Greater Manchester Combined Authority Urban Development Fund – Supporting Text From Application

The following extracts from the Full Application also contribute to addressing the requirements of the Ex-Ante Assessment:

State Aid implications of the envisaged FI.	Article 37 (2) (b)

Section 10.6:

Greater Manchester Combined Authority (GMCA): The GMCA is receiving a transfer of state resources by way of investment by the Managing Authority to address market failures identified in the Ex Ante Assessment. The GMCA is not the beneficiary of the aid itself and is the entrusted entity/ERDF Recipient which will be transferring the funds to an intermediary vehicle (Greater Manchester Fund of Funds) for the transfer of resources to the true beneficiaries.

GMCA will not be using any of the Fund to meet any of its costs as these will be borne directly by the GMCA as part of their statutory function to promote economic development.

The public funds will be deployed through a cascade of investment vehicles in compliance with the Regulations and Delegated Regulation.1303/2013 and 480/2014 (as set out above), more specifically:

Greater Manchester Fund of Funds: The GM FoF is a wholly owned legal entity owned by the GMCA which is set up to discharge the functions of the GMCA. It is a feeder vehicle which will carry out the tasks entrusted to the GMCA. GM FoF is receiving a transfer of state resources by way of an investment from the GMCA. The GM FoF is not the beneficiary of the aid itself and will be transferring the funds to the true beneficiaries via the two investment vehicles: Evergreen II and Low Carbon (UDFs).

The public funds will be deployed through a cascade of investment vehicles in compliance with the Regulations. To this end the vehicles are not receiving an aid advantage as they are passing down the state funds to the ‘real’ beneficiaries, the end recipients.

Evergreen II and Low Carbon (UDFs): The UDFs are investment vehicles which will be in receipt of a transfer of state resources as contingent loans. The UDFs will invest directly in urban development projects.

UDFs / Sub Funds: The UDF’s will be structured to comply with Regulation 12 of the Public Contracts Regulations 2015 which relates to public contracts between entities within the public sector – award of contracts to controlled persons (formerly the Teckal exemption).

As the UDFs will be wholly owned and controlled by the GMCA they will be in compliance with Regulation 1303/2013 and Delegated Regulation 480/2014 also. The two UDFs will be in receipt of a transfer of state resources. The UDFs are undertakings as they will be engaged in economic activity offering investments through loans, equity, guarantees or a mix thereof. The UDF’s will only operate where market failure has been established pursuant to the Ex-Ante Assessment and in accordance with the investment strategy. As such the UDFs will not directly operate in a commercial market. However, the UDFs will not be the beneficiaries of the aid itself as they will be making investments, investing the resources in projects.

All interest payments generated by the investments will be retained and reinvested for a period of time in compliance with the ESIF Regulations, the fund's Investment Strategy and terms of the funding agreement with the Managing Authority.

Fund Investment Advisor(s) and Operator(s): There will be a transfer of state resources to the Fund Investment Advisor (s) and Operator(s) by way of payments for services, such payments to be in accordance with the Regulations and Guidance. The Fund Investment Advisor (s) and Operator(s) will be an undertaking engaged in economic activity. However, no advantage will be conferred as the Fund Investment Advisor (s) and Operator(s) will be competitively procured in compliance with the Public Contract Regulations 2015 and therefore this will be outside the scope of state aid on the basis that the benefit is obtained on normal market conditions.

Fund Administrator: There will be a transfer of state resources to the Fund Administrator(s) by way of payment for services. The Fund Administrator(s) will be an undertaking engaged in economic activity. No advantage, however, will be conferred as the Fund Administrator(s) will be procured in an open, transparent and non-discriminatory manner and in compliance with the Public Contract Regulations 2015. This will, therefore, be deemed to be outside the scope of state aid on the basis that the benefit is obtained on normal market conditions.

Beneficiaries of the Aid (projects): The Beneficiaries will be in receipt of a transfer of state resources by way of investments, loans, equity, guarantees or a mix thereof. The Beneficiaries will, in the main, be undertakings engaged in economic activity.

The UDF's will make investments in accordance with the Market Economy Investor Principle and the General Block Exemption Regulation. In the majority of cases funds will be invested alongside private sector match and such investments will be on similar terms of investment as a commercially driven comparator, therefore no advantage will accrue to the Beneficiary.

Selection of the most appropriate implementation arrangement and definition of co-financing structure (including any envisaged combination with grant support).	Article 37 (2) (e)

Section 10.5

The Fund of Funds and the Sub Funds: Inter–administrative cooperation and award to in-house entities

The Managing Authority may entrust the implementation of a Financial Instrument to an in house entity. Provided the conditions are fulfilled it can allow for a direct award of a contract to a Financial Instrument aiming at the achievement of public interest under the control of a public authority pursuant to Article 38(4) (b) (iii) of the CPR. In selecting a body to implement the Financial Instrument, the Managing Authority must comply with Article 7 of the Delegated Regulation.

The Managing Authority is entrusting the task of implementation of a financial instrument to the GMCA by the entering into of an investment agreement between the Managing Authority, GMCA and Fund of Funds. The Fund of Funds is 100% publicly owned by the GMCA ("an in house entity"). The investment agreement is to cover the operation of the fund and the cooperation between the Managing Authority and the GMCA and/or Fund of Funds to achieve the common objectives in the public interest. Any remuneration paid by the Managing Authority to the GMCA or Fund of Funds will be in accordance with the respective applicable regulatory provisions.

Consistency of the envisaged FI with other forms of public intervention.	Article 37 (2) (b)

Under the 2007/13 ERDF Programme a JESSICA initiative was created in the North West of England. The project created two Urban Development Funds; Chrysalis covered Merseyside and Evergreen covered the other participatory geographical areas of the North West (Greater Manchester, Lancashire and Cheshire).

Evergreen fully invested its £59m investment capital within the initial investment period and the project is now in the legacy phase. The investment capital will continue to be recycled until Evergreen is wound-up.

In September 2016 Evergreen was re-capitalised with £30m following a disposal of high-performing loans. This £30m is now available for reinvestment into additional urban projects.

There are key differences between the Investment Strategy for Evergreen and the proposed Investment Strategy for the new Urban Development Fund including:

- Evergreen covers Greater Manchester, Lancashire and Cheshire whilst the new Urban Development Fund is specific to Greater Manchester. The legacy resources available for reinvestment in Greater Manchester is therefore limited;

- Evergreen's Investment Strategy permits the use of resources to invest in a wider scope of capital activities in comparison to the new Urban Development Fund. For example, Evergreen can invest in projects involving stand-alone site infrastructure and land remediation. These activities are not eligible under the new Fund;

- There is no restriction on the size of end-users who occupy the property delivered through Evergreen investments;

- The new Urban Development Fund will have a specific focus on research, development, innovation and low carbon projects. The sectoral focus of Evergreen's Investment Strategy is much broader;

- The loan book disposal included a mix of ERDF and national match-funding. Evergreen's Investment Strategy permits the use of national match-funding funding to invest in a mix of property uses; for example, leisure and retail. The new Urban Development Fund will be purely commercial focused.

On this basis the Managing Authority believes that the creation of a new Urban Development Fund will not duplicate current activity and will bring additionality benefits to the Greater Manchester area.