Manchester City Council
Report for Resolution

Report to: Finance Scrutiny Committee – 6 March 2014

Subject: Investment Strategy 2014-15: Ethical Considerations

Report of: City Treasurer

Summary

At previous meetings the Committee has considered a letter from "Steady State Manchester" requesting that the Committee looks into the investment strategy of the City Council with regard to ethical considerations, and has received a report on the use of ethical considerations within the Council's Treasury Management strategy. This report provides information on the Greater Manchester Pension Fund, in particular the use of ethical considerations within its investment strategy, considers other non-treasury investments that the Council holds, and also provides information on investments the Greater Manchester Combined Authority is making, a number of which are in Manchester.

Recommendations
The Committee are asked to note the contents of the report.

Wards Affected:
Not Applicable

Community Strategy Spine	Summary of the contribution to the strategy
Performance of the economy of the region and sub region	This report details the use of ethical considerations within the Greater Manchester Pension Funds investment strategy, and looks at other non-treasury investments held either directly by the City Council, or indirectly through the Greater Manchester Combined Authority.
Reaching full potential in education and employment	
Individual and collective self esteem – mutual respect	
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

None.

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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.

N/A

1. Introduction

1.1. The Greater Manchester Pension Fund (GMPF) is the pension scheme for the ten local authorities in Greater Manchester, including Manchester City Council, and for other bodies such as schools, colleges and charities.

1.2. The Fund is part of the nationwide pension scheme for local authorities, the Local Government Pension Scheme (LGPS).

1.3. The GMPF is invested in various company shares and bonds, government bonds, property and cash around the world. The rates achievable on long term investments allow them to keep employer contributions rates as low as possible, enabling authorities to spend more money on front-line services.

1.4. This report contains information received either from the Fund's website or from officers of the Fund on the Fund's approach to ethical investments.

1.5. This report also contains details of other non-treasury investments held by the City Council, and considers the ethical considerations included within such investments, and also looks at investments the Greater Manchester Combined Authority (GMCA) has been making utilising Growing Places and Regional Growth Fund funding.

2. GMPF approach to ethical investments

2.1. The Management Panel of the GMPF considered the Fund's approach to ethical investments in September 2007.

2.2. The Panel highlighted that the Fund's policy on ethical investments is determined by the Fund's interpretation of the legal position. It is the Fund's view that:

> *"….applying ethical, environmental or any other non-commercial policy either to investments generally or to selecting fund managers, would be inconsistent with out legal duties and responsibilities."*

2.3. As such, the Fund does not interfere in the day-to-day investment decisions of the Fund's investment managers, and does not actively invest or disinvest from companies solely or largely for social, ethical or environmental reasons.

2.4. The Fund will listen to special interest groups that may oppose some of the Fund's investments, for example in tobacco, alcohol, gambling or pharmaceuticals, but are clear that this cannot detract from the Fund's duty.

2.5. This means that the Fund does not have a detailed ethical investment policy, instead concentrating on trying to positively influence company behaviour. In the Fund's view, simply disinvesting from a particular company is a denial of responsibility. The Fund believes that responsible institutional investors should seek to influence companies' environmental, human rights and other policies by positive use of shareholder power.

2.6. The Fund does reserve the right to, on a case by case basis, apply ethical or environmental criteria to investments if it is considered relevant and appropriate. For example, for many years the Fund chose not to invest in South Africa.

2.7. This policy is enshrined within the Section 8 of the Fund's *Statement of Investment Principles*, which is shown at appendix A.

3. Local Authority Pension Fund Forum

3.1. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is a coalition of almost 60 LGPS which seeks to engage with companies on behalf of their member funds. LAPFF actively considers the issue of ethical investments, in particular issues relating to poor labour practices, poor wage equality, the arms trade, tobacco and major oil companies.

4. Other non-treasury investments held by Manchester City Council

4.1. The City Council holds an interest in many companies, full details of which can be found within the Council's accounts. The most significant investments are held in:

- Manchester Airports Holdings Ltd;
- Destination Manchester Ltd / Manchester Central Convention Complex Ltd;
- National Car Parks Manchester Ltd;
- Manchester Working Ltd;
- Northwards Housing Ltd;
- One Education Ltd; and
- Manchester Mortgage Corporation.

4.2. All these type of investment are made and held by the City Council to support either the work of the Council, the community strategy, or the local economy. They are not held solely as investments for the purposes of financial returns.

5. Investments made through the GMCA

5.1. The City Treasurer reported at the 6th February meeting of the Finance Scrutiny Committee on investments made by the City Council through the GMCA. Attached at appendix B is a report on these investments, which has been submitted to the GMCA to be considered at their 28th February meeting.

6. Conclusion

6.1. The cornerstone of the GMPF's policy on ethical investment is their interpretation of the legal position. In the Fund's view, applying ethical, environmental or any other non-commercial policy either to investments generally or to selecting fund managers would be inconsistent with their legal duties and responsibilities.

6.2. The Fund instead seeks to use its influence as a corporate investor to positively influence company behaviour, although it reserves the right to apply ethical or environmental criteria on a case by case basis if considered relevant and appropriate.

6.3. Further to this, the City Council will, from time to time, make a non-treasury investment in a company if such an investment will support the work of the authority. Such decisions will not, directly, take into consideration ethical concerns, but will focus on how the investment can help in delivering the Council's aims and objectives.

Appendix A

An extract from the GMPF Statement of Investment Principles

8) Socially Responsible Investment

8.1 Tameside Council holds a policy of not interfering in the day to day investment decisions of its investment managers and does not actively invest in nor disinvest from companies solely or largely for social or ethical or environmental reasons.

8.2 As a responsible investor, Tameside Council wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. On environmental issues, Tameside Council wishes to promote and encourage compliance with its own "UK Environmental Investment Code". The Fund's appointed external fund managers are encouraged to operate a policy of constructive shareholder engagement with companies.

8.3 Tameside Council endeavours to be a socially responsible investor wherever possible but does so within the duties placed upon it under statute and under general trust law principles to manage the Scheme in the best financial interests of the Scheme members and beneficiaries.

8.4 From time to time the Fund will pursue certain specific issues direct with investee companies, either individually or, more usually, collectively with other institutional investors via its membership of the 'Local Authority Pension Fund Forum' or the 'Institutional Investors Group on Climate Change', or by means of other ad-hoc groupings.

GREATER MANCHESTER COMBINED AUTHORITY

Date: 28th February 2014

Subject: Greater Manchester Investment Fund Update

Report of: Eamonn Boylan

PURPOSE OF REPORT

This paper provides an update on the status of the Greater Manchester Investment Fund (GMIF).

RECOMMENDATIONS:

The Greater Manchester Combined Authority is requested to note the contents of this report.

BACKGROUND

The Greater Manchester Investment Fund ("GMIF") is a virtual pool of funding that operates under the direction of the CA and is used to support economic growth across Greater Manchester.

Whilst there are specific requirements attached to each element of the GMIF, the overarching objective is primarily around the creation or safeguarding of jobs with a secondary objective of recycling funding wherever possible in order to maximise the impact of the funding over several investment cycles. This approach was endorsed by Government as part of the GM City Deal agreed in April 2012.

The elements of the fund can be split into:

i) Business funds which are primarily aimed at supporting SMEs with their growth strategies. The business funds include two rounds of Regional Growth Fund which are managed by the Core Investment Team, and the Greater Manchester Loan Fund which is externally managed by Maven Capital. The GM Loan Fund look at funding requests between £100k and

£500k with the Core Investment Team focusing on projects exceeding £500k, to a maximum of £5m.

ii) Infrastructure funds aimed at unlocking strategic sites. The infrastructure funds include Growing Places (which is managed by the Core Investment Team) and Evergreen which is externally managed by CBRE. The Evergreen funding is European money and as a result has sector restrictions placed upon it.

There are bespoke governance structures for each of the funds that make the investment decisions. Where enquiries for funding are received, the Core Investment Team will utilise the most appropriate form of funding for the project. That is, the private sector are not expected to understand the different elements of funding available – the team is responsible for this.

STATUS OF THE FUNDS

At the last update provided in November 2013, the status of the funds was as follows:

£'m	RGF2	RGF3	Growing places	GM Loan Fund	Evergreen	Total
Committed	19.6	11.9	20.5	1.3	22.5	75.8
Pipeline	**-**	**3.3**	**13.6**	**0.4**	**20.5**	**37.8**
Remainder	**10.4**	**19.8**	**0.5**	**18.3**	**-**	**49.0**
Total	30.0	35.0	34.6	20.0	43.0	162.6

The status of the funds as at 31st January 2014 is set out below. A detailed list of approved investments is included in Appendix 2.

£'m	RGF2	RGF3	Growing places	GM Loan Fund	Evergreen	Total
Committed	19.6	15.7	26.9	2.2	37.0	101.4
Pipeline	**-**	**5.2**	**5.9**	**1.0**	**6.0**	**18.1**
Remainder	**10.4**	**14.1**	**1.8**	**16.8**	**-**	**43.1**
Total	30.0	35.0	34.6	20.0	43.0	162.6

** Note that there is an additional £41.2m of projects within the Evergreen pipeline. As such if all projects in the pipeline were to be delivered, there would be insufficient funding within the current funding stream.*

The above analysis shows that in November 2013 £49m of funding remained available. This has reduced to £43m in the period, principally due to projects approved through RGF 3 and the GM Loan Fund. The analysis also supports the strong conversion of the pipeline into committed projects, with £25.6m of projects having been approved in the period.

RGF 2 and RGF 3 need to be invested by 31st March 2016 and 31st March 2015 respectively. Due to the earlier deadline for RGF 3, the entire pipeline for RGF projects has been directed through this funding stream. Based on the current rate of approvals the RGF funds should be fully committed by June 2015.

Evergreen funds need to be committed by December 2014 and spent by December 2015. There is no time limit for Growing Places.

The RGF funding provided to date has been through a mixture of grants and loans with the intention of restricting grant funding to transformational projects that create a significant number of jobs. All Growing Places, Evergreen and GM Loan funding has been through loans. The funds will continue to be promoted as primarily loan funds in order to maximise the level of funding that is recycled. The rate of approval of new projects supports the view that grant funding will not be necessary to fully utilise the funds in advance of their deadlines.

The GM Loan fund became operational in August 2013 and has made four investments to date. The GM Loan fund has received £2m from RGF 2 alongside a Manchester City Council led loan of £12m, backed by the other 9 GM Authorities.

PIPELINE

The current pipeline of active projects that are expected to proceed through for approval is very strong.

In respect of RGF, there are five active projects in the pipeline with a total project value of £5.2m which are at varying stages of approval and diligence.

The GM Loan Fund has three offers out at the moment and a further thirteen active lines of enquiry that are being pursued.

The pipeline for the Evergreen and Growing Places projects is very strong (£48m of projects across the two funds) and based on the current funding there would be insufficient funds available to deliver the pipeline. In order to address this, the following actions have been taken:

- A model has been agreed to leverage the Growing Places fund by up to £20m. This model requires the relevant Local Authority to lend the funds directly to applicants and the LA will receive a guarantee from the Combined Authority that will be serviced by future receipts from the existing Growing Places fund.
- The ERDF 2014-2020 programme includes an allocation for a second Evergreen fund. The ex-ante for the fund is being finalised but is likely to recommend that the structure and governance of the fund be similar to the existing Evergreen fund, with a low carbon element. The detailed proposals will be presented to the CA in due course.

The current pipeline has principally been generated through referrals from the private sector network developed by the team, and additional funding for those projects that have outperformed their targets.

OUTPUTS

Delivery of outputs is forecast to be very strong with the programmes in a good position to meet their targets.

In terms of job creation, the funding per job target is approximately £15,000 for RGF 2, £20,000 for RGF 3 and £14,000 for Evergreen.

Committed outputs	RGF 2	RGF 3	Evergreen
Jobs			
Direct jobs created	1,733	760	-
Direct jobs safeguarded	1,274	4	-
Indirect jobs created (RGF 3 only)	**-**	443	-
Indirect jobs safeguarded (RGF 3 only)	**-**	805	-
Jobs Total	**3,007**	**2,012**	**3,687**
Programme target	*2,000*	*1,724*	*2,920*
Development			
Sqmt. Developed	**n/a**	**n/a**	**14.64**
Programme target	*n/a*	*n/a*	*8.00*
Brownfield Land developed	**n/a**	**n/a**	**99,975**
Programme target	*n/a*	*n/a*	*78,400*

Note: There are no programme output targets for the Growing Places Fund.
Note: GMLF outputs are included within the RGF 2 funding stream above.

FUND PROFILE

As previously discussed, the intention is to create a recycling fund that can be reinvested several times. A summary of the current fund profile is set out below.

£'000	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19 onwards
RGF						
b/f	65.0	41.9	17.5	6.1	17.2	25.5
Commitments	(23.2)	(26.6)	(14.8)	-	-	-
Receipts	0.1	0.9	3.4	11.1	8.3	18.5
c/f	41.9	16.2	6.1	17.2	25.5	44.0
Growing Places						
b/f	34.6	30.4	13.2	16.6	18.9	25.5
Commitments	(4.2)	(17.7)	(8.5)	(4.2)	-	-
Receipts	-	0.5	11.9	6.5	6.6	9.1
c/f	30.4	13.2	16.6	18.9	25.5	34.6
Evergreen						
b/f	43.0	34.0	6.8	16.6	-	-
Commitments	(9.0)	(27.2)	(6.8)	-	-	-
Receipts	-	-	16.6	26.4	-	-
c/f	34.0	6.8	16.6	43.0	-	-

Note: the modelling is based upon full recovery of monies.

Note: the profile includes an assumption for those RGF projects that are not yet known.
Note: the RGF monies do not fully recycle due to the grant el

The profile models the fund based upon projects that have been committed to date, with an assumption built in for funds not yet committed. The Growing Places profile is based upon the current £34.6m fund and does not take into account the approved £20m additional leveraged fund. The funds will not be overcommitted and as such the cash profile will always be positive.

The profile indicates that funding does not start to return in any quantum until 2016. This results in a capacity constraint particularly in the infrastructure funds, as described earlier in the paper and highlights the importance of the Growing Places leverage model, and second round of Evergreen funding. Further mitigating strategies are being developed and will be brought forward in due course.

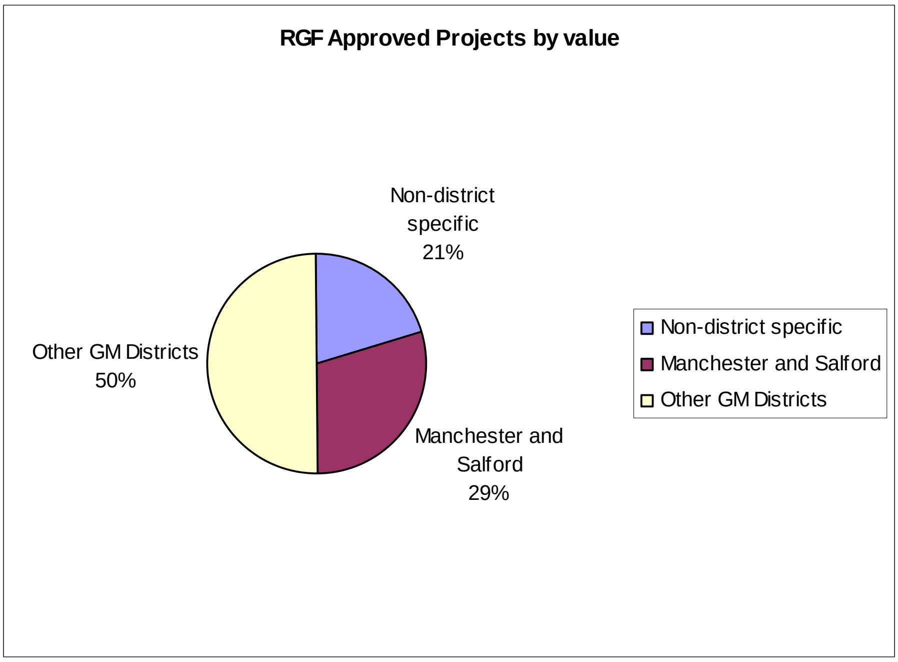
The funding profile does not assume any bad debts, but the reality on the RGF funds is that the loans are inherently risky in that the applicant has to be able to demonstrate that they have been unable to obtain all of the private finance for their project. There is, therefore, an expectation that a proportion of the loan book will not be recovered (for example, the average default rate assumed by bidders under the GMLF was 15-20% and it is anticipated there will be a similar default rate on RGF). To date, only one loan has defaulted and we are currently working with the Administrators to understand the extent of our financial losses. The total value of the loan in question is £170k.

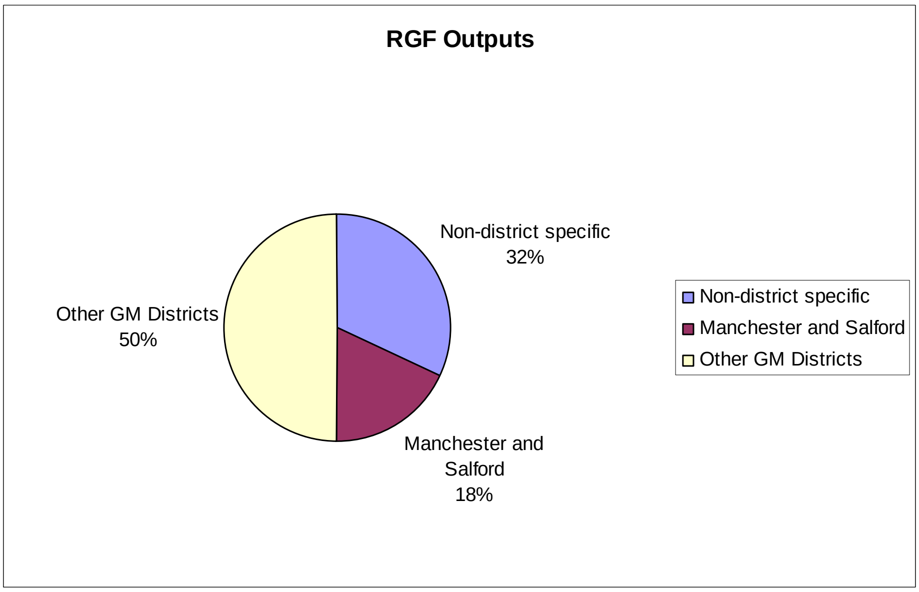
The Growing Places and Evergreen loan books are strong both in terms of the financial strength of the applicants and the level of security provided. The main risk associated with the infrastructure funds is expected to be the timing of the recycling, as opposed to the risk of default.

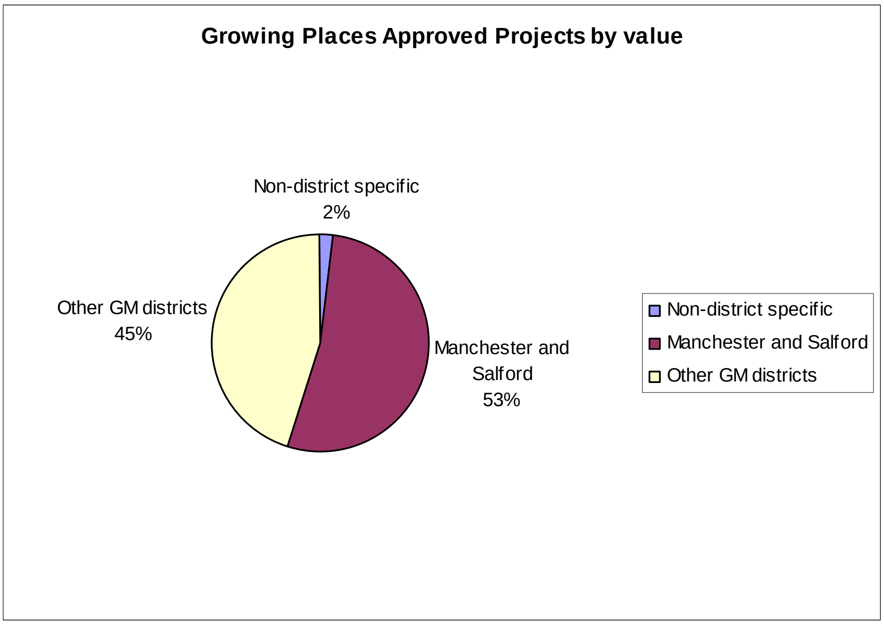
APPENDIX 1 – ANALYSIS OF PROJECTS BY DISTRICT

Notes:

- *Non-district specific projects represent those projects that deliver benefit to Greater Manchester as a whole.*
- *Growing Places does not have any required outputs attached to the funding.*







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BACKGROUND PAPERS:

TRACKING/PROCESS	[All sections to be completed]	
Does this report relate to a Key Decision, as set out in the GMCA Constitution or in the process agreed by the AGMA Executive Board		Yes / No [Delete as appropriate]
EXEMPTION FROM CALL IN		
Are there any aspects in this report which means it should be considered to be exempt from call in by the AGMA Scrutiny Pool on the grounds of urgency?	[Please state any reasons here]	
AGMA Commission	TfGMC	Scrutiny Pool
[Date considered at 1 of the 6 AGMA Commissions; if appropriate]	[Date considered at TfGMC; if appropriate]	[Date considered/or to be considered at Scrutiny Pool; if appropriate]