

Greater Manchester UDF – Project Summary

Applicant	Greater Manchester Combined Authority	
ERDF Sought	£60,000,000 (comprising £30m from Priority Axis 1 and £30m from Priority Axis 4)	
Total Project Cost	<p>£120,000,000 (comprising £58.5m to be provided by final recipients and £1.5m committed by GMCA)</p> <p>Budgeted management fees and costs are £3m which over the lifetime of the project represent 2.5% of the expenditure.</p>	
Project Dates	Start Date: 23/11/16	Financial and Practical Completion Date: 31/12/23
Key Outputs	<ul style="list-style-type: none"> • 55,000 square metres of public or commercial buildings built or renovated; • 10,100 tonnes of GHG reductions; • £100m of private and public investment leveraged; • £60m legacy funding from investments. 	

The project will be delivered by a newly established SPV owned by Greater Manchester Combined Authority acting as the Fund of Funds. The Managing Authority will be entering into inter-administrative co-operation with the Combined Authority to deliver the project.

The project will provide a range of financial products to final recipients planning capital projects in the Greater Manchester LEP area. The project is requesting funding from Investment Priorities 1a, 4a and 4b.

The application for funding has been submitted in response to an Ex-Ante Assessment which identified market failures in the provision of development finance for property projects. The ERDF investment, which is to be matched by resources leveraged at the level of final recipients, which cascade through the FOF and two individual sub-funds.

The funds are:

- Urban Development Fund – drawing funds from Investment Priorities 1a and 4b. The fund will support projects delivering research, development and innovation activities and other commercial developments providing energy efficient space for SMEs. Investments are likely to be commercial loans made to private sector developers with a tenor of up to five years;
- Low Carbon Fund – drawings fund from Investment Priority 4a. The fund will support the growth of Greater Manchester’s low carbon economy through capital investment in energy efficiency and generation projects. Investments are likely to be commercial loans made to a range of final recipients with a tenor of up to fifteen years.

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Appraisal Summary

Strategic fit:

The project will create a new Financial Instrument in Greater Manchester through a Fund of Funds structure in response to a completed Ex-Ante Assessment. Two sub-funds will be created to support Urban Development and Low Carbon projects. Fund Investment Advisor(s) and Operator(s) will be procured to manage the individual sub-funds. The sub-funds will make repayable investments into eligible final recipients through a blend of financial products.

The application outlines the legal and delivery structure and assesses its compliance against the regulatory background. GMCA will create a new, wholly owned Fund of Funds structure to be resourced by existing GMCA staff. Other tasks undertaken at Fund of Funds level will be procured accordingly. The application provides a number of overarching strategic objectives but these must be amended to facilitate a meaningful assessment during and post-project delivery.

The project demonstrates a strong strategic link with the aspirations of partners in Greater Manchester. The project will build on the successful experiences gained delivering the JESSICA initiative under the 2007/13 ERDF Programme. Furthermore, the application has been submitted in direct response to an Ex-Ante Assessment completed by PWC. The reports identified prevalent market failures to justify the creation of a new Financial Instrument. On this basis the appraiser is content that the application is not duplicating existing provision and will add value.

The project appears to demonstrate a sound alignment with the Investment Priorities under which the ERDF investment is sought. Greater Manchester can boast a strong track record of delivering capital investment in disciplines of research and innovation and this will continue to be a key growth sector. The Investment Strategy will need to be updated to ensure that investments align with the Government's Smart Specialisation Strategy. Development of a low carbon economy is also a cornerstone of local economic strategies in Greater Manchester and planned investments will make a positive contribution to the Priority Axis.

Deliverability:

The appraiser has considered the project's deliverability against Article 7 of the Delegated Regulation and is content that a robust argument has been made. The creation of a wholly owned entity of GMCA to deliver the Fund of Funds also appears to align with the Commission's Selection Guidance particularly inter-administrative co-operation (section 3.6.2). The co-investment delivery model is justified under Article 38(9) of the Common Provision Regulations. The core project activities appear compliant under the ERDF eligibility rules.

Value for money:

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The application has confirmed that direct costs of delivering the Fund of Funds will be absorbed by GMCA in their role of facilitating economic development. As such the expected running costs at the level of the Fund of Funds will be minimal and well within the thresholds permissible under the Commission Delegated Regulation. The management fees claimed by the Fund Investment Advisor(s) and Operator(s) will be determined by a competitive procurement process which will reflect the provisions of the Commission Delegated Regulation regarding base and performance-based remuneration. GMCA will provide match-funding for management costs and fees. The project will make a strong contribution to Greater Manchester's P2 and C34 target. Value for money in respect of the C1 output is weak in comparison to Operational Programme unit costs but this is a reflection of the planned project activities rather any underlying project concerns. Greater Manchester's contracted projects under PA4 will enable them to achieve their performance framework target in 2018 and 2023.

Management and financial control:

Given their experiences in delivering large-scale capital investment funds in Greater Manchester the appraiser is confident that the project team has the necessary skills and experiences to successfully deliver the Financial Instrument. The Fund of Funds will procure a Fund Administrator to undertake Treasury Management function of the resources drawn-down from ERDF. The project team also have experience of the JESSICA project funded under the 2007/13 ERDF Programme. Appropriate governance arrangements have been proposed including a strategic oversight Board at the Fund of Funds level and Investment Boards at the sub-fund level.

The application has given confidence that the financial management of the project has been appropriately considered. The project will largely adopt pre-existing GMCA financial policies but a project specific financial policy will need to be developed for delivery of this stand-alone project. The requirement for individual bank accounts will need to be adopted by the Urban Development Fund to satisfactorily split the ERDF investment capital between PA1 and PA4. Suitable provisions will also need to be built into the ERDF Funding Agreement to ensure that co-investment has been suitably secured prior to the next ERDF tranche draw-down.

Compliance:

The application has given a robust State Aid analysis considering potential implications at each level of the structure. The ultimate beneficiary of aid will be the final recipients undertaking economic activity who receive investment from the sub-funds through a financial product. Any investment made on non-market conditions will need to be structured in a manner compliant with the General Block Exemption Regulations. No procurement has commenced or undertaken. The Department will want to review prepared paperwork on a without prejudice basis. The basic procurement approach to use OJEU to procure the Fund Investment Advisor(s) and Operator(s) and Fund Administrator is satisfactory.

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Cross-cutting themes:

Clearly the project will make a positive contribution to the sustainable development agenda. Issues of equality and diversity have been appropriately considered and these will be closely monitored going forward.