GMCA GREATER MANCHESTER COMBINED AUTHORITY

Date: 31 July 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 Eamonn Boylan, GMCA Chief Executive

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PURPOSE OF REPORT

This report is to inform the Combined Authority of the position the GM Housing Investment Loans Fund to 31 March 2020.

RECOMMENDATIONS:

The GMCA is requested to:-

1. Note the position of the GM Housing Investment Loan Fund at 31 March 2020, noting that there has been no requirement for GMCA to account for any impairments as a result of the performance of the Fund.
2. Note that discussions with Government are ongoing to vary the terms of the GM Housing Investment Loans Fund agreement and provide further funds to GMCA and/or remove the requirement for funds to be handed back at year-end, and therefore maintain and increase the Fund's capacity to support the delivery of new homes.

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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 6
Financial Consequences – Capital: see section 5
Number of attachments to the report: none
Comments/recommendations from Overview & Scrutiny Committee: N/A

TRACKING/PROCESS	[All sections to be completed]	
Does this report relate to a major strategic decision, as set outin the GMCA Constitution		No
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?	Report is for information not decision	
GM Transport Committee	Overview & Scrutiny Committee	
[Date considered at GM Transport Cttee if appropriate]	[Date considered by the relevant Overview & Scrutiny Committee]	

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 Fund.

2 PROGRESS OF THE FUND

2.1 To 31 March 2020 GMCA has approved a total 67 GMHILF loan offers amounting to £508.3m. Excluding 15 loan offers with a total value of £75.7m which were not taken up and have therefore been withdrawn, the status of the approved loans is summarised in the table below[1].

Status	No Of Projects	Total Units	Total Loans
Repaid Funds	23	2,307	£166.7m

[1] All other figures given in this report exclude loans which have been withdrawn.

Drawing Funds	18	3,367	£242.9m
Approved	11	215	£22.9m
Total Committed	52	5,889	£432.5m

2.2 To 31 March 2020, GMCA has also approved two GMHILF equity investments amounting to £7m (in both cases, the funds GMHILF is investing equity in will operate on a GM-wide basis).

2.3 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.

2.4 The £300m being provided by Government for investment through the Fund 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 31 March 2020, a total of £445.5m had been drawn down with £264.2m returned, leaving a balance of £181.3m. Government has confirmed that, in line with the provisions of the loan agreement under which the funding is drawn, it does not expect to provide further funding, or vary the requirement for GMCA to repay any funds it holds at year-end. Discussions with Government around these points are ongoing as part of GM's ask for flexibility across a number of areas to support its recovery from the COVID19 pandemic.

3 MEETING GM HOUSING OBJECTIVES

3.1 The Fund was established with the aim of delivering at least 10,000 new homes over its 10-year lifetime. Government's current position regarding the provision of further funding means that the Fund may not reach the full £300m investment capacity that was originally envisaged. However, based on the number of new homes being delivered within the portfolio of schemes supported to date and in view of the strategy agreed by GMCA in May 2020 to maintain and increase the Fund's capacity, the Fund is on track to deliver its 10,000 new homes target. Continuing to bring forward a pipeline of schemes to take up headroom created as existing commitments repay and so maintain the Fund at its current capacity, and/or securing flexibility from Government regarding the requirement for GMCA to repay any funds not invested at year end, will, however, be key to this.

3.2 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 and which has been key to maximising the funds available from Government and so build the Fund up to its current level. As shown in the graph at appendix 1, there has, however, also been a strong emphasis on ensuring that the Fund is also supporting schemes across GM, with 37 loans totalling £89m for schemes outside the city centre approved. This emphasis will continue, while also recognising that the largest schemes will primarily be in the city-centre, and that support for these will continue to make a significant contribution to the number of new homes the Fund delivers, maintain the Fund's capacity at the maximum level possible, and generate income for GM to support its wider housing objectives.

3.3 The Fund has continued to target support for SME housebuilders, with a number of measures 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;
- 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.

3.4 Of the 52 loans approved prior to 31 March 2020, 32 have been to SME developers, the vast majority of which are GM-based, with £58.7m of support provided.

3.5 Affordable housing provision within developments is dealt with at a local level in line with local policies, national planning legislation and the government's National Planning Policy Framework, and the extent to which the Fund is able to support affordable housing delivery is therefore driven by the mix of tenure within consented schemes that seek investment from the Fund. Within the portfolio of loans approved prior to 31 March 2020, there are 5 schemes which include an element of affordable housing and which will together deliver 131 affordable units. A £5m equity investment in the Social & Sustainable Housing Fund, which is expected to deliver around 80 social housing units over its lifetime, was also approved.

3.6 Since April 2020, GMCA has approved a further £10m of equity investment in two funds which are also focussed on Registered Providers and charities providing housing for vulnerable people, and which are together expected to deliver around 160 social housing units over their lifetime. The Fund's ongoing work to deliver a greater number of affordable/social housing units has therefore already crystallised in support for a significant amount of affordable units, and the next reporting cycle will therefore set out a markedly improved position in respect of this objective.

3.7 GM is in the process of preparing its submission in response to the Next Steps Accommodation Programme announced by Government in May 2020, which offers both revenue and capital support to tackle homelessness. In conjunction with the GM Housing Providers Group, options are being explored to invest GMHILF alongside capital from Next Steps to support a new approach to providing housing for rough sleepers and use this as the basis for a model to provide further affordable and social housing with the objective of all residents of Greater Manchester being able to access good quality accommodation.

3.8 Of the units whose delivery the Fund is supporting, over 5,500 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 in line with the brownfield first principle being adopted in the GM Spatial Framework.

3.9 The revised GMHILF Investment Strategy approved by the GMCA in October 2019 established that 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. The approach fully supports the objectives of the GM Housing Strategy to deliver mixed housing tenure across the whole of Greater Manchester.

3.10 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 given in principle approval to investment of up to £5m and £4m respectively in the Stockport Interchange and Rochdale Riverside Phase 2 schemes, both of which contribute to wider regeneration strategies for their locations through physical renewal and increasing town centre living to support local economic growth.

3.11 In addition to resourcing the Fund's operation, GMHILF generates surplus income (see section 6) which GMCA is able to retain. 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;
- Creating a fund to buy out landlords operating poor / unfit private rented stock across GM

3.12 To date, GMCA has approved the use of £1.75m of GMHILF surpluses over the course of 2019 to 2022 to resource the establishment and operation of the GM Delivery Team to further accelerate housing supply. Further proposals for the use of GMHILF surpluses are being worked up and will be brought before GMCA for approval in due course.

3.13 As well as progressing work on GM's wider housing objectives, the GM Delivery Team budget has been specifically used to create a new post focussing on the Private Sector Rented sector, and significant progress has been made in relation to developing a Good Landlord Scheme for GM, which will be brought to the GMCA in the near future for further consideration.

4 IMPACT OF COVID19

4.1 The vast majority of schemes currently undergoing construction were shut down in the early weeks of lockdown, and across the board the Fund has taken steps to ensure that, when construction work re-commenced, all sites are operating appropriate safe-working protocols in line with Government guidelines.

4.2 Inevitably, and although all sites have now re-opened, due to the cessation of construction a number of borrowers have requested extension of the deadlines under their loan agreements for completing construction and, in order to give a reasonable period following construction to achieve the necessary sales, repayment of the loan. The Fund has adopted a reasonable position in agreeing these requests.

4.3 The Fund has utilised its network of contacts within the property sector to understand predicted longer term impacts on demand and values as a result of COVID19. Currently, the consensus is that while values will drop in the near-term they are, in part as a result of constrained supply, likely to recover to pre-COVID19 levels relatively quickly. However, the volume of transactions is not expected to recover to pre-COVID19 levels until at least 2023. Further requests from borrowers to extend their loan repayment deadlines can therefore be expected, and the Fund will continue to act reasonably in response to these requests.

4.4 In terms of immediate COVID19 impacts, there have been no borrower defaults. One contractor on a scheme being supported by the Fund has gone into administration, and a recovery plan has been agreed with the borrower in the normal course of business. Project and portfolio level exposure in the face of market changes will continue to be monitored under the supervision of the Fund's Credit Committee.

4.5 Whereas mainstream lenders are, in the face of uncertainty, expected to tighten their appetite, the Fund will continue to support new schemes in recognition of the fact that, in addition to supporting GM's housing objectives, maintaining development activity will be important to protecting and creating jobs in the construction sector and signalling confidence in GM's economic recovery from the impact of COVID19.

5 OUTTURN AND FORECAST CAPITAL EXPENDITURE

5.1 Based on those projects approved to date, the actual and forecast capital expenditure position for the Fund at 31 March 2020 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	£106.2m	(£43.1m)	£181.1m
2020 / 21	£63m	(£63.3m)	£180.8m
2021 / 22	£25.2m	(£189.7m)	£16.3m

5.2 The loans and equity investments approved to 31 March 2020 equate to a commitment of £439.5m. Of this commitment, 23 loans have been repaid in full resulting in a commitment to fund £272.8m.

5.3 In light of Government's position regarding the provision of additional funding, in May 2020 GMCA agreed a strategy to maintain and increase the Fund's capacity by utilising other funding available to it. Subsequently, the Fund's lending to 3 schemes with a combined value of £18.9m has been re-financed using headroom within GM's Local Growth Fund allocation, giving a revised commitment to fund £253.9m. The maximum forecast Fund investment against this commitment is £184.6m.

5.4 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.

6 OUTTURN REVENUE COSTS AND GMCA BUDGET

6.1 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). Again, as part of GM's ask for flexibility to support its recovery from the COVID19 pandemic, a proposal for GMCA to retain all interest generated by the Fund has been put to Government.

6.2 The table below out 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 31 March 2020. Prior to COVID19, the schemes supported by the Fund performed exceptionally well, with loans repaid quicker than expected and with income generated below forecast as a result.

Financial Year	**GMHILF Retained Income**	**GMHILF Operating Budget**	**Cumulative End Net Revenue Position**
Prior to 2019 / 20			C/F £3.8mm
2019 / 20	£3.3m	£1.6m	£5.5m
2020 / 21	£4.9m	£1.7m	£8.7m
2021 / 22	£1.6m	£1.8m	£8.5m

6.3 Further surplus income will be generated as existing commitments are repaid and recycled to fund new commitments. The extent of that income will, however, be dependent on the strength of the pipeline and the outcome of ongoing discussions with Government around greater flexibility within the terms of the funding it has provided to date and the provision of additional funding.

7 FUND IMPAIRMENTS, DEFAULTS AND WRITE-OFFS

7.1 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.

7.2 As at 31 March 2020, 23 loans GMCA 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.

8 SUPPORTING PORTFOLIO ANALYSIS

8.1 The graphs included at Appendix 1 shows the distribution of loans and equity investments approved by GMCA as at 31 March 2020 across the GM Local Authorities.

8.2 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

9 CONCLUSIONS AND RECOMMENDATIONS

9.1 The GMCA is requested to note the contents of this report.

APPENDIX 1 – Distribution of approved loans