

GREATER LONDON AUTHORITY

REQUEST FOR MAYORAL DECISION – MD2678

Title: The Mayor's Move-On Programme and the Social and Sustainable Housing Limited Partnership

Executive Summary:

This decision seeks approval for investment of up to £5m into the Social and Sustainable Housing Limited Partnership (SASH) for the financing of charities and social enterprises to purchase of homes in London for victims of domestic abuse moving on from refuges and rough sleepers moving on from hostels through the Mayor's Move-On Programme. It is anticipated that this investment will support the delivery of between 33 and 50 affordable homes, to be acquired by 31 March 2022.

Approval for the funding is sought through a Decision by the Mayor, as the nature of the equity investment is considered to be novel, contentious or repercussive due to the advice set out in Part 2 of this decision.

Decision:

That the Mayor approves:

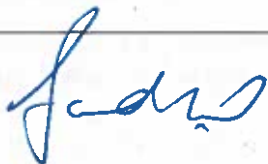
- an interest-bearing loan of up to £5m to GLA Land and Property Limited ("GLAP") from the GLA; and
- a subsequent equity investment of up to £5m by GLAP in Social and Sustainable Housing Limited Partnership (SASH) on the basis set out in this decision form and subject to the successful conclusion of legal due diligence on the limited partnership agreement.

Mayor of London

I confirm that I do not have any disclosable pecuniary interests in the proposed decision and take the decision in compliance with the Code of Conduct for elected Members of the Authority.

The above request has my approval.

Signature:



Date:

4/9/20

PART I - NON-CONFIDENTIAL FACTS AND ADVICE TO THE MAYOR

Decision required – supporting report

1. Introduction and background

- 1.1. The Mayor has made available up to £50m of funding to develop homes for former rough sleepers, including those moving on from homelessness hostels, and for victims of domestic abuse moving on from refuges (MD2052) (the “Move-On Programme”, which forms part of the Affordable Homes Programme 2016-21). 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.
- 1.2. The Move-On Programme launched in late 2016 and has been open to continuous bidding since April 2017. Initially, an absence 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, the Mayor successfully lobbied the Government for the conversion of £4.685m of the £50m to revenue funding. As a result, a number of bids have been received. Three schemes have now been allocated capital funding (a total of up to £25m) and other bids are currently being assessed.
- 1.3. Social and Sustainable Capital LLP (SASC) submitted a bid to the Mayor’s Move-On Programme in July 2019. This proposes that GLA Land and Property Limited (GLAP) should invest £5m by way of equity into the Social and Sustainable Housing LP (SASH). This, together with match funding of a further £5m from other investors, would then be made available by way of loans to charities and social enterprises which would purchase and manage homes in London and provide support to the residents for victims of domestic abuse moving on from refuges and former rough sleepers moving on from hostels. It is anticipated that GLAP’s investment would facilitate the delivery of between 33 and 50 homes (depending on property size and price). SASC (as fund manager for the SASH) are currently undertaking due diligence for two domestic violence charities in London who wish to secure up to £7m of investment between them from the SASH for this purpose and are in initial discussion with two other groups who potentially require up to £7m.
- 1.4. For clarity, further background on SASC, SASH and the investment process is set out in Appendices 1, 2 and 3.
- 1.5. SASC’s bid has been assessed and peer reviewed by the GLA 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.
- 1.6. The Affordable Homes Programme is governed by its own decision-making criteria as set out in paragraphs 19.1-19.2 of the Mayoral Decision-Making in the GLA framework. Approval for the funding is sought through a Decision by the Mayor. The nature of the equity investment is considered to be novel, contentious or repercussive due to the advice set out in Part 2 of this document.

The proposal

- 1.7. The bid submitted by SASC fulfils the criteria of the Mayor’s Move-On Programme in the following ways:
 - target group: it will supply homes that meet the needs of victims of domestic abuse moving on from refuges and rough sleepers moving on from hostels - the programme’s two target groups;
 - track record of delivering at scale: since 2014, SASC has managed two funds as detailed in Appendix 1. These funds are not specific housing funds but three of the investments from these two funds were for the purchase of 96 homes;
 - deliverability: high performing charities have been identified by SASC to enable speedy results. This proposal is to purchase existing private properties where only minor refurbishment works are required, and to let them at Local Housing Allowance levels. The acquisition of existing properties

is much quicker than the development of newbuild homes and does not require the acquisition of land. Investment will be made by SASC in organisations that have already identified the type of properties to be purchased. These charities SASC are currently in discussion with have analysed their local property market and have robust processes in place to locate, approve and purchase properties. Any future charities will also need to meet these requirements. All properties will meet Decent Homes standards;

- scale: the delivery model is capable of being scaled up to deliver significant numbers of new homes (see Appendix 1). The provision of the homes will also provide a platform for a range of support programmes to assist people to a point where they can live a full life in the community; and
 - value for money: SASC has modelled potential investor returns in different scenarios based on the primary risks to which the Fund is exposed. A conservative base case models an Internal Rate of Return of 3.2 per cent. See Appendix 3 for fuller details.
- 1.8. By contributing to the supply of affordable rented accommodation available to victims of domestic abuse or rough sleepers, this proposal is an excellent fit with the GLA's strategic aims.
- 1.9. The bid was submitted prior to the Covid-19 crisis but during the crisis SASH has been working with its portfolio organisations to understand the impact of the pandemic on their operations and finances. All are managing well and strong relationships with local authority commissioners have ensured payments for services have continued to flow. Furthermore, the response of the SASH borrowers to the Everybody In Crisis initiative has resulted in housing being provided for individuals brought in as part of this cohort and the organisations are working with their local councils to provide additional move on accommodation.

Project costs

- 1.10. GLAP will make a commitment of £5m to SASH pursuant to a subscription agreement and will become a limited partner:
- pursuant to a side letter provision entered at the same time as the subscription agreement (the "Side Letter"), the £5m commitment will be conditional upon SASC providing the GLA with evidence that homes have been bought in London for victims of domestic violence or homelessness (the "Trigger Date");
 - GLAP will participate and be exposed to the entire portfolio from the Trigger Date and will be equalised accordingly with any investments prior to the Trigger Date. Please see paragraph 1.14 below;
 - from the Trigger Date, SASH can draw down (either as one drawdown or incrementally pursuant to drawdown notices) up to the lesser of (i) £5m or (ii) 50 per cent of the value of the homes to be bought in London for victims of domestic violence or homelessness. This is a requirement of GLAP's funding and is expected to be reflected in the Side Letter; and
 - on 31 March 2022, GLAP will withdraw any part of the of its £5m Commitment that has not been drawn down and expended in accordance with the Limited Partnership Agreement (LPA) and Side Letter. Again, this is a requirement of GLAP's funding and is expected to be set out in the Side Letter.
- 1.11. The rationale for investing in the SASH is to provide move-on accommodation for victims of domestic violence and former rough sleepers and any return on GLAP's investment is an additional benefit.
- 1.12. As the investment is to be made through GLAP, it is likely that there will be a requirement to pay corporation tax on any net margin cash yield and on any capital appreciation. It is not certain GLAP will get a tax deduction for the interest payable to the GLA in respect of the GLA's interest-bearing loan.
- 1.13. The SASH has modelled scenarios (see the Investor Returns model in Appendix 3). These scenarios demonstrate a conservative base case net IRR to investors of 3.2 per cent and a base case of 5.8 per cent.

- 1.14. As with previous GLAP investments to other funds, the investment is being made after the initial closing. Each investor admitted at a subsequent closing is required to pay the partnership an equalisation amount notified by the fund manager as being the aggregate amount it would have had to contribute to the Partnership had it been admitted on the first closing date. This sum accrues from the 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 GLAP's drawdown is requested.
- 1.15. As with previous similar arrangements, GLAP will include this interest adjustment in its overall investment. The actual amount is dependent on the date the investment is made and the formula for calculating this has been provided to the GLA by SASC, so the GLAP investment into the fund will be £5 million less the interest adjustment figure.

2. Objectives and expected outcomes

- 2.1. Investment into the SASH aligns with GLA's strategic objectives, and it will achieve a social impact and should provide a commercial return.

Affordable homes

- 2.2. The GLA is investing into the SASH to meet a specific need, and not with the sole aim of supporting affordable housing. However, on the basis that the majority of Local Housing Allowance (LHA) rents are less than 80 per cent of market rents and all properties will meet or exceed Decent Homes standards, it is expected that most if not all the properties will meet the planning definition of affordable housing.
- 2.3. The majority of properties are expected to be let at up to LHA rent levels for the life of the fund. However, to quantify the number of affordable units delivered through SASH, the GLA will specify that SASH 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 the homes to be counted against affordable housing targets where appropriate.

Homelessness prevention and provision of move-on accommodation

- 2.4. Vulnerable people are disproportionately affected by the lack of appropriate accommodation, with significant numbers living in unstable housing situations. The fund addresses this by providing sustainable housing resource for front line charities who support victims of domestic abuse and rough sleepers to maintain their tenancies and get their lives back on track.
- 2.5. The Move-On Programme offers both a home in which people can live independently and a range of support (for example, to sustain their tenancy and to enter employment, training and volunteering), with the aim of residents moving on at the end of two years, where appropriate.
- 2.6. A condition of the GLA investment will be that homes delivered will be earmarked for the target groups for the Mayor's Move-On Programmes, who will be referred via the GLA-commissioned Clearing House service.

Commercial return

- 2.7. The return is not the rationale for the GLA's investment, but it is an additional benefit.

Wider social impacts

- 2.8. The SASH will have wider social impacts in line with the GLA's strategic role. It provides a practical solution to unlock long-term access to stable, quality, affordable housing for high performing charities who support victims of domestic abuse and rough sleepers. This in turn will provide a stable base for people to assimilate back into society, continue with education, assist with opportunities to get into work and improve resilience generally.

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. 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; and
 - mental health: 40 per cent of high-risk victims of abuse report mental health difficulties.
- 3.3. Given the above, the proposals in this decision form are likely to have positive impacts on groups with protected characteristics by increasing the supply of homes available for victims of domestic abuse.
- 3.4. Of those seen rough sleeping in 2018/19:
- 51 per cent were non-UK nationals;
 - 50 per cent had a mental health need;
 - 16 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;
 - 12 per cent were over 55; and
 - five people were under 18.
- 3.5. Those with protected characteristics of race and disability are over-represented among rough sleepers. As one of the client groups for these services is people with a history of sleeping rough the proposals in this paper are likely to have positive impacts on BAME Londoners and those with disabilities. Further, the support that will be provided to all residents accessing the homes being funded will enable access to employment opportunities, which will improve outcomes for those who have been previously excluded. The workplace is a setting in which people from different backgrounds can meet and form relationships furthering opportunities for social integration and career progression.

4. Other considerations

a) key risks and issues

Risk description	Rating	Mitigating action
<p><i>Property prices</i> Property prices do not rise in line with SASC's modelling, so the GLA will receive a small or no return on the capital appreciation element of the total return when the properties are purchased by the borrower or sold at the end of the loan terms.</p>	Amber	<p>Due to the repayment structure under SASH's loans with its charity and social enterprise borrowers, the repayment of GLAP's initial investment of £5m is dependent on house prices at the end of the expected 10-year loan terms between SASH and its borrowers being higher than when the properties are bought. As the SASH is unleveraged, falls in house prices would result in corresponding falls in the value of GLAP's investment (scenarios are modelled in Appendix 3). SASC has analysed nationwide house price data in the period since 1973. The worst UK performance in any ten-year period on a nominal basis has been an annual increase of 1.2 per cent or 12.5 per cent over the ten-year period. For the vast majority of the portfolio, SASC expects housing acquired by the SASH's borrowers to be in the bottom quartile on a price basis. SASC believes that the supply and demand dynamic at the lower priced end of the market is favourable given the current housing market. Barring a near complete collapse in house prices, GLAP 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.</p>
<p>Impact of Covid-19 crisis on property prices</p>	Amber	<p>With regard to any changes in the London property market as a result of Covid-19, the organisations SASC work with in London have yet to see any softening of prices in the areas in which they work but are expecting this could change by the Autumn when it is likely that properties financed by the fund will be purchased. Thus, if prices reduce, they will be able to take advantage of this.</p>
<p><i>Performance of the SASH's borrowers</i> The repayment mechanism exposes the Fund to the performance of the borrower particularly in relation to voids, bad debts and condition of properties in the portfolio.</p>	Amber	<p>SASC's due diligence process aims to minimise this risk by focussing on track record of delivering support services and managing housing together with a strong management team and engaged board.</p> <p>Clear KPIs on voids and bad debts will be established based on historic performance.</p> <p>GLAP's funding will be released in tranches, with further funding only released when the</p>

		<p>borrower can demonstrate they can purchase and use properties in line with expectations.</p> <p>KPIs will then be tracked on a quarterly basis allowing SASH to identify potential issues and take steps to mitigate them at an early stage. Each transaction will have a level of void/bad debts which will trigger early termination of the investment. In that situation, SASH will have recourse to the entirety of the proceeds realised from the underlying assets.</p> <p>The condition of the portfolio is protected by repairs and maintenance being funded from rent receipts, with a monitoring mechanism to ensure costs are appropriate, and commitment from the borrower as part of the loan documentation to maintain the homes in line with nationally recognised good home standards.</p>
<p>The SASH's borrower is unable to continue managing the homes</p>		<p>The portfolio monitoring carried out by SASH means that any potential collapse or other management difficulties encountered by borrowers should be anticipated. SASH would work to ensure the best outcome for the beneficiaries while protecting the value of the properties on which the loan is secured and would hope to find a suitable buyer for the portfolio.</p>
<p>The SASH's borrower is unable to move households on from these properties</p>	<p>Amber</p>	<p>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 SASH, it would negatively affect the 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 the borrowers if tenants were made to leave properties so that they could be sold at the end of the fund in order to repay the SASH's loans. This risk is mitigated by allowing the borrower to pay 85 per cent of market value at the end of the loan facility in full satisfaction of the loan (subject to a minimum repayment of 75 per cent of the initial amount borrowed) and thereby retain the property portfolio.</p> <p>All the borrowers will be support providers with part of their responsibility as landlords to work with tenants to get them to a position to be able to move on safely. All will have a waiting list of people to support so the borrowers will be motivated to move on those who no longer need support.</p>

The SASH's borrowers purchase properties that are affordable to first time buyers	Green	<p>It may be argued that the SASH's borrowers will purchase properties that are affordable to first time buyers, and therefore reduce the number of properties available to first time buyers. As the SASH's borrowers will meet a specific need, providing properties to people who have very few housing options, there is a strong strategic argument for investment.</p> <p>The SASH's borrowers 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 SASH is also not at a scale which would affect the market as a whole.</p>
As recipients of the SASH investment that purchase and manage properties will not necessarily be Registered Providers, there is a risk to the quality of housing management.	Amber	Recipients will be charities with a track record of providing refuges and move on and other specialist accommodation for rough sleepers therefore a track record of managing accommodation.

b) links to Mayoral strategies and priorities

4.1. The objectives of the proposal are in line with:

- the Mayor's London Housing Strategy 7.27 – 7.29; 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.
- 4.3. SASC produces an impact report each year on all its funds including SASH, to report on the impact of the funds in terms of improving housing opportunities, making progress towards employment and improving resilience against homelessness.

Declarations of interest

- 4.4. The officers involved in the drafting or clearance of this form do not have an interest to declare in accordance with the GLA's policy on registering interests which might, or might be seen to, conflict with this Mayoral Decision.

5. Financial comments

- 5.1. The GLA will lend up to £5m to GLAP and GLAP will invest in the limited partnership.
- 5.2. Pursuant to a side letter provision entered at the same time as the subscription agreement, the up to £5m commitment is conditional and funds will only be available for drawdown when SASH gives the GLAP evidence that homes have been bought in London for victims of domestic violence or rough sleepers moving on from hostels (the "Trigger Date").
- 5.3. GLAP will participate and be exposed to the entire portfolio from the Trigger Date and will be equalised accordingly for any investments prior to the Trigger Date.

- 5.4. From the Trigger Date, SASH can draw down (either as one drawdown or incrementally pursuant to drawdown notices) up to the lesser of (i) £5m or (ii) 50 per cent of the value of the houses bought in London for victims of domestic violence or homelessness (the "Maximum Commitment").
- 5.5. On 31 March 2022, the GLA will withdraw any part of the Maximum Commitment that has not been drawn down pursuant to the LPA and supported by a side letter provision.
- 5.6. GLA's investment of up to £5m into the SASH will be paid back on the tenth anniversary of the end of the Investment Period, which will be 28 May 2032 (subject to investor consent this can be extended by up to a further two consecutive one year periods). The amount and element of the return on investment is conditional upon the properties increasing in value over the investment period.
- 5.7. Additionally, it is expected that GLA will receive annual distributions from year two (as modelled in Appendix 3). As the investment will be made through GLAP, which has a requirement to pay corporation tax on the net margin and capital gain, this total return could be reduced (applying 19 per cent tax to April 2020 and 17 per cent from April 2020 onwards).
- 5.8. In view of the current position when it comes to residential house prices in London, the risk of a further slowdown or downturn in the housing market represents the biggest concern to the above investment, which may result in GLA's inability to fully recover its up to £5m investment. However, since the fund does not use leverage, it is less exposed to this risk than similar property funds which use leverage.
- 5.9. As the investment will need to be made through GLAP, GLAP will need to be funded. This funding should be provided as an up to £5m interest bearing loan from GLA to GLAP.
- 5.10. With regard to tax, a partnership is "transparent" for tax purposes. This means that the partnership itself is not taxable. Instead the partners in the partnership pay tax on their share of the taxable profits of the partnership according to their individual circumstances. GLAP is subject to corporation tax so would have to pay tax on any profits of the partnership.
- 5.11. The £5m loan from the GLA to GLAP will be funded in the GLA from the Mayor's 'Move-On' programme.
- 5.12. The Know Your Customer due diligence process under the GLA's Anti-Money Laundering Policy has been completed against the counterparty, and those parties with a beneficial interest in it, and no areas of concern have been highlighted through that process.

6. Legal comments

- 6.1. The foregoing sections of this report indicate that the decisions requested of the Mayor fall within the statutory powers of the GLA to promote and/or to do anything which is facilitative of or conducive or incidental to the promotion of social development in Greater London and in formulating the proposals in respect of which a decision is sought officers have set out above how they 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 exercising the power in section 30(1), the GLA must have regard to the matters set out in section 30(4-6A) of the GLA Act, and also the Public Sector Equality Duty in section 149 of the Equality Act 2010. Reference should be made to section 3 above in this respect.
- 6.3. It appears that the proposed limited partnership would be carrying on specified activities, as defined under section 34A of the GLA Act and the Greater London Authority (Specified Activities) Order 2013/973. Accordingly, the GLA will need to participate in the limited partnership through a

subsidiary company of the GLA, as is proposed. GLA Land and Property Limited (GLAP) is a subsidiary of the GLA.

6.4. The balance of the legal comments relating to the requested decision are in Part 2 of this Decision Form.

7. Planned delivery approach and next steps

7.1. Close consultation with GLA finance and Legal has been conducted as part of the initial assessment of the opportunity. Further due diligence is being undertaken by an external legal firm to review and enter into the Limited Partnership Agreement and side letter.

7.2. Once GLAP has completed the Limited Partnership Agreement, the GLA should take on a monitoring role to ensure that all affordable homes delivered through the SASH are recorded, and to keep abreast of anticipated returns.

7.3. The next steps are summarised below:

Activity	Timeline
Complete initial due diligence	August 2020
Complete Limited Partnership Agreement	September 2020
Announcement and publicity	October 2020
Investment period ends (for GLAP)	March 2022
Annual Distributions commence	May 2021
Fund closes, properties sold and capital appreciation element of return received	May 2032

Appendices and supporting papers:

Appendix 1: About SASC and the SASH

Appendix 2: Operation of SASH

Appendix 3: SASC's Investment and Repayment Process

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

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 – YES

ORIGINATING OFFICER DECLARATION:

Drafting officer to confirm the following (✓)

Drafting officer:

Debra Levison/Heather Stoner have drafted this report in accordance with GLA procedures and confirms the following:

✓

Sponsoring Director:

Rickardo Hyatt has reviewed the request and is satisfied it is correct and consistent with the Mayor's plans and priorities.

✓

Mayoral Adviser:

Tom Copley has been consulted about the proposal and agrees the recommendations.

✓

Advice:

The Finance and Legal teams have commented on this proposal.

✓

Corporate Investment Board

This decision was agreed by the Corporate Investment Board on 24 August 2020.

EXECUTIVE DIRECTOR, RESOURCES:

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

Signature

Date

D. Gane

2 September 2020

CHIEF OF STAFF:

I am satisfied that this is an appropriate request to be submitted to the Mayor

Signature

Date

D. Bellamy

2 September 2020

