



CSI Europe

CITY PARTNER – MANCHESTER

LOCAL ACTION PLAN



Connecting cities
Building successes



CSI Europe – Manchester LAP

Contents

Introduction - CSI Europe

Manchester Context

Problem Analysis

LAP Objectives/ GM Strategy

Actions

Governance

Stakeholder Analysis

Conclusion

CSI Europe (City Sustainable Investment) – Introduction

Manchester City Council, in partnership with the European Investment Bank, created a thematic network with nine other European Cities to look at urban development and Financial Instruments in relation to the next EU funding programme 2014-2020. Manchester acts as the lead partner for the project due to its experience in establishing the Evergreen Fund. The project is funded by URBACT, an EU funded programme which supports learning, exchange and knowledge sharing networks and projects that focus on specific urban issues. The network has been named 'CSI Europe' (City Sustainable Investment).

The project partners working with Manchester are: Ancona (Italy), Leipzig (Germany), Lille (France), Malmo (Sweden), Porto (Portugal), Poznan (Poland), Riga (Latvia), Seville (Spain) and The Hague (The Netherlands).

The network agreed to focus on four themes which would inform the development of new investment models. These are:

- Regulation
- Technical Assistance
- State Aid
- Governance.



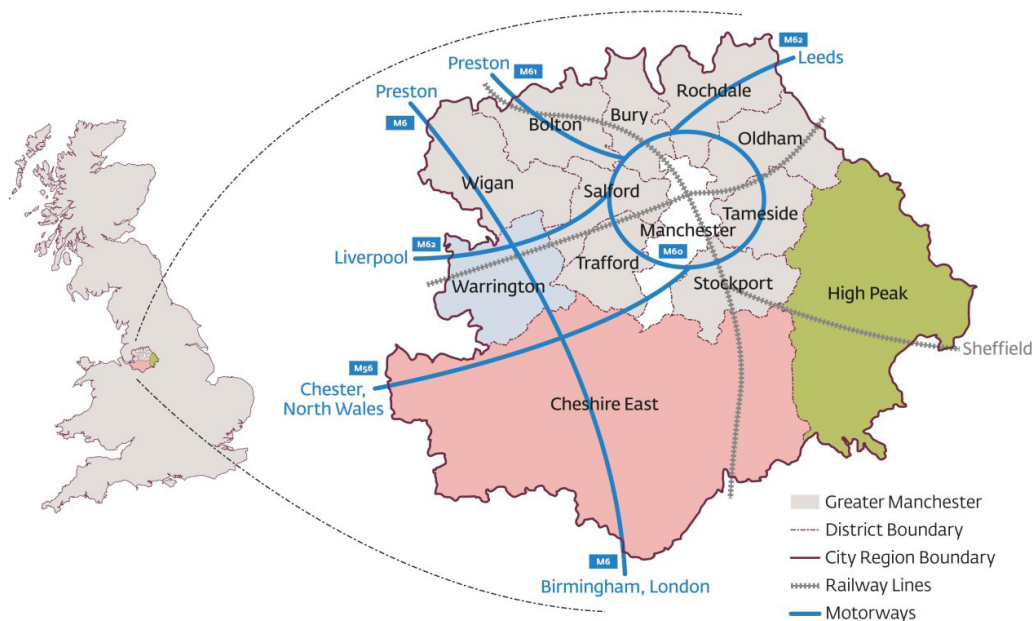
The Network will gather and then use the experience gained across the partner cities to date in managing JESSICA instruments to achieve the following three objectives:

- Firstly, it will explore ways to enhance the effectiveness of the existing instruments in improving strategic investment and governance in cities, ideally bringing about improved delivery of urban projects on the ground for the Network Partners in the current programming period;
- Secondly, it will provide practical feedback into the development of the Structural and Cohesion Fund Regulations and the preparation of programming documents for the next programming period in relation to sustainable urban development and financial instruments, to ensure that these reflect experience to date, lessons learnt and opportunities identified during the JESSICA implementation process.
- Thirdly, it will help to prepare cities and Managing Authorities in designing sustainable investment strategies and city governance structures for the next Structural Funds programming period. The framework proposed by the Commission for the next period places greater emphasis on financial instruments, on sustainable integrated territorial investment and – crucially – on giving cities a direct role in implementing cohesion policy. The new regulations therefore present significant opportunities to further embed financial instruments within core city policies and urban development delivery vehicles within integrated city investment strategies;
- Finally, through its focus on existing and new governance structures and investment strategies, the Network will demonstrate and explore the role of financial instruments in supporting urban development against the background of the current financial crisis and economic recession, which has and will continue to severely limit the availability of traditional grant mechanisms and drive incentives to optimise of the mix between repayable and non-repayable instruments in urban investment.

Manchester Context

Main Characteristics of the City:

Manchester covers some 117 km² and is at the heart of the Greater City Region, in the Northwest of England. The City Region is an agglomeration, a built-up area of connected neighbourhoods and employment centres that together form a single urban area. There is a particularly high concentration of people, firms and employment in Manchester City Centre.



Industry sectors such as business services, ICT, digital and biomedical sciences are key to economic growth in Greater Manchester in terms of new investment, job and GVA creation. Manchester is the economic powerhouse of the North West region of England. The city boasts several key drivers that help sustain the economic growth of the area. These include its world-class universities, a knowledge-based economy, a thriving city centre, a skilled workforce, and Manchester International Airport.

Manchester (along with the other southern districts in Greater Manchester) generated economic activity worth £30.89billion in 2009. As a major regional centre, the city attracts above-average rates of new business start-ups, a diverse employment structure and a competitive labour market.

An important centre in Roman and Medieval times, Manchester played a significant role in the industrial revolution in the 18th century and much of its character is derived from the physical legacy of Victorian innovation. Manchester's population grew steadily throughout the middle ages then rose dramatically during the industrial revolution. As industry began to decline, the city's population fell from 703,100 in 1951 to its lowest in over 100 years in 1999 at 416,400. Since the turn of the century, however, Manchester's population has been rising again, with the latest Census estimates showing that in 2011, the City's population was over 503,000. Projections show an increase to 519,000 by 2015.

Whilst the economy has been restructured and new jobs are being created, the City is still tackling the social, physical and environmental legacy of years of economic decline. Manchester is the fourth most deprived district in the country.

The Role of the UDF in the North West

A JESSICA Holding Fund was established by the former North West Development Agency and European Investment Bank in 2009, totalling £100m (£50m ERDF and £50m National match funding). The Holding Fund is managed by EIB and has subsequently procured two Urban Development Funds, one for



Connecting cities
Building successes



Merseyside and one for the Rest of the Northwest including Manchester. Each UDF has been allocated circa £30m and is required to secure an equivalent level of match or complimentary finance. The Merseyside Fund is known as Chrysalis and the North West Fund is called Evergreen.

The UDF which covers Manchester is the Evergreen Fund. Evergreen was established by a partnership of eighteen Local Authorities led by Manchester City Council. It is therefore very much an intrinsic part of the public sector's infrastructure and funding tools and a key delivery mechanism for the single investment strategy. The UDF covers a wide geographical area, encompassing not only Greater Manchester but also Lancashire, Cheshire and Cumbria. It therefore provides an excellent opportunity for Local Authorities to work collaboratively on cross border development priorities.



The Board of Evergreen is co-chaired by the Chief Executive of Manchester City Council and Lancashire County Council and the fund is managed on a day to day basis by fund managers – CB Richard Ellis (CBRE). Evergreen has an initial pool of £36 million to invest and aims to provide debt finance and potentially also equity

investment for projects at competitive rates, where projects are unable to secure the level of commercial bank finance needed or at an affordable level. The fund will commit capital to commercial development and light industrial regeneration opportunities, in priority regeneration areas, as defined in the current ERDF NW Operational Programme.

The Evergreen Fund also benefits from the Northwest JESSICA State aid notification that provides a framework for the fund to provide sub-commercial loans and other investments where necessary to address the viability of the projects. This State aid framework should provide the fund with the opportunity to support a wider range of projects and, by blending sub-commercial loans with private finance, leveraging greater private sector investment into schemes in the future

It is hoped that in the future, Evergreen may be augmented with other sources of public and private funded and its remit expanded beyond commercial office development to other sectors such as low carbon.

Both UDFs in the Northwest, have taken some time to establish due to complications in the match funding structure and the need to be able to operate a hybrid co-finance and co-investment model. Whilst this issue was worked through though, the Northwest Holding Fund secured a state aid approval for its activities, which enables both UDFs to provide sub commercial debt and equity investment in circumstances where projects would not be able to proceed on a commercial basis.



At the time of writing Evergreen has made three investments with a total value of £15 million. It is also close to investing a further £21.5 million into three more projects in Greater Manchester before the end of 2013. If these investments are completed it will represent a very positive achievement for Evergreen and starts to demonstrate how Financial Instruments can help deliver Cities' aspirations for urban renewal in the future.



One example of how Evergreen can enable developments to proceed is the Citylabs development in Manchester shown in the picture to the right. This project involves the redevelopment of a Grade 2 listed former eye hospital to provide state of the art laboratory and clinical facilities for businesses in the science and medical sectors.

Evergreen has provided 50% of a £9.5 million senior debt facility, leveraging private sector finance from Lloyds Bank and the developer to enable the project to be brought forward.

Other projects that have been or hope to be supported by Evergreen are Soapworks (shown above), Cutacre a major logistics hub being developed outside Bolton and the Cotton Building, an office building in Manchester's Spinningfields district.

These three very different developments in different parts of Greater Manchester show the potential versatility of Financial Instruments and will inform the development of products for use as part of the 2014-20 ERDF programme.



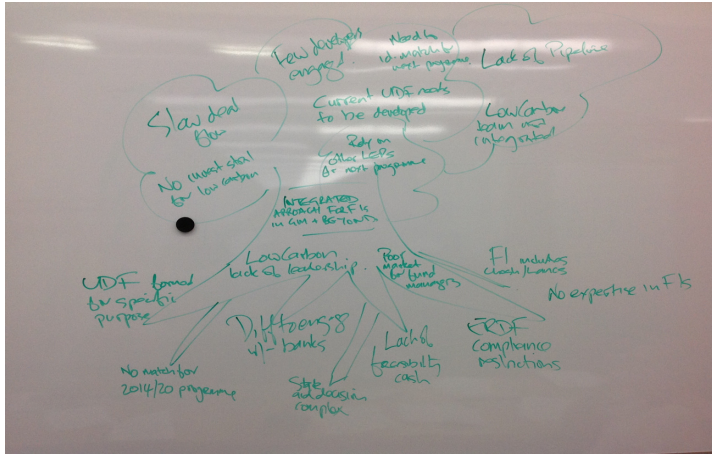
Problem Analysis

Initial Focus of the Local Action Plan

The initial focus of the LAP was set out in the Baseline Study as follows:

- Further developing the knowledge and understanding within the City's developer community of how financial instruments can support projects
- Sharing experience from across the network of what does and does not work
- Attracting private investment into urban development including, in particular, the role of the state aid decision in attracting/securing institutional investment
- Improvements to the regulatory basis upon which JESSICA type funds operate, including legal arrangements between the UDF and final recipients
- The added value of pre-development funding/technical assistance to expedite Fund progress and impact
- Building capacity to develop the pipeline of Evergreen projects for the next ERDF programme

However, following a review of the Manchester ULSG structure over the Summer 2013, it was agreed that a small core group be established which will act as an operational group linking back to the wider ULSG stakeholder group as required. It was also agreed that the Manchester ULSG membership be tailored to support the local objectives of the GM Operational Programme 2014-20 and the Ex-ante assessments for the Evergreen Fund and the new programme. The core Group will be made up of representatives of Manchester City Council, Lead and Thematic experts working alongside the Wider Leadership Team (which leads on the economic strategy for the sub-region) and the private sector. The core group will link to a wider network include representatives from a range of public sector organisations, the private sector, MAs as well as existing Fund Managers.

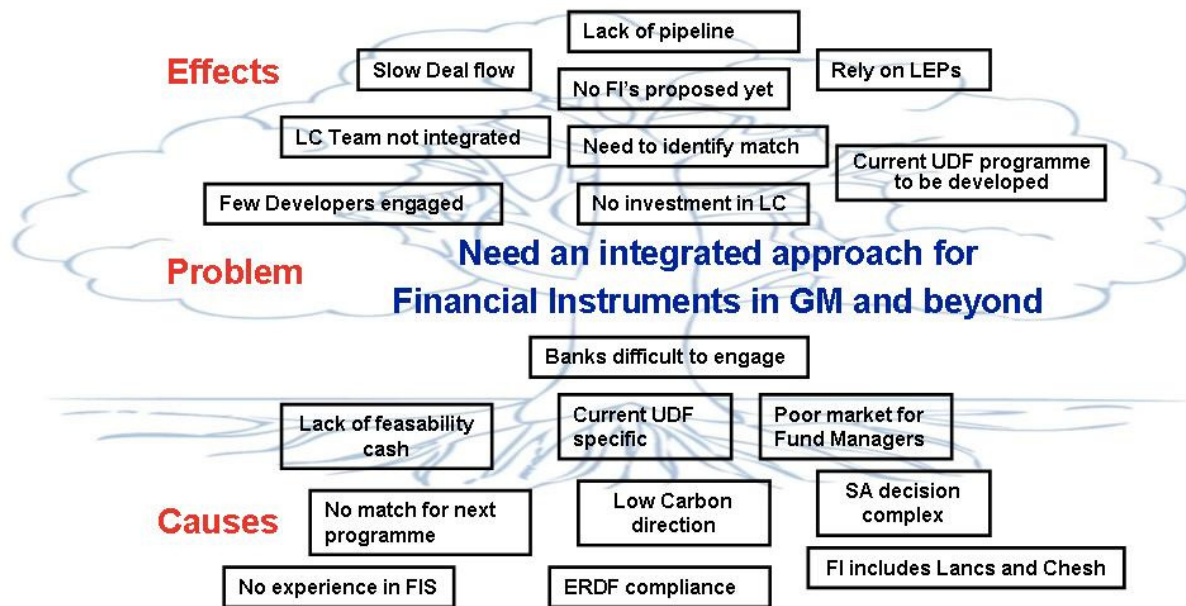


A meeting of the ULSG core group was held on 24th September 2013 to look at developing the LAP. The problem tree was used to identify the key challenge for the city in relation to financial instruments.

The problem tree is shown in the picture above and the causes (roots) and effects (branches) shown on the tree are also set out below.

LAP Development – Summer 2013

URBACT methods – Problem Tree



The Group then considered solutions to the problem and identified some actions to achieve these solutions as set out below:

<u>Solutions</u>	<u>Actions</u>
<ul style="list-style-type: none"> • GM Core Team and Fund manager need to be embedded and resourced to deliver (including the Low Carbon team) • Resources to fund feasibility studies • Need Fund Manager(s) with appropriate expertise • Ensure Low Carbon is part of AGMA Team/FI Fund Manager • Engage and strengthen understanding of Private Sector in FIs <p>Develop proposals for 2014-2020 which includes:</p> <ul style="list-style-type: none"> - Low Carbon - Match funding - State Aid - ERDF Compliance - Other LEPs <ul style="list-style-type: none"> • Consider ESF funded FIs. 	<ol style="list-style-type: none"> 1) Ensure GM Core Team is well resourced and linked to Evergreen/LC/ESF work and Fund Managers 2) Develop and secure approval to EU Investment with significant FI component 3) Transition Evergreen to new FI for 2014-2020 programme by end of 2014 4) Deliver current programme investment (£41M) and commence delivery of 2014-2020 programme

Action Plans

The detailed action tables for the four actions identified above are set out below:

Action Table						
Expected Result			Deliver Current Evergreen Programme of Expenditure			
Action Title and Short Description	Lead Actor or Agency	Key Partners	Intended Outputs	Timescale	Resources	
1.1 Support Evergreen's investments in current pipeline	Evergreen	Core Team CXIG	£41 million committed by December 2014; and invested in projects by end 2015	Dec 2014 Dec 2015	Evergreen GMCA	
1.2 Enable Evergreen to secure additional resources	ULSG	CXIG New Economy Evergreen	Ensure Evergreen is ready to absorb any underspend from other parts of NW ERDF programme	End 2014	CSIE ERDF TA	
1.3 Establish monitoring and evaluation framework for GM ERDF Core team	ERDF Core Team	Evergreen CBRE	Evaluation Framework documented and implemented	June 2014	ERDF TA GMCA CSIE	

Action Table

Expected Result		GM Core Team Well Resourced and Linked to Evergreen and Low Carbon Fund Managers			
Action Title and Short Description	Lead Actor or Agency	Key Partners	Intended Outputs	Timescale	Resources
1.1 Establish well resourced Core Team	MCC	GMCA CXIG	Core team established with capacity and range of skills to develop pipeline for FIs	Dec 2013	GMCA MCC GMCA
1.2 Ensure ULSG objectives and LAP embedded in Core team work	ULSG	GMCA MCC	Induction procedure for new joiners Involvement of ULSG in Core team Present final LAP to GMCA/LEP	Spring 2014	CSIE GMCA MCC
1.3 Establish sustainable funding structure for project development, appraisal and monitoring	ERDF Team Core Team	CXIG GMCA	Secure funding for Core Team Pipeline development established Approval and project monitoring processes documented	Sept 2014	ERDF TA ELENA GMCA CSIE Project Fees

Action Table

Expected Result		Secure Approval of GM EU Investment Plan with significant Financial Instrument component			
Action Title and Short Description	Lead Actor or Agency	Key Partners	Intended Outputs	Timescale	Resources
1.1 Secure local approval to EUIP with FI component	NE	CXIG MCC GMCA	Draft EU Plan approved;	Oct 2013	NE CSIE GMCA
1.2 Stakeholder consultation through wider ULSG	NE ULSG	GMCA	Wider ULSG meeting held to engage private sector and other stakeholders Feedback to EUIP team	Jan 2014	CSIE NE
1.3 Final EU Investment Plan adopted by GMCA/LEP with FI component	Core Team CXIG	GMCA HCA	Final Plan adopted	Jan 2014	ERDF TA GMCA CSIE

Action Table

Action Table					
Expected Result			Transition of Evergreen to new FI for 2014/20		
Action Title and Short Description	Lead Actor or Agency	Key Partners	Intended Outputs	Timescale	Resources
1.1 Carry out ex-ante assessment	CXIG	EIB HCA Evergreen	Completed ex-ante assessment	Jan 2014	NWUIF
1.2 Procurement of Fund Manager	Evergreen	CXIG Lancs Cheshire	Fund Manager appointed to manage investments during next ERDF programme Transition to new FM (if necess)	Jun 2014 Dec 2014	Evergreen ERDF TA
1.3 Investment Strategy Refresh	Evergreen	ULSG CXIG	Updated Strategy Governance for ringfenced investments	Dec 2014	Evergreen CSIE
1.4 Develop Pipeline for next programme	Core Team	CXIG AGMA authorities	Strong pipeline for Evergreen and Low Carbon FIs	Jan 2015	Project Fees GMCA ERDF TA

Funding

Funding in place via AGMA/Combined Authority for core staff to deliver ambitions identified below. Additional in-kind support for staff time from within Resource & Programmes Team to support this work

Under TA, we have applied for and have approval for ELENA funding to support the development of the low carbon unit. This will be additional to any TA costs provided by the Operational Programme.

Risk Analysis - LAP Actions

Risk Analysis of LAP Actions

- 1) Low risk – mechanisms in place to ensure resources available. Supported by the LEP and is an essential part of the GM Strategy – Stronger Together.
- 2) No risk – GM Operational Programme approved
- 3) No risk – Exante complete and new fund established?
- 4) No risk - Current programme is already delivered.
Medium risk - 2014-20 programme - work ongoing. Risks around identifying viable projects and therefore not allocate all the funds. However, strong track record, officer expertise and experience as well as political support.

Governance

Overall responsibility for delivering the Action Plans rests with the Manchester Urbact Local Support Group. This has a core membership of:

Grainne Bradley (ULSG Co-ordinator)	Sean Davies
Mark Duncan	Paul Evans
Karen Findley	Des Gardner
Emily Smith (EIB)	

The Group will meet on a regularly basis to progress the project objectives.

A wider ULSG will also be convened approximately every six months, or as required, to engage with the wider stakeholders

Stakeholder Analysis



Connecting cities
Building successes



The key stakeholders for the ULSG are shown in the table below:

Stakeholder interest analysis (For understanding the various interested parties)			
Issue:	An integrated approach for Financial Instruments in GM and beyond		
Stakeholders	Interests and how affected by the issue	Capacity and motivation to bring about change	Possible actions to address stakeholder interests
Primary stakeholders			
GMCA/LEP	Authorities responsible for delivering economic growth in Greater Manchester	Responsible for implementation of EU Investment Strategy and GM regeneration strategy	Engagement through CXIG
DCLG	Managing Authority for 2014-20 ESIF	NW office with monitoring and compliance role	Engage key individuals through wider ULSG
Evergreen Fund	Current FI that will be utilised for next programme	Secure greater scale of investment fund and deliver investment strategy	Regular reporting to EG Board
Secondary stakeholders			
Private Sector Developers	Target project promoters for future FI investments	To enable stalled schemes to be brought forward with Evergreen support	Publicity and consultation through wider ULSG
Funders	Potential co-investors in projects	Use FIs to de-risk projects so become investable proposition	Publicity, wider ULSG and one to one engagement
Experts	Industry experts and consultants – build demand through awareness of products and use	Develop expertise and awareness of product and terms to build capacity through advice to project promoters	Engagement and training
Other Local Authorities and LEPs	Potential partners in future FIs	Extend the benefit of FIs to their areas using Evergreen	Regional engagement and events.

Conclusion

The ULSG has developed its approach by following the URBACT method, utilising the problem tree and stakeholder analysis techniques to challenge its assumptions and identify its priorities.

The Action Plan benefits from its alignment with the Greater Manchester strategy. One of the key actions includes maintaining and strengthening this link to ensure that the CSI Europe resource is effectively deployed to provide practical assistance to support the delivery of GM's next EU investment Plan.

The development of the Action Plans shows that Manchester is currently well placed to establish effective financial instruments for the next programme. There is no room, however, for complacency as significant challenges remain. These include:

- The development of Evergreen so that it is available for use in the next programme. The ex-ante assessment is now complete. The experience gained through the ex-ante process has been shared with the wider network as a Case Study for the Regulation Theme;
- Establishing a Low Carbon financial instrument that meets the demands of the market in Manchester. To date, there have been significant challenges in developing a pipeline of projects that can utilise funding through FIs. Given the prominence of Low Carbon in the next ERDF strategy (20% investment ringfenced for this activity) it is essential that GM develops its knowledge and expertise in this area so that a future FI has a realistic and sustainable investment strategy that allows key projects to be brought forward in the future;
- Putting in place governance that will allow several LEPs to invest in Evergreen in a way that ringfences their commitment to the relevant area. This will be essential to allow several LEPs to utilise the same vehicle.
- Procurement of Fund Managers. This may be a requirement of the rules as identified in the ex-ante assessment. It may therefore be necessary to re-procure Evergreen's fund manager and also identify a suitable manager of a future low carbon fund.
- The continued development of the project pipeline including the new sectors that are priorities for the next programme. This remains the single biggest constraint on the success of the funds and will remain a priority for the City.

The finalisation of the LAP will therefore only be one stage to the delivery of Manchester's objectives for financial instruments. The plan is, however, fully funded which should ensure that sufficient capacity is available to ensure that Evergreen goes from strength to strength and a Low Carbon fund is successfully established in the City.



"Manchester ULSG survivors photo after successfully tackling a problem tree"



The aim of CSI Europe is to build on the different experiences of the partners in relation to financial instruments and urban investment. By working together we will seek to: identify common issues that affect financial instruments and work together to identify solutions; work at a local level to translate our experience to the delivery of projects and act as a voice for cities in the development of future investment models at both a local and EU level.

The key themes that the network will seek to explore are: Governance, State Aid, Technical Assistance and Regulation and through this work we will seek to identify new models for investment through financial instruments.

The URBACT II Operational programme will support the partners' work over the next three years, providing a framework for joint working and supporting the partners' local activities. The partners will work together through thematic partnerships where two or more partners will work together to explore, in depth, a key theme; transnational conferences where all the partners will come together to consider the key themes, share experiences, celebrate success and exchange ideas; and URBACT Local Support Groups established in each city, bringing together key public and private sector stakeholders to deliver a Local Action Plan reflecting the city's priorities for the network.

The network will also seek to develop links with the European Commission, Managing Authorities and other organisations who will help shape the role of financial instruments in the next Structural Fund programme. This may allow CSI Europe to play a constructive role in the development of financial instruments for the future support of urban development across the EU area.

URBACT II

URBACT is a European exchange and learning programme promoting sustainable urban development. It enables cities to work together to develop solutions to major urban challenges, reaffirming the key role they play in facing increasingly complex societal challenges. It helps them to develop pragmatic solutions that are new and sustainable, and that integrate economic, social and environmental dimensions. It enables cities to share good practices and lessons learned with all professionals involved in urban policy throughout Europe. URBACT is 181 cities, 29 countries, and 5,000 active participants
www.urbact.eu/project



Connecting cities
Building successes

