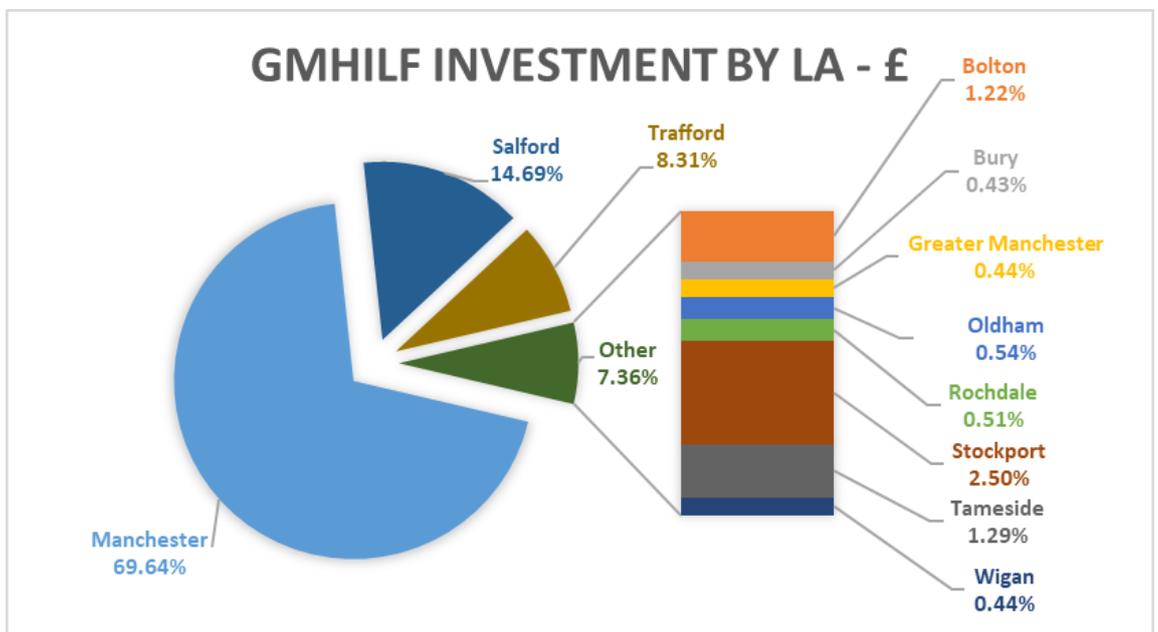
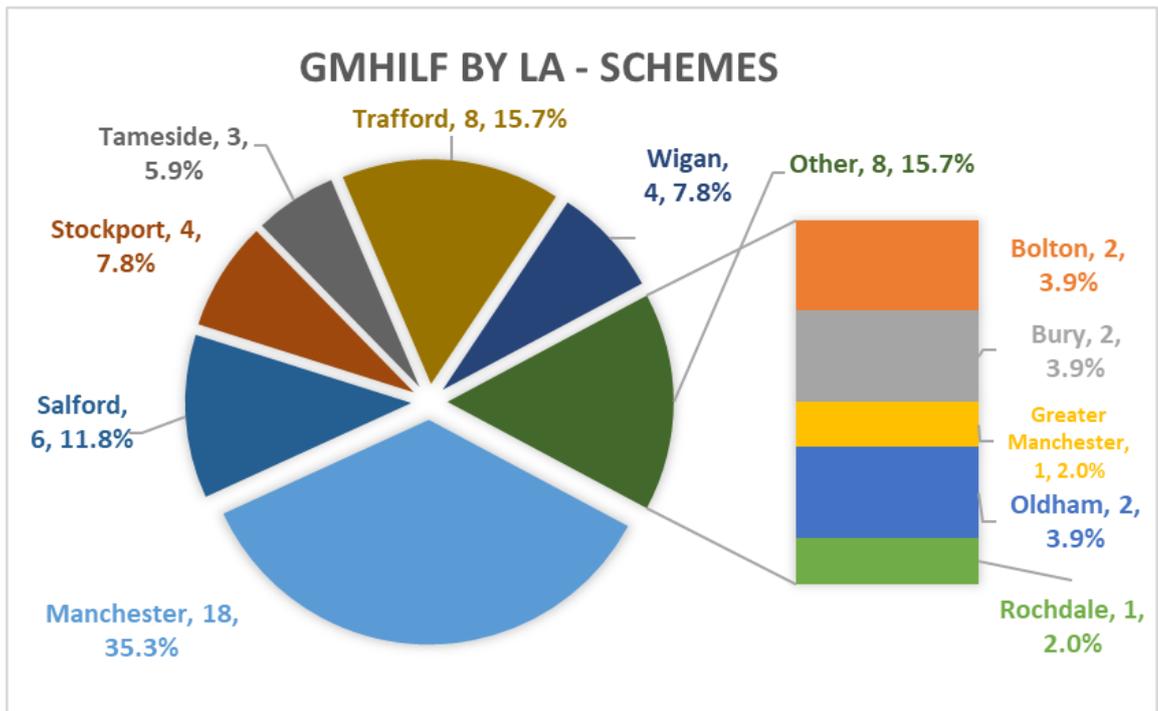
Housing type	Guideline £ of £300m Fund	Maximum Forecast Cash Investment
Apartments for Sale / rent	£200m	£144.3m
Including Apartments forward sold	£250m	£144.3m
Single Developer	30%	£70.0m

7.3 The graph at Appendix 3 shows the expected cash flow forecast.

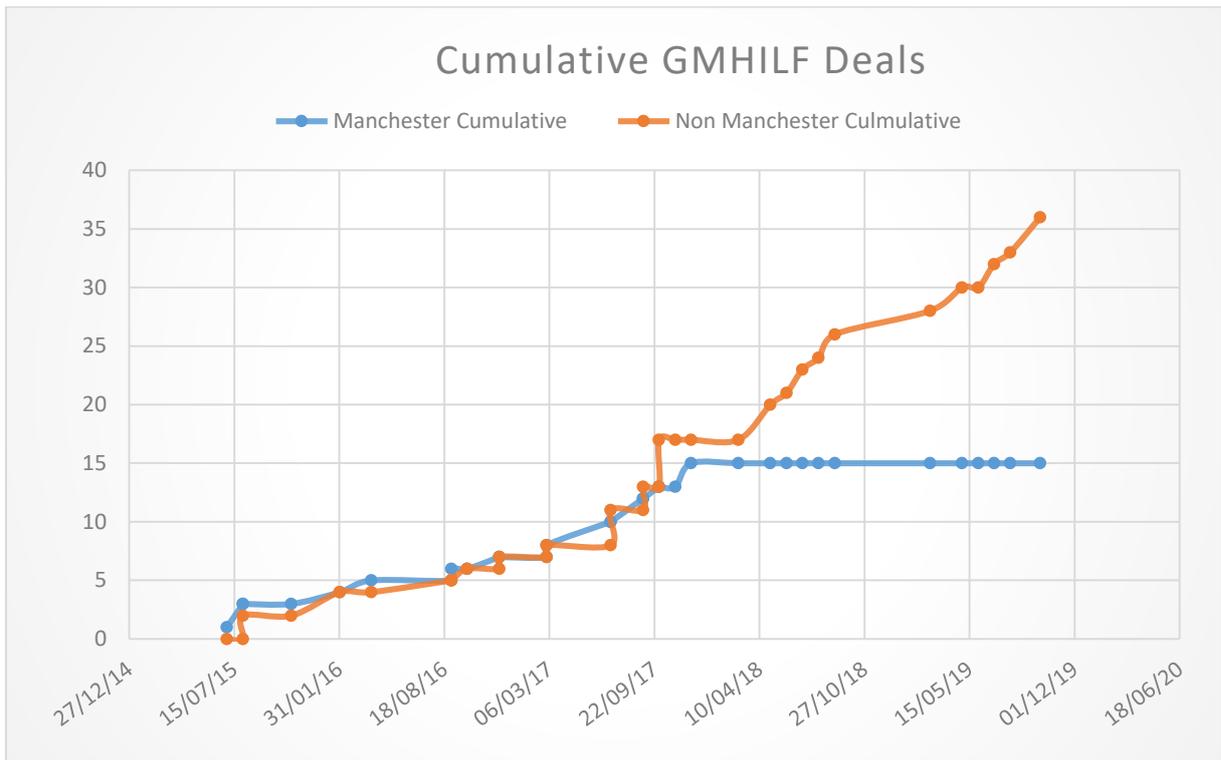
## 8 CONCLUSIONS AND RECOMMENDATIONS

8.1 The GMCA is requested to note the contents of this report and approve the recommendation to delegate authority to the Chief Executive and Treasurer of the GMCA, in consultation with the Portfolio Lead Leader for Housing, Homelessness and Infrastructure, to transfer loans from GMHILF to the GMCA where this is required to provide the necessary headroom within the GMHILF to meet commitments in excess of the funding provided by MHCLG.

**APPENDIX 1 – Distribution of approved loans**



**APPENDIX 2 – Cumulative value of approved loans**



**APPENDIX 3 – Forecast cashflow for city centre schemes**

