GMCA GREATER MANCHESTER COMBINED AUTHORITY

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Date: 29 March 2019

Subject: GM Business Investment

Report of: Sir Richard Leese, Portfolio Lead for Economy and Business and Eamonn Boylan, Chief Executive for Investment

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PURPOSE OF REPORT

This report provides detail on the Investment strategy for the non-housing funds that are directly managed by the Greater Manchester Combined Authority ("Combined Authority").

RECOMMENDATIONS:

The Greater Manchester Combined Authority is requested to approve the Investment strategy detailed in this report.

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BACKGROUND PAPERS:

TRACKING/PROCESS		
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
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?	NO	
AGMA Commission	TfGMC	Scrutiny Pool

Risk Management – see paragraph 6

Legal Considerations – see paragraph 7

Financial Consequences – Revenue – see paragraph 8

Financial Consequences – Capital – see paragraph 9

Investment Strategy

1. Background

This paper covers the investment strategy for the non-housing funds that are directly managed by the GMCA. It excludes the funds with appointed fund managers, such as Evergreen, which are governed by individual investment strategies.

The GMCA was awarded two Regional Growth Fund programmes in 2012/13 totalling £65m for investment to support the creation of private sector jobs into the Greater Manchester area. All funds were to have been committed by 31st March 2016 and under the terms of the programmes, any recycled funds may be retained and re-invested for the same purpose.

The GMCA also received £34.7m of Growing Places Funds in 2012/13 to support regeneration in the Greater Manchester area. There were no time constraints applied to the deployment of the Growing Places funding.

2. Status

MHCLG monitored the performance of the RGF programmes from a job outputs and private sector leverage perspective up to 31st March 2018. At this point, the programmes had overachieved against all targets.

As at 31st December 2018 £98m has been invested into businesses through the RGF programmes, being £65m of original funding and £33m of recycled funding. The funding has been invested into 67 businesses across the region creating/safeguarding over 7,000 jobs. Of the £98m, £5.6m was provided to the Manchester Growth Company to support various programmes, and £2m was used to establish a small loans fund managed by Maven Capital.

The Growing Places funding has been fully deployed into 13 commercial property development schemes.

Across the funds, £63m has been recycled to date (including £7m of interest from the RGF programmes which can only be used for re-investment).

3. Investment strategy - current

The investment strategy for the recycled funds applied to date has been to invest in businesses/developments with viable propositions that cannot raise all of the private sector funding required, in order to support job creation. The fund has used a benchmark of £20,000 of funding per job to date (although the actual cost per job achieved has been circa £14,000).

There has been limited demand for investment into property developments from the recycled funds, with market gaps being filled by the Evergreen Funds. In 2016 a proportion of the original Evergreen loan book (£28m) was sold to the Greater Manchester Pension

Fund in order to create capacity for further investment and this strategy remains an option for the current Evergreen loan book if additional capacity were required.

To date the funds have been sector agnostic (although the emphasis on job creation has meant that traditional retail and casual dining have not been supported, due to issues with displacement). Following the launch of the Northern Powerhouse Investment Fund ("NPIF") in March 2017, the funds have focused on those investments that are not eligible for NPIF funding:

- Loans in excess of £750k (with a top limit of £5m)
- Equity investments in excess of £2m (with a top limit of £5m)
- Equity investments to businesses more than seven years old
- Companies operating in Business to Consumer sectors
- Companies in a distressed position that have a turnaround plan and growth potential

Recycled funds have been deployed as loans or equity, depending upon the assessed level of risk and ability of the companies to demonstrate that they can service a loan facility.

In the original RGF programme £13.2m was awarded to companies as grants (of which £5.8m was awarded to the Manchester Growth Company).

Given the focus of the funds on companies that are struggling to access funding, losses have been incurred and further losses are expected. Net losses (after interest and repayment premiums) to date total £4m and there is an additional provision held of £11m, taking the total projected fund for future investment to £83m.

4. Investment strategy – proposed

The finalisation of the RGF programmes has provided the opportunity for the investment strategy to be reconsidered to ensure that it is aligned with the draft Local Industrial Strategy and that the funds have a wider focus than job creation.

The high level access to finance report prepared in July 2018 (attached as an Appendix) concluded that access to finance continues to be an issue for businesses and supports the need for public sector intervention. Retaining public sector options for finance is increasingly important as Brexit approaches – it is expected that the uncertainty around the UK's future trade agreements will cause traditional finance providers to become more cautious, potentially exasperating the existing issues around access to finance.

Local Industrial Strategy (LIS)
The draft Local Industrial Strategy seeks to focus on the key objectives of i) supporting our globally competitive strengths and ii) strengthening the foundations of our economy.

The Greater Manchester and Cheshire East Science and Innovation Audit identifies Health Innovation and Advanced materials and manufacturing as being two core research strengths in which GM is globally competitive. Growth in these core competencies will be enabled by i) the creativity and collaborative culture of our people ii) the city-region's digital and technology strengths and iii) Green technologies and services.

In order to align the business investment strategy with the LIS objectives and drivers the following sectors have been identified as key sectors:

- Digital and Creative
- Financial and Professional Services
- Advanced Manufacturing
- Life Sciences
- Green technology/services

The GMCA have already established separate Low Carbon and Life Sciences Funds. The £15m Low Carbon Fund is managed by GVA and has proven to be difficult to deploy to date due to there being a long lead time for developing viable low carbon projects. The £31m Life Sciences Fund is a partnership with Cheshire West, Cheshire East and Bruntwood, managed by Catapult Ventures – the Fund has been successful to date in terms of deployment of funds and is expected to be fully committed within the next 12 months, demonstrating the strong demand for investment in this sector in the region.

In order to support the key sectors to deliver the growth it is important that the underlying strategies around investment and skills are aligned. Whilst job creation should continue to be monitored as a tangible output from the funds, it cannot continue to be the primary measure if the future ambition of the funds is to support the objectives of the Local Industrial Strategy. By their nature, companies in the sectors above will not necessarily create a high volume of jobs.

Town Centres

The Mayor has announced the Town Centre Challenge with a commitment to bring together the public and private sector to support the regeneration of nominated town centres in the region. Stockport was the first to submit a nomination and the Core Investment Team have been working with the Local Authority on the proposals for Stockport Interchange. As part of these proposals, the GMCA will invest £5m as patient equity into the residential element of the scheme from the Housing Investment Fund.

As other Town Centre propositions are developed, there will likely be further gaps in finance where a longer term view of the development potential is required. The recycled funds could form part of the funding solution in these instances, alongside the Local Authorities and where applicable support from the Housing Investment Fund and the Evergreen Funds.

5. Investment principles

In order to support the strategic objectives of the GMCA, it is recommended that the following investment principles be adopted for future investment decisions:

- Viable proposals that cannot obtain all of the private sector funding required – all proposals must demonstrate that there is a reasonable prospect that funds will be recycled over the medium term;

- Companies that are ineligible for funding from the Northern Powerhouse Investment Fund, the Low Carbon Fund and the Evergreen 2 Fund;
- Proposals within the key sectors identified by the Local Industrial Strategy; or that directly support the development of Town Centres;
- Maximum investment of £5m, minimum investment of £250,000; although the large majority of investments will be in the £0.5m- £2.5m range. Investments can be by way of debt or equity;
- As part of any investment, companies will be asked to sign up to the Good Employment Charter. The Charter, which is currently in development, aims to help employers reach excellent employment standards; and
- It is proposed that up to £10m of the funds can be spent on proposals outside of the identified sectors if they represent significant investment opportunities for the region or where there is a significant jobs impact (ie. more than 200 jobs).

It is inevitable that the Fund will continue to be approached by companies who are experiencing financial stress, particularly where there are a large number of jobs at risk. These will be judged on a case by case basis with the proviso that there must be a reasonable prospect that the business has a viable long term financial future and has a good management team.

6. RISK MANAGEMENT

The investment strategy will be governed under the existing framework.

7. LEGAL CONSIDERATIONS

There are no legal considerations.

8. FINANCIAL CONSEQUENCES – REVENUE

There are no revenue implications.

9. FINANCIAL CONSEQUENCES – CAPITAL

There are no capital implications.