GREATER**LONDON**AUTHORITY

REQUEST FOR DIRECTOR DECISION – DD2346

Title: The Mayor's Move-On Programme and the Real Lettings Property Fund 2

Executive Summary:

This decision seeks the Executive Director of Housing and Land's approval for investment of up to £10m into the Real Lettings Property Fund 2 (RLPF2) for the purchase of homes for former rough sleepers and for victims of domestic abuse moving on from refuges. This investment will support the purchase of around 75 affordable homes by 2021 and will bring the GLA's overall investment in the RLPF2 to a total of £25m. The investment is being made from the Mayor's Move-On Programme. The nature of the equity investment is considered by the Director to be a complex financial commitment.

Further details of the GLA's existing £15m investment in RLPF2 are set out in DD2175.

Decision:

That the Executive Director of Housing & Land approves:

1. An interest-bearing loan of up to £10m to GLA Land and Property Limited ("GLAP") from the GLA;
2. A subsequent equity investment of up to £10m by GLAP in the Real Lettings Property Fund 2 ("RLPF2"), taking GLAP's overall investment in RLPF2 to a total of £25m; and
3. A return on the above equity investment, funded from rents received, which should cover the funding of the GLAP interest cost.

AUTHORISING DIRECTOR

I have reviewed the request and am satisfied it is correct and consistent with the Mayor's plans and priorities.

It has my approval.

Name: David Lunts	**Position:** Executive Director, Housing and Land
Signature: pp RHagett	**Date:** 17/04/19

PART I - NON-CONFIDENTIAL FACTS AND ADVICE

Decision required – supporting report

1. Introduction and background

1.1. The Mayor has made available up to £50m of funding, approved by MD2052, to develop homes for former rough sleepers, including those moving on from homelessness hostels, and for victims of domestic abuse moving on from refuges (the "**Move-On Programme**"). This will contribute to meeting the Mayor's aims for a route off the street for every rough sleeper in the capital and for better support for victims of domestic abuse. This programme will not only help people to move on with their lives, it will also free up valuable spaces in hostels and refuges for those in need, helping to alleviate rough sleeping and other homelessness. The homes developed will augment the current stock of approximately 3,700 Rough Sleepers Initiative (RSI) units.

1.2. The Move-On Programme launched in late 2016 and has been open to continuous bidding since April 2017. Initially, the lack of revenue funding to provide the support needed for the people who would move into the homes developed meant that there was very limited interest in bidding into the fund from providers. In recognition of this, at the end of 2017/8, the Mayor successfully lobbied for the conversion of £3.125m of the £50m to revenue funding. As a result, a number of bids are now progressing.

1.3. Resonance, one of the two partners operating the Real Lettings Property Fund 2 (RLPF2) (the other is St Mungo's), submitted a bid to the Mayor's Move-On Programme in early February 2019. This proposed that the GLA should invest £10m on a recoverable basis into the RLPF2 which, with match funding of a further £10m from other investors, would yield around 75 homes. This bid has been assessed and peer reviewed according to the criteria set out in the Homes for Londoners: Affordable Homes Programme 2016-21 Funding Guidance and the supplementary guidance for the Move On Programme, and it is recommended for approval.

1.4. The RLPF2 was registered as a limited partnership in December 2016 and the fund was launched in January 2017 with the London Boroughs of Croydon, Lambeth and Westminster joining as limited partners and committing a total of £45m of investment. It has a life of seven years and is due to end in January 2024, with an option to go out to investors and extend the fund by two years to January 2026. The closing date and investment period have recently been extended to January 2020 and July 2020 respectively. The fund offers investors the opportunity to invest in a portfolio of London residential property which will achieve significant social impacts in the field of homelessness in London.

1.5. The initial target size for the RLPF2 was over £100m, up to a maximum of £200m by January 2019. A fund of £100m should allow the purchase, refurbishment, letting and management of around 330 affordable homes. The c75 homes developed with the second wave of GLAP funds will be additional to the 330 homes (and be matched by other investment in the fund over and above the first £100m).

1.6. As at 31 January 2019, the RLPF2 had secured £95m of investment. This has come from a range of partners, including London boroughs, an NHS trust and a first wave of GLAP funding (£15m approved in October 2017 through DD2175). As at the same date, it had purchased 212 properties (for £56m) and had a further 78 in its pipeline for purchase (£31.4m)

1.7. The bid recently submitted by Resonance meets the criteria of the Mayor's Move-On Programme, in that it will supply homes that meet the needs of the target groups – people who have slept rough and victims of domestic abuse. Resonance has also provided evidence that the scheme will meet the following funding criteria:

- Track record of delivering homes at scale: in partnership with St Mungo's, Resonance is currently operating both the RLPF1 (which has purchased 260 properties) and the RLPF2 (see above), as well as a National Homelessness Property Fund (working outside London).

- Deliverability: opportunities have been acquired or lined up to enable speedy results. This proposal is to purchase existing private properties where only minor refurbishment works are required, and to let them at affordable rents. The acquisition of existing properties is much quicker than the development of newbuild homes and does not require the acquisition of land. Properties to be purchased with the second wave of GLAP funding have not yet been identified, but there is a robust process in place to locate, approve and purchase properties. All properties will meet Decent Homes standards.

- Scale: the delivery model is capable of being scaled up to deliver significant numbers of new homes. However, there is a limited supply of existing homes and Resonance envisages that the maximum manageable size for this phase of the initiative through RLPF2 is £200m.

- Value for money: GLA funding would be repaid on a quarterly basis from the rental income received by RLPF2 and through the capital appreciation of the properties when they are sold at the end of the term.

1.8. By contributing to the supply of affordable rented accommodation available to homeless people moving on from hostels and refuges, this proposal is an excellent fit with the GLA's strategic aims around both homelessness and domestic abuse.

1.9. The nature of the equity investment is considered by the Director to be a complex financial commitment. As per paragraphs 18.1-18.2 of the Mayoral Decision-Making Framework, this proposal therefore requires approval through a decision form by the Executive Director of Housing and Land. This proposal is not considered novel, contentious or repercussive so does not require a Mayoral Decision.

1.10. Details of the two partners in RLPF2 and the operation of the RLPF2 are set out in DD2175. The key differences between the first and second waves of GLAP funding are as follows. First, the properties delivered with the second wave of GLA investment will be earmarked solely for former rough sleepers and victims of domestic abuse moving on from refuges. Second, all nominations to the properties will come via an assessment and referral organisation or organisations commissioned by the Mayor for this purpose. Third, instead of there being a placement fee for each letting, the GLA will provide revenue grant funding to St Mungo's to support residents in their tenancies and to move on after two years, where appropriate, and at the end of the term of the investment.

1.11. Due to this very specific use to which the up to £10m of investment will be put, there will be an additional agreement with Resonance and St Mungo's outlining the additional obligations. This will supplement the Limited Partnership Agreement.

Project costs

1.12. The GLA investment of up to £10m will be paid to the RLPF2 in tranches. The first tranche of £2m will be paid upfront in early 2019/20, with the remainder paid in a lump sum or in further tranches as and when match investment is secured by Resonance and no later than 31 January 2021. All parties understand that if any or all of the subsequent £8m match funding is not secured within six months from the date of the initial investment, the GLA may need to use its funding for other projects.

1.13. The GLA's rationale for investment into the RLPF2 is to help former rough sleepers and victims of domestic abuse to rebuild their lives and to free up valuable spaces in hostels and refuges for others in need. The return on the GLA's investment is an additional benefit.

1.14. The RLPF2 will operate a quarterly distribution policy in the region of around 2-3% annually of an investor's investment - a net initial yield of around 3-4% would be more realistic on individual properties, which equates to a 2-3% cash yield to investors (after taking into account fund level operating costs).

1.15. As the investment is to be made through GLAP, it is likely that there will be a requirement to pay corporation tax on the net margin cash yield and on the capital appreciation. It is not certain GLAP will get a tax deduction for the interest payable to the GLA, and therefore the table below sets out the worst-case scenario (paying corporation tax on the full returns). If the interest is partly or wholly tax deductible this will mitigate the corporation tax charges in the table and improve the net of tax return.

This indicative cashflow sets out how the GLA's investment could work:

	TOTAL	Year						
		2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Investment	-10,000	-2,000	-8,000					
Return of capital	10,000							10,000
Capital appreciation from sale of properties (e.g. 2% capital appreciation per annum over average 5-6 years held)	1,085							1,085
Cash yield received (e.g. 2.5% per annum, based on 3.5% NIY and 1% fund cost)	1,250			250	250	250	250	250
Corporation tax applied at 17%	-397	0	0	-43	-43	-43	-43	-227
Cumulative Cashflow	1,938	-2,000	-10,000	-9,793	-9,585	-9,378	-9,170	1,938

1.16. Based on this cashflow, the GLA could expect to receive a total return of £1.938m over the investment period, against a £10m investment as a worst-case scenario for tax purposes.

1.17. GLA Treasury has confirmed that this return should cover the GLA's cost of capital which is approximated by the Public Works Loan Board's rates; for a similar period, this could be 1.83%.

1.18. As with the previous GLA investment, it is being made after the initial Closing. Each Investor admitted at a subsequent Closing, is required to pay to the Partnership an additional sum (the 'Interest Adjustment') equivalent to interest on the amount of its Capital Contribution and the Loan(s) which it is required to pay on admission at a rate of LIBOR plus 2% compounded annually. This sum accrues from the date or dates upon which the capital contribution or loans would have been payable had it been a Limited Partner in the Partnership on the First Closing Date up to the date of admission to the Partnership.

1.19. As previously, the GLA will include this interest adjustment in its overall investment, meaning the actual amount invested is reduced by the interest adjustment. The actual amount is dependent on the date the investment is made. For illustrative purposes, if the initial £2m investment had been made by the end of March 2019, the interest adjustment would have been £95,574.51.

1.20. This payment will be distributed to existing investors (including GLAP) to compensate them against investors coming into the fund at a later date but still receiving the cash yield at the same time.

2. Objectives and expected outcomes

2.1. Investment into the RLPF2 is a good match for the GLA's strategic objectives and it will achieve both a social impact and a commercial return:

Affordable homes

2.2. The GLA is investing a further up to £10m into the RLPF2 to meet a specific need (that is, to provide much-needed move on accommodation for former rough sleepers and victims of domestic abuse), and not with the specific aim of supporting affordable housing. However, on the basis that most Local Housing Allowance (LHA) rents are less than 80% of market rents and all properties will meet or exceed Decent Homes standards, it is expected that most of the properties will meet the planning definition of affordable housing.

2.3. The properties are guaranteed to be let at LHA rents for the duration of the life of RLPF2. However, to quantify the number of affordable units delivered through RLPF2, the GLA will specify that Real Lettings reports to the GLA on the rent levels achieved, both as a weekly amount and as a percentage of local market rents. This will enable a number of the homes to be counted against affordable housing targets.

Provision of move-on accommodation

2.4. The properties delivered via the Move On Fund will both offer a home in which people can live independently and provide a range of support (for example, to sustain their tenancy and to enter employment, training and volunteering), with the aim of them moving on at the end of two years, where appropriate.

2.5. The GLA will enter into a nomination agreement with St Mungo's for clients moving into the homes delivered with the up to £10m investment.

Commercial return

2.6. Any return is not the rationale for the GLA's investment, but will be an additional benefit

Wider social impacts

2.7. The RLPF2 will have wider social impacts in line with the GLA's strategic role. The *RLPF1 Social Impact Report 2015-16* outlines the achievements of the first fund using key measures against the themes of improving housing opportunities, progressing towards work and improving resilience against homelessness: 39 per cent of tenants were employed, 24 per cent were in training or education and 26 per cent were actively seeking work. Furthermore, all tenants kept their homes in an adequate or better condition and 87 per cent said the property had had a positive impact on their support networks and relationships.

3. Equality comments

3.1 Under section 149 of the Equality Act 2010, as public authorities, the Mayor and GLA are subject to a public-sector equality duty and must have 'due regard' to the need to (i) eliminate unlawful discrimination, harassment and victimisation; (ii) advance equality of opportunity between people who share a relevant protected characteristic and those who do not; and (iii) foster good relations between people who share a relevant protected characteristic and those who do not. Protected characteristics under section 149 of the Equality Act are age, disability, gender re-assignment, pregnancy and maternity, race, religion or belief, sex, sexual orientation, and marriage or civil partnership status (all except the last being "relevant" protected characteristics).

3.2 Of those seen rough sleeping in 2017/18:

- 46 per cent were non-UK nationals;
- 50 per cent had a mental health need;
- 15 per cent were women;
- Most of those seen rough sleeping (56 per cent) were in the 26-45 age group;
- Eight per cent were under 26 years old;
- 11 per cent were over 55; and

- 11 people were under 18.

3.3 Characteristics of victims of domestic abuse (national figures):

- Gender: women are much more likely than men to be the victims of high risk or severe domestic abuse.
- Age: younger people are more likely to be subject to interpersonal violence. Most high-risk victims are in their 20s or 30s. Those under 25 are the most likely to suffer interpersonal violence.
- Pregnancy: nearly one in three women who suffer from domestic abuse during their lifetime report that the first incidence of violence happened while they were pregnant.
- Separation: domestic abuse is highest amongst those who have separated, followed by those who are divorced or single.
- Drug and alcohol use: victims of abuse have a higher rate of drug and/or alcohol misuse (whether it starts before or after the abuse): at least 20 per cent of high-risk victims of abuse report using drugs and/or alcohol.
- Mental health: 40 per cent of high-risk victims of abuse report mental health difficulties.

3.4 Given the above, the proposals in this paper are likely to have positive impacts on a number of groups with protected characteristics by increasing the supply of homes available for people sleeping rough and victims of domestic abuse.

4. Other considerations

a) Key risks and issues

Risk description	**Rating**	**Mitigating action**
House prices do not rise, so the GLA will not receive a return (or will receive a smaller return) on the capital appreciation element of the total return when properties are sold at the end of the fund	Amber	The repayment of a GLA investment of £10m and an estimated half of the forecast return is dependent on house prices when the properties are sold being higher than they are when properties are bought. As the RLPF2 is unleveraged, falls in house prices would result in corresponding falls in the value of the GLA's investment, e.g. a 10% fall in house prices would reduce the value of the GLA's investment to £9m. Barring a near complete collapse in house prices, the GLA would still be able to realise a proportion of its investment. This is a lower risk position than an equivalent leveraged property fund, where a given percentage fall in house prices would result in a higher percentage fall in the value of investment.
Real Lettings is unable to meet its financial commitments under the leases and therefore the GLA does not receive the anticipated quarterly cash yield element of the return	Amber	The capability of St Mungo's to meet its financial commitments under the lease depends on the receipt of rental income from tenants and Housing Benefit. RLPF2 has been established on the assumption that LHA rates are frozen until the end of the

		Fund's life. Nonetheless, St Mungo's financial modelling for the RLPF2 has accounted for the roll out of universal credit and the lowering of the benefit cap (local authorities have provided assurances that they will continue to use discretionary housing payments where necessary). The RLPF2 can let a maximum of 20% of properties on an open market basis if necessary. The RLPF1 has similar flexibility but has not needed to make significant use of this. This flexibility has been designed to ensure that Real Lettings has some flexibility to manage its lease obligations (for example a property could be let at market rates if a tenancy ends less than a year before the end of the life of the fund, as there is a risk that a year would not provide significant time for a new tenant to move on from the Real Lettings property). This flexibility could also be used to allow the RLPF2 to purchase an entire block of homes and let them to a mixture of tenants, to avoid a concentration of vulnerable people.
St Mungo's is unable to continue managing the homes	Green	St Mungo's is currently identified as the managing agent for the properties and is well-placed to perform this role. If, for whatever reason, St Mungo's was unable to continue to perform this role then the RLPF2 would seek an alternative partner to take over the leases, to continue with the fund and to provide this element of the return and social impact.
St Mungo's is unable to move households on from these properties	Amber	Given that these properties offer tenants a good quality, stable home, tenants may not wish to move on to the private market. Although this would not affect the return to the RLPF2, it would negatively affect Real Lettings' ability to accommodate the highest possible number of people and would not maximise the social impact possible from the investment. There could also be a significant negative reputational impact on St Mungo's if tenants were made to leave properties so that they could be sold at the end of the fund. This risk is significantly mitigated by Resonance's existing strategy of developing future follow-on impact funds which could acquire the portfolio at that point. Improving overall prospects for move-on is a major area of focus for St Mungo's and Resonance. Their approach is multi-faceted, including providing tenants with training on the skills and knowledge required to find and manage a new home, encouraging them to save for a rental deposit through matching

		what the tenant saves with a grant, and other similar initiatives. St Mungo's provides one of the two current Tenancy Sustainment Teams commissioned by the Mayor – a key function of which is to support Clearing House tenants to move on.
The RLPF2 purchases properties that are affordable to first time buyers	Green	It may be argued that the RLPF2 will purchase properties that are affordable to first time buyers, and therefore reduce the number of properties available to first time buyers. As the RLPF2 will meet a specific need, providing properties to people who have very few housing options, there is a strong strategic argument for investment. The RLPF2 will need to purchase properties in low value areas, where the yield may indicate that properties are more valuable as private rented properties than as owner occupied properties, and therefore it is likely that private landlords would purchase these properties, rather than first time buyers. The RLPF2 is also not at a scale which would affect the market as a whole.

b) Links to Mayoral strategies and priorities

4.1 The objectives of the proposals are in line with

- The Mayor's London Housing Strategy policy 7.2c; and
- The Mayor's Violence Against Women and Girls (VAWG) Strategy.

c) Impact assessments and consultations

4.2 Both the London Housing Strategy and the VAWG Strategy were subject to public consultation and equalities impact assessments.

5. Financial comments

5.1. This decision requests the approval of a GLAP investment of up to £10m into Real Lettings Property Fund 2. The investment from GLAP will be matched by equal funding from other partners.

5.2. The investment will be funded by a loan from the GLA, which will be funded from the Affordable Housing Programme.

5.3. The investment will purchase homes for former homeless people and people suffering from domestic violence. There will be a return on the investment funded from rent received from tenants. There is also the potential for a capital gain, dependent on the fluctuations of the housing market.

5.4. It is intended to repay the investment in five years, funded from the sale of the homes bought by the initial investment.

5.5. The return should cover the cost of borrowing. The cash flow position is set out in paragraph 1.15 above.

6. Legal comments

6.1 The foregoing sections of this report indicate that the decisions requested of the director fall within the statutory powers of the Authority to promote and/or to do anything which is facilitative of or conducive or incidental to social development within Greater London and in formulating the proposals in respect of which a decision is sought officers have complied with the Authority's related statutory duties to:

(a) pay due regard to the principle that there should be equality of opportunity for all people;

(b) consider how the proposals will promote the improvement of health of persons, health inequalities between persons and to contribute towards the achievement of sustainable development in the United Kingdom; and

(c) consult with appropriate bodies.

6.2 In taking the decisions requested of him, the director must have due regard to the Public Sector Equality Duty; namely the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by the Equality Act 2010, and to advance equality of opportunity between persons who share a relevant protected characteristic (race, disability, gender, age, sexual orientation, religion or belief, pregnancy and maternity and gender reassignment) and persons who do not share it and foster good relations between persons who share a relevant protected characteristic and persons who do not share it (section 149 of the Equality Act 2010). To this end, the director should have particular regard to section 3 (above) of this report.

6.3 In 2017, the GLA provided a £15m loan to GLAP, which money GLAP subsequently invested in RLPF2. The legal comments in part 2 of DD2175 relate to that investment. Furthermore, those legal comments apply equally to the proposed increase of GLAP's investment in the RLPF2 by a further £10m.

7. Planned delivery approach and next steps

7.1. There will be two stages to the investment. Stage 1, which will commence as soon as approval is received and contractual arrangements are in place, will involve GLA investment of £2m matched by Resonance investment from other partners of £2m. Stage 2, for the remaining £8m of GLA investment (matched with a further £8m from other Resonance investors), will roll out as the additional £8m from other investors is secured.

7.2. The next steps are summarised below:

Activity	Timeline
Complete initial due diligence	April 2019
Complete Additional Agreement to the Limited Partnership Agreement and Subscription Agreement	April 2019
Phase 1 – properties purchased and let (£2m GLA investment)	By September 2019
Phase 2 – properties purchased and let (up to £8m GLA investment)	By end of January 2021
Quarterly returns received	From September 2019
Fund closes, properties sold, and capital appreciation element of return received	January 2024 (or January 2026 if investors agree to extend the fund period by two years)

Supporting papers:
DD2175

Public access to information

Information in this form (Part 1) is subject to the Freedom of Information Act 2000 (FoIA) and will be made available on the GLA website within one working day of approval.

If immediate publication risks compromising the implementation of the decision (for example, to complete a procurement process), it can be deferred until a specific date. Deferral periods should be kept to the shortest length strictly necessary. **Note**: This form (Part 1) will either be published within one working day after it has been approved or on the defer date.

Part 1 - Deferral

Is the publication of Part 1 of this approval to be deferred? NO

If YES, for what reason:

Until what date: (a date is required if deferring)

Part 2 – Sensitive information

Only the facts or advice that would be exempt from disclosure under FoIA should be included in the separate Part 2 form, together with the legal rationale for non-publication.

Is there a part 2 form – NO

ORIGINATING OFFICER DECLARATION:	Drafting officer to confirm the following (✓)
Drafting officer: Debra Levison has drafted this report in accordance with GLA procedures and confirms the following:	✓
Assistant Director/Head of Service: Jamie Ratcliff has reviewed the documentation and is satisfied for it to be referred to the Sponsoring Director for approval.	✓
Financial and Legal advice: The Finance and Legal teams have commented on this proposal, and this decision reflects their comments.	✓
Corporate Investment Board This decision was agreed by the Corporate Investment Board on 8 April 2019.	

EXECUTIVE DIRECTOR, RESOURCES:

I confirm that financial and legal implications have been appropriately considered in the preparation of this report.

Signature M. T. M **Date** 08.04.19

TOM MIDDLETON ON BEHALF OF MARTIN CLARKE