

Date: 29 May 2020

Subject: GM Housing Investment Loans Fund: Investment Capacity

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

**PURPOSE OF REPORT**

This report seeks GMCA approval to a proposed strategy to maintain and increase the investment capacity of the GM Housing Investment Loans Fund.

**RECOMMENDATIONS:**

The GMCA is recommended to:

1. Approve the strategy to maintain and increase the investment capacity of the GM Housing Investment Loans Fund through the use of other funding available to GMCA.
2. Delegate authority to the GMCA Treasurer to identify and implement appropriate funding solutions in line with the strategy;

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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)

<b>TRACKING/PROCESS</b>	
Does this report relate to a major strategic decision, as set out in the GMCA Constitution	YES
<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?	NO	
GM Transport Committee	Overview & Scrutiny Committee	

Equalities Implications – not applicable

Climate Change Impact Assessment and Mitigation Measures – not applicable

Risk Management – see paragraph 3

Legal Considerations – see paragraph 4

Financial Consequences – Revenue – see paragraph 5

Financial Consequences – Capital – see paragraph 6

## 1. INTRODUCTION & OVERVIEW

- 1.1 The funds which GMCA invests through the GM Housing Investment Loans Fund (“GMHILF” or “the Fund”) are provided under a legal agreement between GMCA and the Ministry of Housing, Communities and Local Government. That agreement establishes that MHCLG will only provide funds in the early years of the Fund’s operation and at the level required to meet the lending drawn from GMHILF by specific developments, whereafter ongoing GMHILF commitments must be funded through the recycling of lending which has been repaid.
- 1.2 2019/20 represented the final year under which GMCA was able to draw down funds from MHCLG, with a net total of £181m drawn down to the end of the year. In March 2020, MHCLG confirmed that in the near term it would not vary the provisions of the legal agreement and would not, therefore, provide additional funds for GMHILF.
- 1.3 As existing investments made by the Fund, primarily in the form of senior debt, are repaid, the monies are available for reinvestment by the Fund. However, the COVID19 pandemic and lockdown has caused delays to the completion of developments, and the rate at which properties are sold or let will likely be slower than originally anticipated. As such, extended timeframes before borrowers are able to repay the debt are expected. It is also expected that the Fund will experience increased demand as appetite on the part of other lenders tightens.
- 1.4 The Fund represents a cornerstone of GM’s strategy to increase housing supply, and maintaining support for developers is considered strategically important to GM’s recovery from the impact of COVID19 in signalling confidence in GM’s economic outlook and maintaining a base level of development and construction activity in the midst of wider uncertainty in the funding market. Accordingly, and while discussions with government regarding the provision of additional GMHILF funds are ongoing, it is recommended that GMCA now adopt a strategy to use other funding available to it in order to maintain and increase the Fund’s investment capacity.

## **2. PROPOSED STRATEGY**

- 2.1 The strategy revolves around the use of other funding available to GMCA to both refinance existing GMHILF commitments, thereby freeing up capacity within GMHILF itself, and to meet new commitments that would otherwise be funded through GMHILF.
- 2.2 The other funding available (or expected to be available) to GMCA includes but is not limited to the following:
- Surplus income generated by GMHILF investments;
  - City Deal Receipts provided by Homes England for GMCA to invest;
  - Regional Growth and Growing Places funding which GMCA has recycled and can therefore now invest on a flexible basis.
- 2.3 Proposals to refinance existing GMHILF commitments will be considered on a case-by-case basis, and it is proposed that authority be delegated to the GMCA Treasurer to identify appropriate alternative sources of funding and implement the refinancing of specific GMHILF loans.
- 2.4 Where new commitments that would otherwise be funded by GMHILF are proposed, these will be subject to the normal GMHILF due diligence and governance process, with GMCA approval sought to the investment as normal.
- 2.5 In both cases, where approval from external partners is required (which applies, for example, in the case of Homes England for the use of City Deal Receipts) this will be sought as normal.

## **3. RISK MANAGEMENT**

- 3.1 All GMHILF investments are based on an assessment of risk and are structured to mitigate GMCA's exposure to loss and supported with appropriate security. Where it is proposed to refinance existing commitments, this will be considered in light of an up to date risk assessment.

## **4. LEGAL CONSIDERATIONS**

- 4.1 The loan facility agreements and associated security for existing GMHILF commitments have already been assigned to GMCA as part of the novation of the overall Fund, and the refinancing of these commitments with other funding will not require any changes to the existing suite of legal agreements.

## **5. FINANCIAL CONSEQUENCES – REVENUE**

- 5.1 The proposal does not require any additional revenue expenditure by GMCA in addition to the approved Core Investment Team budget.

- 5.2 In addition to maintaining and increasing the capacity of GMHILF itself, the strategy will support optimisation of the other funding available to GMCA and the income to GMCA that this generates.

## **6. FINANCIAL CONSEQUENCES – CAPITAL**

- 6.1 The strategy revolves around the use of funding available or expected to be available to GMCA and does not increase the capital funding requirements falling to GM authorities.
- 6.2 Any use of the surplus income generated by GMHILF, Regional Growth Funds and Growing Places funding to increase GMHILF capacity would represent a short-term measure to ensure that funds to support GM's wider housing objectives and the GM Strategy continue to be available.

## **7. RECOMMENDATION**

- 7.1 The GMCA is recommended to approve the strategy set out in this report and delegate authority to the GMCA Treasurer to implement the strategy on a case-by-case basis.