

CHESHIRE EAST COUNCIL

REPORT TO: CABINET

Date of Meeting: 15 November 2010
Report of: Strategic Director, Places
Subject/Title: North West Evergreen Fund
Portfolio Holder: Cllr Jamie Macrae, Portfolio Holder for Prosperity

1.0 Report Summary

- 1.1 This report seeks approval to establish 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. An Urban Development Fund (UDF) is a fund investing in public private partnerships and other projects included in an integrated plan for urban development.
- 1.2 Earlier this year, Manchester City Council, on behalf of itself and its partners submitted a bid to establish an UDF for the North West (excluding Merseyside). The UDF, which 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.
- 1.3 Following evaluation of the bids by the European Investment Bank, it was announced in July 2010 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 UDF and Cheshire East Council becoming a member in the contracting vehicle being established to operate UDF.

2.0 Decision Requested

- a) Approve the proposal to establish the North West Evergreen Fund to act as the area's UDF in accordance with its Investment Strategy.
- b) Approval for Cheshire East Council becoming a Limited Partner in the North West Evergreen Fund Limited Partnership.
- c) Authorise the Chief Executive in consultation with the Leader to nominate from time to time, a person to act as the Council's partner representative at the Annual Partnership Meeting.
- d) Approve Cheshire East Council in becoming a Shareholder in the General Partner.
- e) Approve Cheshire East Council's annual contribution towards the operating costs of the fund.
- f) Authorise the Chief Executive and the Borough Treasurer to negotiate and approve the final terms of the agreements necessary to implement the proposals and authorise the Borough Solicitor to arrange for the execution of the final agreements on behalf of Cheshire East Council.

- g) Approve a Supplementary Revenue Estimate for £51K during 2010/11. This will be funded over the 'Invest to Save' reserve. Thereafter, the revenue costs of £25k per year will be funded from within the Places budget.

3.0 Reasons for Recommendations

- 3.1 The North West Evergreen fund is an innovative approach to securing long-term access to finance to support economic growth across the North West. The partnership between the public and private sector will balance a commercial approach with the need to invest in local areas to release the economic value in the longer-term.
- 3.2 This proposal presents an opportunity for Cheshire East to become a Limited Partner in a new venture which will provide much needed access to finance in an environment where public resources are severely limited.

4.0 Wards Affected

- 4.1 All wards across Cheshire East.

5.0 Local Ward Members

- 5.1 All Local Ward Members

6.0 Policy Implications including - Climate change - Health

- 6.1 The proposal will support the delivery of the Sustainable Community Strategy and in particular the Economic Development Strategy. The recent Government Local Growth White Paper clearly highlights the important role of alternative sources of finance to promote economic growth and the need for private-sector led approaches to funding.

7.0 Financial Implications (Authorised by the Borough Treasurer)

- 7.1 As a Limited Partner in the fund, Cheshire East Council would be committed to make an annual contribution towards the set up and operational costs of the fund. The contribution will be £51k upon establishment of the fund with an annual contribution of £25k thereafter. The annual contribution will rise annually in line with inflation.
- 7.2 There would be no financial consequences for the Capital Programme at this stage. In the future, there may be opportunities for Cheshire East Council to invest its own resources to provide match funding for projects in its area. Such match funding could be in the form of cash or land. This will clearly be dependent upon which projects are promoted and any investment would be the subject of a further Cabinet Report.
- 7.3 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 £500k. The initial set up costs will also have to be met by the partners and are in the region of £1.02m.

- 7.4 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, the required contribution is £51k on establishment of the fund in December 2010 and thereafter, £25k per annum commencing on 1 April 2011 and continuing until the end of the fund's initial five 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.
- 7.5 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.
- 7.6 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.

8.0 Legal Implications (Authorised by the Borough Solicitor)

- 8.1 The North West Evergreen Fund will operate through 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.
- 8.2 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 three nominees of each of the AGMA and County Area groups together with independent Directors who may be appointed by the Board.
- 8.3 The fund will appoint from time to time, a FSA regulated entity to act as Investment Manager. This body, CB Richard Ellis will be responsible for the management and administration of the fund and will also appraise and approve investments into projects.
- 8.4 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.

9.0 Risk Management

- 9.1 The main risk associated with this proposal is that there are no guarantees that the Evergreen Fund will be directed towards investment within Cheshire East and that the investment required to establish the fund does not result immediately in direct benefits to the Council.

- 9.2 This risk is mitigated partly through the proposed Governance arrangements which will ensure that the Council is involved in development the strategic priorities for the fund.
- 9.3 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.

10.0 Background and Options

- 10.1 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 North West Development Agency in December 2009 utilising £50m of ERDF resources from the North West Operational Programme. This North West Urban Investment Fund (NWUIF) will oversee the investment of the European and matched resources in projects in the region via two urban development funds (UDF's); one established for Merseyside, the other for the rest of the North West.
- 10.2 The Evergreen fund has been appointed to act as the UDF for the rest of the North West and the NWUIF has allocated £30m of funding to this UDF comprising £20m ERDF and £10m of Single Performance money. Of this funding, £10m of the ERDF money has been ring-fenced for Greater Manchester and £10m has been ring-fenced for Cheshire, Cumbria and Lancashire sub-regions. The Single Programme Money is available to be invested across the Evergreen area.
- 10.3 The NWUIF has appointed the European Investment Bank to act as it agent administering the 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.
- 10.4 *The North West Evergreen Fund*
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 a 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 that this role will be competitively procured from time to time during the fund's operation.
- 10.5 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.

- 10.6 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 simple that JESSICA cannot be used as gap.
- 10.7 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 to 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.
- 10.8 The potential of the fund to attract additional investment is demonstrated by the commitment in principle of the Greater Manchester and Lancashire County Pension Funds to each invest up to £50m on the projects through the fund. Initial discussions with potential partners funders have also secured an in principle discussions of a debt facility up to £300m to complement Evergreen's investments into projects. Taken together with the core funding, this illustrates how the fund has the potential to generate a funding capacity in the North West of more than £350m.
- 10.9 Investment Strategy
The Evergreen investment strategy aims to first supply 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.
- 10.10 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 the investment industry practice.
- 10.11 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'.
- 10.12 This framework reflects the sub-regional strategies including the Greater Manchester Strategy that was informed by the Manchester Independent Economic Review (MIER), and the sub-regional strategies of Cumbria, Lancashire and Cheshire & Warrington. 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 development and enhancing growth in digital/new media sectors.
- 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 brownfields sites ensuring they are available for development, allowing further growth to be created.

10.13 The Investment Manager will be responsible for delivering the fund's Investment Strategy. 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.

10.14 Governance

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 partnerships debts is limited to their 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 three nominees of each of the AGMA and County Area groups together with independent Directors who may be appointed by the Board.

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

10.16 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
- Private sector engagement through an advisory body that will be made up of industry professionals and developers from the region's private sector to support and engage with the Investment Manager through the identification and appraisal of projects.

10.17 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.

11.0 Next Steps

- 11.1 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.
- 11.2 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 partners.
- 11.3 It is therefore a requirement of the fund that all the partner authorities have secure the necessary approvals prior to this date in order to allow the project to proceed.
- 11.4 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.

12.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writer:

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