

LIVERPOOL CITY REGION COMBINED AUTHORITY

To: The Metro Mayor and Members of the Combined Authority

Meeting: 21 January 2022

Authority/Authorities Affected: All

EXEMPT/CONFIDENTIAL ITEM: Report & Appendix 1- No
Appendix 2 - Yes by virtue of paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972.

KEY DECISION Yes

REPORT OF THE EXECUTIVE DIRECTOR OF INVESTMENT AND DELIVERY AND PORTFOLIO HOLDER FOR HOUSING AND SPATIAL FRAMEWORK

ACCEPTANCE OF ROUGH SLEEPING ACCOMMODATION PROGRAMME GRANT AND INVESTMENT IN RESONANCE NATIONAL HOMELESSNESS FUND

1. PURPOSE OF REPORT

- 1.1 This report seeks Liverpool City Region Combined Authority (“the CA”) approval to accept £1.5m in Rough Sleeping Accommodation Programme (RSAP) Capital Grant and £1.1m of revenue grant and to invest the capital element of such grant (£1.5m) together with an additional £1.5m of CA funds in the Resonance National Homelessness Property 2 Trust/Fund.
- 1.2 The revenue element will be used to provide intensive support to service users who are housed through the properties provided and a further report will be brought forward on how such funds are recommended to be deployed.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Liverpool City Region Combined Authority approve:
 - (a) the acceptance of £1,500,000 of capital grant and a further £1,110,986 of revenue grant from the Department of Levelling Up Housing and Communities Rough Sleeping Accommodation Programme Grant (“RSAP Grant”).
 - (b) the capital RSAP Grant together with £1.5m of the Combined Authority’s own funds (therefore £3m in total), be invested in the Resonance National Homelessness Property 2 Trust (“the Trust”) which forms part of the Resonance National Homelessness 2 Fund (“the Fund”);

- (c) grant delegated authority to the Executive Director of Investment and Delivery to finalise legal documentation with Resonance in consultation with the Combined Authority Monitoring Officer and Combined Authority Treasurer.
- (d) grant delegated authority to the Executive Director of Investment and Delivery to take non-material decisions regarding the terms of the Fund and the separate Agreement with the Fund Manager on an ongoing basis for the reasons set out in paragraph 6.16-18.
- (e) note that a further report and recommendations will be brought forward in respect of the proposed approach in respect of the £1.1m of revenue grant as referenced in the purposes of the report.

3. BACKGROUND

- 3.1 There has been an ongoing challenge with access to suitable, affordable 1 bedroomed property, across the City Region to support the Combined Authority's delivery of the Housing First Pilot. This has been further exacerbated by the pandemic which has led to a significant reduction in access to properties due to the national ban on evictions; the difficulty faced by Housing Associations to make properties ready-to-let; as well as a significant increase in demand for any available properties from those sleeping rough or placed in emergency accommodation by Local Housing Authorities following the 'Everyone In' campaign.
- 3.2 Housing First has housed 135 of the 216 individuals who are receiving support. The full capacity of the pilot is 228 so there is still further progress required to house every individual. At least 35 of those individuals have been identified as needing a resolution which cannot currently be found in social housing or affordable private rented sector properties. Some service users have waited over 12 months for a property to meet their needs due to their unique needs and circumstances.
- 3.3 Providing 'more people with access to housing who have experienced homelessness or rough sleeping' is one of the Combined Authority's Corporate Plan objectives approved in 2021.
- 3.4 Outside of the need for properties for Housing First service users, officers have discussed with Local Authority Housing departments about their current use of emergency accommodation. The requirements of the Government's Everyone In campaign during the pandemic and the need to provide accommodation for individuals, who would not ordinarily be owed such a duty for temporary accommodation provision, has increased the demand on emergency accommodation.
- 3.5 As a result, the City Region has seen very low levels of rough sleeping, but the challenge remains to create long term settled accommodation for some of those individuals. Some local Housing Associations are reporting their lowest void rates in over 10 years and rents in the private rented sector are increasing significantly beyond what can be claimed through Local Housing Allowance rates making the sector unaffordable for some of the most vulnerable residents. A void in housing terms is a period in which a property is unoccupied, so a low void rate indicates low turnover of tenants and/or high demand for properties when they become available.

Housing First has struggled to find sufficient one bedroomed, self-contained accommodation for service uses.

4. ROUGH SLEEPING ACCOMODATION PROGRAMME GRANT

- 4.1 The DLUHC Rough Sleeping Accommodation Programme (RSAP) aims to provide accommodation and accompanying support for rough sleepers, or those with a history of rough sleeping in emergency accommodation. The accommodation and support provided should be a pathway to settled accommodation ('Move-On' accommodation).
- 4.2 The Combined Authority has been awarded £1.5m in RSAP Grant under the Rough Sleeping Accommodation Programme. This grant must be used to provide 'move-on' accommodation as set out above.
- 4.3 Investing in a fund such as the Resonance Fund (as described below) is acceptable to DLUHC and formed the basis of the Combined Authority's bid for such funding provided that the funds are used on an on-going basis for providing Move-On Accommodation for 30 years (or until such funds are exhausted).

5. RESONANCE FUND

- 5.1 The Resonance Fund is a social impact investment fund. It purchases properties (houses and flats) across England, refurbishes such properties where required, and subsequently lets them on a long-term basis to registered housing providers at 80% of Local Housing Allowance Rates on the requirement that such properties are to be used for providing housing for homeless individuals and/or families.
- 5.2 The housing provider will in turn provide tenancies for homeless householders at full Local Housing Allowance Rates, the 20% difference providing a margin to the housing association for management costs, void periods etc.
- 5.3 The Fund therefore has the following dual objectives:
 - (a) To increase the supply of housing which can be used to house homeless individuals and families.
 - (b) To provide a financial return to investors in the Fund, comprising:
 - the rental income from the Fund's letting of the properties to Social Housing Providers (less costs of operating the Fund); and
 - any appreciation (or less any reduction) in the value of the properties purchased on sale at or around the expiry of the Fund (December 2030).
- 5.4 Whilst the Fund purchases (or can purchase) properties across England, should the Combined Authority determine to invest in the Fund – the Fund will commit to only applying both such investment and match funding from its uncommitted resources to purchasing properties in the Liverpool City Region. This would result in £6m being committed to the City Region.

- 5.5 Whilst the Fund has the two purposes detailed above, the primary purpose for recommending that the Combined Authority invests in the Fund is to support the first such objective of providing homes for homelessness. Approximately 60 homes are estimated to be delivered. Investing in the Fund is not being recommended to generate a financial return per se, However, the financial impact of such an Investment will be taken into account.
- 5.6 Based on current service users, it is estimated that around 35 of such homes will be used to address Housing First need with the remainder used to support wider homelessness pressures within the City Region.

Purchase of Properties and On-going Return

- 5.7 The Fund intends to deploy all the investment in purchasing, and refurbishing where required, during the first three years of the Fund (this is set out in the legal arrangements). Thereafter it is intended to act in a more passive way – with the properties themselves being managed by the housing providers.
- 5.8 Once invested in properties, the Fund anticipates paying an on-going return to investors of around 3% of the amounts invested. However, this is not guaranteed and will depend on the level of Local Housing Allowance compared to the purchase cost of the properties and the amount of Fund costs.

Duration of the Fund and Expiry

- 5.9 The Fund has a life of ten years starting from its inception in December 2020 (approximately 9 years therefore remaining). Following the expiry of the Fund it would be anticipated that any investor in the Fund, including the Combined Authority, will have the option of receiving a proportionate share of the value of the properties owned by the Fund.
- 5.10 The exact option the Fund, in consultation with its Investors, will pursue upon expiry has not yet been determined, but the Fund has set out the following potential options:
- Extension of the life of the Fund by agreement of the investors (a 75% majority by funds invested would be required).
 - Sale of all properties to a new “follow-on” fund at the market value of the properties at the time. In such case the Combined Authority would have the choice if it wanted to transfer its investment to such new fund or receive a return of capital (or potentially, a mix of the two).
 - Phased sale of properties over the last two years of the Fund (including potentially to tenants).
 - Portfolio sale of properties to an institutional investor with a social housing focus.
 - And/or as above, but with a breaking up of the portfolio into smaller parcels and subsequent sale to a series of social housing focused landlords, as appropriate.

It should be noted that such a decision will be a collective one of the Fund. In practice, the Combined Authority may be able at the time to enter into arrangements in respect of properties in the City Region provided this is not to the detriment of other investors.

- 5.11 Apart from on planned expiry of the Fund (in 2030), the Combined Authority would only be able to exit the fund by selling its interest in the Trust. However, there is not an 'open market' for such interests and as a result there is no guarantee that a buyer could be identified at 'fair value'.

6. FUND LEGAL STRUCTURE AND GOVERNANCE

The Fund

- 6.1 As is typical for investment funds – the Fund is structured as an English Limited Partnership. Such Partnerships have a general partner who oversees and runs the partnership business and limited partners (investors) who provide the capital for the Fund. The Combined Authority Chrysalis Fund and Urban Development Fund operate on the same basis albeit in such cases the Combined Authority is the only limited partner.
- 6.2 This partnership structure restricts the liability of the investors to the funds they have invested provided they do not participate in the management of the fund i.e. the Combined Authority will have no further liability other than the proposed £3m investment.
- 6.3 The general partner is Resonance NHPF2 GP Limited, who has appointed its sister company, Resonance Impact Investment Ltd to act as the Fund Manager. The Fund Manager manages the affairs of the Fund on a day-to-day basis. Again, this arrangement is typical for fund investments.
- 6.4 It should be noted that the Fund Manager is authorised and regulated by the Financial Conduct Authority.

The Trust

- 6.5 The investors in the Fund, either are direct investors (Limited Partners) or indirect investors via a Trust, the Resonance National Homelessness Property 2 Trust. Investments in the Trust are transferred through to the Fund. This arrangement is for tax efficiency – it allows, if desired, investors to sell their interest in the Trust without incurring Stamp Duty Land Tax which may be incurred if they were to sell a direct interest in the Fund. This would allow the Combined Authority to receive a return of its interest in full rather than with tax deducted.
- 6.6 In respect of existing investors, Big Society Capital is a direct investor in the Limited Partnership, however all the existing Local Authority investors (including Greater Manchester Pension Fund) are indirect investors via the Trust. It is proposed that the Combined Authority invests via the Trust alongside the other Local Authority investors.

The Fund Manager

- 6.7 As set out above, day-to-day operation of the Fund will be the responsibility of the Fund Manager.

- 6.8 Should the Combined Authority become an investor in the Trust/Fund, Members need to be aware that it is the Fund (not the Combined Authority) who will take the decision on which properties to purchase and the Fund (through the General Partner) will be the owner of such properties. On a day to day basis, the Combined Authority will not be able instruct the Fund to act in a certain way.
- 6.9 When considering the acquisition of any particular property, Resonance will:
- Initially determine whether it meets the Fund's financial viability requirement i.e. that the Registered Provider partner can let the property at Local Housing Allowance Rate.
 - For those properties which meet this threshold, the proposal to proceed with a purchase will be passed - on an individual property basis - to the relevant Authority, the Combined Authority, and the Registered Provider for their input as to the suitability of purchase;
 - Should any of the parties be of the opinion that proceeding with such a purchase would be detrimental to the Fund, the Combined Authority or Local Authority interests, impact negatively on community cohesion, or increase the likelihood of tenancy failure, the Fund Manager (Resonance) will have due regard to such opinion.
- 6.10 Whilst it may be considered unlikely that Resonance will wish to proceed to purchase a property which the relevant Authority deemed inappropriate; the Combined Authority will not be able to specifically instruct Resonance to withdraw from such a purchase. The Combined Authority has sought and secured strong assurances that property purchases will be made on a consensual basis and this will be reflected in the legal documentation.
- 6.11 The Fund Manager is also guided by its Investment Committee [Our team - Resonance](#) which comprises experienced property investment specialists and by an Advisory Committee of investors in the Fund.

Property Managers

- 6.12 As set out in paragraph 5.1, the Fund lets the properties purchased to registered housing providers with the requirement that such properties are used to house homeless individuals/families. In respect of the Liverpool City Region the initial registered providers are anticipated to be For Housing (who already participate in the Resonance Fund in Greater Manchester) and Regenda.

Key Decisions

- 6.13 Fundamental decisions are however subject to agreement of not less than 75% (by sum invested) of the Investors in the Fund. Such decisions include:
- Replacing the Fund Manager or General Partner;
 - Extending the life or early terminating the Fund;
 - Changing the purpose of the Partnership or variation of the terms of the Partnership Agreement.

- 6.14 As it is proposed that the Combined Authority invests via the Trust, the Combined Authority will exercise its influence in how the Trust, as an investor in the Fund, exercises its voting rights.
- 6.15 Notwithstanding, the Combined Authority will not have a right of veto over any decision of the Investors and could be outvoted by other investors acting together. Conversely, this does prevent a small single investor blocking an otherwise agreed decision.

Delegation

- 6.16 As this project falls outside SIF, the delegations in Section 3 Part H of the Combined Authority Constitution will not apply. This means that all changes (including immaterial and intermediate) will need to be referred to the Combined Authority unless a specific delegation is put in place. Whilst the Combined Authority as a Limited Partner, will not be involved in the general management of the Fund, certain key decisions will be subject to the agreement of the investors, including the Combined Authority.
- 6.17 As it stands any such decisions will need to be referred to a full meeting of the Combined Authority, which may be appropriate in many cases (e.g. terminating the Fund), however would be problematic where a decision is required quickly and would be overly administratively burdensome in some circumstances (e.g. where a new LA investor is joining the fund which will have no material adverse impact for the Combined Authority). If the Fund continues to expand there is a risk that a high volume of Combined Authority decisions could be required taking up Combined Authority agenda time unnecessarily.
- 6.18 Delegation is therefore sought to include a recommendation giving delegated authority to the Director of Investment and Delivery to make changes to the LCR Agreement with the Fund Manager and to take Investor decisions that do not have a material impact on the Combined Authority's investment, housing outputs or purpose of the Fund as set out in this report.

7. FEES AND EXPENSES PAYABLE

- 7.1 There will be fees and expenses payable to Resonance for managing the fund. These will be either taken from the sums provided by the investors (initially before income is generated) and subsequently from the Fund's rental income. No additional payment will be required from the Combined Authority in respect of such fees – they will either reduce the amount available to invest and/or the returns the fund generates.
- 7.2 The fees and expenses for operating the Fund and The Trust are set out in a confidential Appendix to this report, namely Appendix 2.
- 7.3 There is also an 'equalisation fee' payable. This reflects the fact that whilst future returns will be shared proportionately between all investors, some investors (notably Greater Manchester Combined Authority and Big Society Capital) have invested their amounts earlier than the Combined Authority.
- 7.4 The exact amount will depend on the date legal agreements are finalised. This will be deducted from the Combined Authority's investment.

- 7.5 This fee is based on the notional interest which might have been earned on such funds over this time and aims to equalise early investors' returns when compared to parties who invest later. It is therefore payable to the Fund – not the Fund Manager. Such an arrangement is normal where investors join a fund at different times and is considered reasonable. It is noted that if future investors join the fund, the Combined Authority would be a beneficiary of any equalisation fee payable by such later investors.

8. COMBINED AUTHORITY INVESTMENT

- 8.1 It is proposed that the Combined Authority invests the £1.5m received as RSAP Grant together with £1.5m of match funding from its own resources (as is required in accordance with the grant) in the Resonance Fund.
- 8.2 Whilst the Resonance Fund invests in properties across the UK, Resonance will further match the combined fund of £3m with an additional £3m and invest such sum in the purchase of properties in the Liverpool City Region.
- 8.3 The Fund has made similar commitments to other Authorities – although some of its funds are not committed to specific geography e.g. Big Society Capital and Greater Manchester Pension Fund is only restricted to the NW England (not just Greater Manchester).
- 8.4 The £1.5m direct contribution from the Combined Authority resources will result in £6m being invested in property for homelessness directly in the City Region. It is estimated that this will purchase around 60 properties although the final number will depend upon the price at which properties can be purchased and/or refurbished.
- 8.5 However, it should be noted that whilst the commitment will be to use such sums in the City Region, the ultimate returns on investment will be dependent upon the financial performance of all properties purchased by the Fund – not just those in the City Region.
- 8.6 It should also be noted that for the purpose of returns on investment, the RSAP Grant will be considered to be Combined Authority Investment i.e. the Combined Authority will be the beneficiary of any on-going returns in respect of these funds and also any amounts payable at the end of the Fund's life.

9. RESOURCE IMPLICATIONS

Financial

- 9.1 The investment of £1.5m would be the sole contribution of the Combined Authority. Whilst this is not in itself suitable for investment from the Strategic Investment Fund – as the purpose of investing in the Fund is to assist to address the challenge of supply of homes for homeless individuals rather than economic development – it is proposed that funds previously allocated to projects on a commercial basis and subsequently repaid is repurposed to this effect.

- 9.2 As noted above, any fees payable in respect of the operation of the Fund will be taken from this sum or from revenues generated from the Fund's investment and there will not be any on-going revenue impact on the Combined Authority.
- 9.3 Once the Fund is invested in properties, the Fund expects to generate and pay a yield on investment at around 3% of sum invested – so approximately £90,000 per annum. It is noted in this respect the return to the CA will be on both its £1.5m **and** the RSAP grant allocated to the Fund. However, such a return is **not** guaranteed.
- 9.4 As set out above, on expiry of the Fund (December 2030), the Combined Authority may receive the return of its investment plus any appreciation in the value of the properties, or conversely less any loss of value in such properties. Again this would be expected to be both the Combined Authority's direct contribution **and** the RSAP grant, however the conditions of the RSAP grant is that this element (but not necessarily the Combined Authority match funding) must continue to be used to provide Move-On accommodation.
- 9.5 The Combined Authority will be free to use funds returned on its share for the purpose it decides at that time and is not bound to continue to use this for homeless accommodation, although it may decide to do so.

Human Resources

- 9.6 There are no specific Human Resources implications associated with this report.

Physical Assets

- 9.7 As noted in the report any properties purchased will be in the ownership of the Fund not the Combined Authority. The Fund will lease such properties to a registered housing provider who will be responsible for on-going management.

Information Technology

- 9.8 There are no Information Technology implications arising from this report.

10. LEGAL IMPLICATIONS

- 10.1 The Combined Authority has engaged external legal advisers to review the legal documentation in respect of the Fund on its behalf. The results of their review are summarised in the report above and further considerations set out below.
- 10.2 The Fund is an unregulated collective investment scheme, consisting of the Unit Trust and the Limited Partnership. The Limited Partnership is the primary fund vehicle. This will be the entity that collects and invests funds into Properties and lets such properties to Registered Social Housing Providers under the terms of agreed framework agreement. The agreement requires the Registered Social Housing Providers to let the Properties to persons that are homeless or at risk of homelessness. The General Partner of the Limited Partnership will hold the legal title to the Properties as nominee for the Limited Partnership.
- 10.3 Under the terms of the Limited Partnership Agreement, the Limited Partners are expressly excluded from the management and control of the Limited Partnership.

This is a common position for limited partnership funds and is a key requirement for the Limited Partners to obtain the benefit of limited liability.

10.4 The Limited Partnership agreement does not in itself commit the Fund to investing in the Liverpool City Region. This will be via a separate agreement between the Combined Authority and the Fund Manager. The other local authority investors have entered into similar arrangements in respect of their local areas.

10.5 Investing in the Resonance Fund does not give rise to any obligations under the Public Contract Regulations 2015. This is because it comprises a financial investment rather than being a contract for the provision of goods or services (as such are defined in the regulations).

11. RISKS AND MITIGATION

11.1 Risks and Mitigations are set out in the table below.

Housing Delivery

Risk	Commentary and Mitigation
Resonance may not invest funding provided in the Liverpool City Region.	Resonance have committed to investing £6m in the Liverpool City Region. This will be enshrined in a legally binding agreement between the Combined Authority and the Fund Manager. Other Authorities investing in the fund have agreed similar arrangements.
Investment may deliver less properties than anticipated.	Number of properties is based on initial analysis of local market. However, availability and price of properties will impact on total number of properties which can be purchased.
Registered Providers are unwilling to accept properties purchased by Resonance	ForHousing are already a participating organisation in the Resonance Fund. The Regenda board has already approved becoming a participating organisation and legal agreements are being finalised.

Financial

Risk	Commentary and Mitigation
Properties may not generate the level of rental income predicted.	<p>Properties will be let on long term arrangements to financially strong housing associations. This should ensure stable income returns to the funds.</p> <p>The fund will only purchase properties where the net rental income is greater than 3.7% of the purchase price (unless otherwise agreed by the investors).</p>
Changes in level of Local Housing Allowance	<p>The financial forecasts assume that Local Housing Allowance will risk in line with the Consumer Prices Index (current government policy).</p> <p>However, if there were changes to such policy over the life of the Fund this would impact the level of rent receivable.</p>
Value of properties at the end of the life of the Fund.	<p>The value of properties at the end of the life of the Fund may be less than the original purchase price. It is noted average house price inflation over the last 30 years has been 6%.</p> <p>However, in order to achieve a timely exit, the Fund may reduce the sale price achievable.</p>

12. EQUALITY AND DIVERSITY IMPLICATIONS

- 12.1 The Housing First programme aims to treat all individuals on the basis of need regardless of background or other characteristics. It does not aim to target any specific group. Individuals from all backgrounds are at risk of homelessness and rough sleeping.
- 12.2 Nevertheless, national data (Office for National Statistics) suggests that males aged 25-64 are more likely to be rough sleepers. This varies from all applicants for homelessness support which has a more mixed gender and age profile.

- 12.3 In respect of current (as of Nov 21) individuals on the housing first programme approximately 60% are male. This is a little lower than the Office for National Statistics date for the UK as a whole which suggests around 80% of rough sleepers are male.
- 12.4 Individuals with a physical disability are also over-represented in current service users. Around 30% were registered as having a physical disability compared to the average in the general population of 22%.

13. PRIVACY IMPLICATIONS

- 13.1 There are no privacy implications associated with this report

14. COMMUNICATION ISSUES

- 14.1 Communications in respect of the proposed funding will be managed by the Combined Authority communications team.

15. CONCLUSION

- 15.1 The Combined Authority has been awarded £1.5m in respect of the Rough Sleeping Accommodation Grant Programme. It is proposed that this – combined with £1.5m of the Combined Authority's resources - is invested in the Resonance Fund to deliver housing to create additional accommodation which can be made available for homeless individuals.

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Appendix 1 - EXISTING INVESTORS IN THE FUND

The following parties are investors in the Fund:

Direct Investors

- Big Society Capital £5m

Indirect Investors via the Trust

- Greater Manchester Combined Authority £9m
- Greater Manchester Pension Fund £10m
- Bristol City Council £4m
- Cornwall County Council £4m
- Oxford City Council £4m