

Manchester City Council Report for Resolution

Report To: Resources and Governance Overview & Scrutiny Committee –
18 November 2010
Executive – 24 November 2010

Subject: The North West Evergreen Fund

Report of: The Chief Executive

Summary

This report seeks approval to the establishment of the North West Evergreen Fund as the urban development fund for the Greater Manchester, Lancashire, Cheshire and Cumbria sub-regions for the purposes of the European Commission's JESSICA initiative.

Recommendations

The Executive is recommended to:

1. Approve the proposal to establish the fund to act as the area's urban development fund in accordance with its Investment Strategy
2. Approve the City Council becoming a Limited Partner in the North West Evergreen Fund Limited Partnership
3. Authorise the Chief Executive in consultation with the Leader to nominate from time to time a person to act as the City Council's partner representative at the annual partnership meeting
4. Approve the City Council becoming a shareholder in the General Partner
5. Approve the City Council's annual contribution from the Capital Fund towards the operating costs of the fund and request that the Council increase the Capital Programme to meet these costs.
6. Authorise the Chief Executive and City Treasurer to negotiate and approve the final terms of the agreements necessary to implement the proposals and authorise the City Solicitor to arrange for the execution of the final agreements on behalf of the City Council.

Wards Affected:

All

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	The JESSICA Fund has the potential to have a significant impact on performance of the regional and sub-regional economy through establishing an ever-green fund that can invest and reinvest in projects that will develop employment sites, infrastructure developments and carbon reduction projects. This will create jobs, increase GVA and provide the conditions required for sustained economic growth
Reaching full potential in education and employment	The JESSICA fund will create additional job opportunities across the City, the sub-region and the wider NW region. The establishment of the fund will create or safeguard (target) 2,920 jobs for the North West region outside of Merseyside. We expect minimum c. 1000 of these would be in Greater Manchester.
Individual and collective self esteem – mutual respect	By creating new employment in the area, there will be major opportunities for local residents to up-skill and gain new confidence.
Neighbourhoods of Choice	The establishment of a JESSICA fund will allow on-going investments in regeneration related projects that will create employment and investment opportunities making the City and the sub-region more attractive to investors and creating additional employment opportunities thereby contributing to creating and developing neighbourhoods of choice.

Full details are in the body of the report, along with any implications for:

- Equal Opportunities Policy
- Risk Management
- Legal Considerations

Financial Consequences – Revenue

None

Financial Consequences – Capital

As a limited partner in the fund the City Council will be committed to make an annual contribution towards the set up and operational costs of the fund. The contribution will be in the region of £51,000 upon establishment of the fund with an annual contribution estimated to be around £25,000 thereafter. The annual contribution will rise annually in line with inflation.

As the contribution is being made by way of long term loan it is capital expenditure for the purposes of the City Council's accounting procedures.

Should the bid be successful and should Manchester promote projects in which the Fund agrees to invest, there may be match funding required. It should be noted that the match funding can be in the form of cash or land. This will clearly be dependent upon which projects are promoted and will be the subject of a further Executive report.

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Background documents (available for public inspection):

The following documents disclose important facts on which the report is based and have been relied upon in preparing the report. Copies of the background documents are available up to 4 years after the date of the meeting. If you would like a copy please contact one of the contact officers above.

None

1.0 Introduction

1.1 The City Council on behalf of itself and its partners submitted a bid to establish an urban development fund for the North West, excluding Merseyside, on 18 June 2010, following approval by the Executive at its meeting on 2 June 2010. The fund, that has been named the North West Evergreen Fund, will be established by the local authorities in the Greater Manchester, Lancashire, Cheshire and Cumbria sub-regions.

1.2 Following evaluation of the bids by the European Investment Bank it was announced in July that the Evergreen bid had been successful and the partnership had been appointed as preferred partner. Since then the final terms of the appointment have been negotiated and this report seeks approval to the formal establishment of the fund and the City Council becoming a partner in the vehicle being established to act as the fund.

2.0 Background

2.1 JESSICA (Joint European Support for Sustainable Investment in City Areas) is a European funding mechanism to promote investment in urban development projects. A North West JESSICA Holding Fund was established by the Northwest Development Agency in December 2009 utilising £50m of ERDF resources from the North West Operational Programme. This North West Urban Investment Fund (the NWUIF) will oversee the investment of the European and matched resources in projects in the region via two urban development funds (UDFs); one established for Merseyside the other for the rest of the North West.

2.2 The Evergreen fund has been appointed to act as the UDF for rest of the North West and the NWUIF has allocated £30m of funding to this UDF comprising £20m ERDF and £10m of Single Programme money. Of this funding, £10m of the ERDF money has been ring-fenced for Greater Manchester and £10m has been ring-fenced for the Cheshire, Cumbria and Lancashire sub-regions. The Single Programme money is available to be invested across the Evergreen area.

2.3 The NWUIF has appointed the European Investment Bank to act as its agent administering fund which will be regulated by the terms of an Operational Agreement between the bank and the fund. The terms of the agreement reflect the requirements of the JESSICA initiative including the EU rules governing the management of the European Regional Development Fund and the regional priorities identified for the North West in the NWDA's North West Operational Plan (NWOP). It will be a requirement as part of the management of the fund's operation that the ERDF requirements are observed, including the need to secure match funding and the NWDA's output targets are met in relation to the regeneration of Strategic Sites and creation of employment opportunities

3.0 The North West Evergreen Fund

3.1 The Fund will be constituted as a Limited Partnership under the Limited Partnerships Act 1907. Each authority will be a limited partner whose liability will be limited to its initial investment of £1. The partnership will be regulated by the

Financial Services and Markets Act 2000 and must appoint an FSA registered body to act as Investment Manager. As part of the bid proposals CB Richard Ellis will initially perform this function with the intention to procure a replacement fund manager within the first year of the fund's operation.

3.2 The fund will initially be a loan fund providing senior and mezzanine debt finance. This reflects the EIB's requirements that the funding is consistent with the State aid rules. However, the NWDA, under the guidance of the EIB, has made a submission to the European Commission which, if successful, would considerably widen the nature of the JESSICA interventions to include the provision of guarantees and equity investments.

3.3 It is important to note that Evergreen investment is not a form of Gap Funding. Projects selected for investment by the Fund must be capable of making a commercial return so that the debt is eventually repaid and the monies recycled for future investment. This does not preclude projects which already have an element of gap funding as part of their funding package simply that JESSICA cannot be used as gap.

3.4 The size of the Evergreen Fund will initially be £60m, comprising of the NWUIF contribution and match funding which, spread across the four sub-regions, is likely to make a significant, yet small contribution towards future regeneration projects. The long term vision for Evergreen is, however, much more ambitious with the fund forming the cornerstone of a much wider investment fund or funds, attracting private and public investment into projects across the area. Initially, the fund will have to invest so as to secure both a return on its investment and comply with the ERDF rules and requirements. However, once the first wave of investments are returned to the fund subsequent investments can be guided by a wider investment strategy, providing Evergreen with the potential to significantly expand its scope beyond its initial area of activity.

4.0 Investment Strategy

4.1 The Evergreen investment strategy aims to first apply the ERDF and Single Programme money towards eligible schemes, securing the outputs and objectives of the North West Operational Programme established by the NWDA. The returns on these initial investments will then be recycled into new regeneration schemes with the aim of optimising the economic and regeneration benefits in the sub-regions, complementing and enhancing the availability of existing private funding wherever possible.

4.2 The fund will invest initially by way of senior and mezzanine debt finance although, subject to clarification of the State aid rules will also seek to invest in other products including equity and loan guarantees in the future. The rate of interest, security and other terms and conditions of loans to projects will be determined independently in accordance with investment industry practice.

4.3 The foundation of Evergreen's investment strategy is rooted in the region's Future:North West framework vision for the future where

“quality of life for the people of the North West will be excellent and the area will become more prosperous, more equitable and produce less carbon: by 2030 it will be a better place to live, learn, work, visit and invest.”

4.4 This framework reflects the sub-regional strategies including the Greater Manchester Strategy, that was informed by the Manchester Independent Economic Review (MIER). Together these strategies, and their successors will comprise the Integrated Plans for Sustainable Urban Development that will guide the Investment Strategy of the fund. The priority areas of investment for the fund will include:

- Creating a high employment region – Evergreen will invest in projects that will create the conditions for businesses to grow and to attract inward investment into the sub-regions
- Investing in science research and innovation – by investing in this sector Evergreen will support growth and contribute to maintaining the region’s strong tradition of leadership in this sector
- Building on the region’s strengths in culture and media – investing in this sector to enhance the region’s strength in this sector including developing and enhancing growth in the digital/new media sector
- Supporting strong and diverse town centres - to maintain and enhance the existing centres ensuring they remain key assets to the region with the potential for high density sustainable development securing the key service functions for the local communities they serve
- Promoting a stronger and more sustainable industrial base – diversifying the business base, supporting existing successful companies and helping create more businesses of the future.
- Ensuring sustainable sites are ready for development – supporting remediation of brownfield sites ensuring they are available for development, allowing further growth to be created.

4.5 The Investment Manager will be responsible for delivering the fund’s Investment Strategy. The initial fund manager CB Richard Ellis is currently developing a robust project selection, risk management and pricing methodology that will allow suitable projects to be identified and brought forward for investment. This will be supported by the fund’s governance arrangements that will ensure the partners are provided with regular updates as to the fund’s performance ensuring full engagement across the sub-regions.

5.0 Governance

5.1 The fund will be established as a Limited Partnership with the local authorities each becoming limited partners. Under this structure the liability of the limited partners for the partnership’s debts is limited to their initial contribution which in this case will be a nominal £1. As a limited partner cannot participate in the management of a limited partnership, a separate company will be established to act as General

Partner that will manage the partnership's business. Each authority will have a share in the General Partner company. The company's board will comprise of 3 nominees of each of the AGMA and County Area groups together with independent directors who may be appointed by the board.

5.2 The fund will appoint from time to time an FSA regulated entity to act as Investment Manager. This body, initially CB Richard Ellis, will be responsible for the management and administration of the fund and will also appraise and approve investments into projects.

5.3 The governance arrangements will be structured to ensure that the fund engages fully with the region's public and private sector in order to maximise its potential to secure the objectives outlined in its investment strategy. The arrangements will include:

- The establishment of a member led strategic panel to oversee the future development of the fund's Investment Strategy and the performance of the fund against these targets
- Quarterly reporting by the fund's Investment Manager of its performance against the targets in the Investment Strategy
- Partner engagement through their nominees at formal partnership and General Partner Board meetings and
- Private sector engagement through an advisory body that will be made up of industry professionals and developers from the sub-region's private sector to support and engage with the Investment Manager through the identification and appraisal of projects

5.4 In addition to the fund's governance arrangements it is anticipated that each partner authority will play an important role in developing projects in their own area, securing match funding and maximising opportunities to take advantage of the fund in the future. The fund will encourage the establishment of sub-regional structures to enable partner authorities to identify and bring forward suitable projects for consideration by the fund in the future.

6.0 Financial Contribution

6.1 Under the terms of the agreement between the fund and the EIB, the fund's partners must meet the operating costs of the fund. The fund's business plan identifies an annual operating cost of around £500k. The initial set up costs will also have to be met by the partners and are in the region of £1m.

6.2 As the fund serves equally AGMA and the County Areas it is proposed that these costs are met by the two groups on a 50:50 basis. Thus, for the AGMA authorities the required contribution is likely to be in region of £51k on establishment of the fund in December 2010 and thereafter approximately £25k per annum commencing on 1 April 2011 and continuing until the end of the fund's initial 5 year investment period, December 2015. At that stage partners will have the opportunity

to withdraw or, in the event that the fund is continuing, maintain their involvement.

6.3 There is no obligation on the partners to contribute any further funding towards the fund. However, the partnership does allow the partners, if they wish, to contribute funding by way of interest bearing loans, to be used by Evergreen as match funding to the NWUIF funds being invested in a project in its area. It is anticipated that any such arrangements would be developed on a case by case basis and would be subject to separate approvals within the relevant authority.

6.4 Evergreen, through its Investment Manager, will also explore other options to attract investment into the fund. Possible sources of funding will include the local authority pension funds in the sub-regions, private developers and, in the longer term other private sector institutions. In addition, Evergreen, will seek to negotiate a senior debt facility that could be deployed alongside its investments into projects. If successful this could secure significant additional resource into projects in the sub-region over and above the initial £60m core investment.

7.0 Next Steps

7.1 The parties are currently negotiating the final terms of the EIB Operational Agreement and other key agreements, including the appointment of CB Richard Ellis as Investment Managers with the aim of completing the agreements and establishing the fund before the end of December 2010.

7.2 In order to ensure the Limited Partnership is established and registered in time to achieve this target a limited partnership has been established with Manchester City Council and Lancashire County Council as its initial partners which will be expanded to include all the local authority partners prior to establishing the fund. The remaining authorities will then be able to join the partnership by executing a Deed of Accession which has been prepared by Eversheds on behalf of all the partners.

7.3 The first meeting of the partnership has been set for the [17 December 2010]. This will be followed by the meeting of the partnership's General Partner which will consider the final agreements with a view to approving the arrangements and executing the agreements.

7.4 It is therefore a requirement of the fund that all the partner authorities have secured the necessary approvals prior to this date in order to allow the project to proceed.

7.5 Once established it is anticipated that the fund will make its first investments into projects in the first three months of 2011. Thereafter it will actively pursue further opportunities to invest with the aim that the first wave of investments is completed as soon as possible and no later than the deadline in the EIB agreement of December 2014.

8.0 Recommendations

8.1 The recommendations are set out at the beginning of this report.

9.0 Contributing to the Community Strategy

(a) Performance of the economy of the region and sub region

9.1 The Evergreen Fund has the potential to have a significant impact on performance of the regional and sub-regional economy through establishing an ever-green fund that can invest and reinvest in projects that will develop employment sites, infrastructure developments and carbon reduction projects. This will create jobs, increase GVA and provide the conditions required for sustained economic growth

(b) Reaching full potential in education and employment

9.2 The Evergreen fund will create additional job opportunities across the City, the sub-region and the wider NW region. The establishment of the fund will create or safeguard (target) 2,920 jobs for the North West region outside of Merseyside. We expect minimum c. 1000 of these would be in Greater Manchester..

(c) Individual and collective self esteem – mutual respect

9.3 By creating new employment in the area, there will be major opportunities for local residents to up-skill and gain new confidence.

(d) Neighbourhoods of Choice

9.4 The establishment of Evergreen as a JESSICA fund will allow on-going investments in regeneration related projects that will create employment and investment opportunities making the City and the sub-region more attractive to investors and creating additional employment opportunities thereby contributing to creating and developing neighbourhoods of choice..

10. Key Polices and Considerations

(a) Equal Opportunities

10.1 None.

(b) Risk Management

10.2 The delivery of the fund and the management of the risks associated with its investments will be undertaken by an Investment Manager registered with the Financial Services Authority.

(c) Legal Considerations

10.3 Section 2 of the Local Government Act 2000 gives the Council do anything (within and outside its area) which it considers it to be in the interests of promoting the social, economic or environmental well-being of the area. This may include incurring expenditure, bidding for and if successful establishing the UDF for the “Rest of the North West as part of the consortium described above, subject to the

Executive being satisfied that it will promote the social, economic or environmental well-being of the area. In determining whether and how to exercise this power the Council must have regard to its Community Strategy. The report sets out how the bid, if successful will secure the establishment of a UDF capable of delivering significant investment to the region which will benefit the area as described in more detail in the report.