

KEY DECISION NOTICE

SERVICE AREA:	ECONOMIC GROWTH INVESTMENT AND SUSTAINABILITY Strategic Development
SUBJECT MATTER:	GREATER MANCHESTER LOAN FUND
DECISION:	That it be DETERMINED that: (1) approval is given to enter into a Deed of Indemnity in the terms set out in the Report; and in accordance with the legal obligations in the legal documents setting up the Greater Manchester Loan Fund (GMLF); (2) the Borough Solicitor is authorised to agree and approve the legal documents setting up the GMLF; and (3) the Borough Solicitor is authorised to agree and complete the necessary documentation to enter into the Indemnity.
DECISION MAKER:	Cllr Jim Fitzpatrick
DESIGNATION OF DECISION TAKER(S):	First Deputy (Performance and Finance)
DATE OF DECISION:	7 June 2013
REASON FOR DECISION:	The Greater Manchester Combined Authority (GMCA) has agreed to finance a Greater Manchester loan fund which will provide over £20m of loan finance for SMEs in the Greater Manchester Area. Many of Tameside's firms are suffering from difficult access to finance or prohibitive costs. Entering into this indemnity is relatively low risk provided that Regional Growth Fund (RGF) monies will be the first call on any loan write off. The benefits in terms of jobs created and investment in the borough should outweigh that risk.
ALTERNATIVE OPTIONS REJECTED (if any):	The only alternative option would be not to agree to the Indemnity. However, agreement in principle has already been given through the GMCA by all the GM authorities. If Tameside were to refuse to give the indemnity, this may impact on the viability of the scheme. It would also be likely to mean that Tameside businesses would not be able to apply for funding from the scheme if established.
CONSULTEES:	None
FINANCIAL IMPLICATIONS: (Authorised by Borough Treasurer)	Any demand on the indemnity provided by the Council is unlikely, given that the £2m RGF would be used to write off bad debts before the indemnity was called. However, if there was to be a call on the indemnity then the cost would need to be met from the Corporate Contingency budget.
LEGAL IMPLICATIONS: (Authorised by Borough Solicitor)	The Council has power to enter into the agreement using powers under section 1 of the Localism Act 2011. The Indemnity is necessary to enable Manchester City Council to

	advance a loan to the Greater Manchester Loan Fund which will then enable it to make finance available to SME's. The indemnity is expected to mirror the legal obligations in the legal documents setting up the GMLF which have not yet been produced. The Indemnity will need to be consistent with the terms detailed within the report, and in accordance with the legal obligations in the legal documents setting up the GMLF.
CONFLICT OF INTEREST:	None.
DISPENSATION GRANTED BY STANDARDS COMMITTEE ATTACHED:	None.
ACCESS TO INFORMATION:	<p>The background papers (including consultation documents and responses) relating to this report can be inspected by contacting the report writer Damien Bourke by:</p> <p> Telephone: 0161 342 3544</p> <p> e-mail: Damien.bourke@tameside.gov.uk</p>

Signed Jim Fitzpatrick Dated 7/6/2013

Councillor Jim Fitzpatrick – First Deputy(Performance and Finance)

KEY DECISION REPORT

SERVICE AREA:	ECONOMIC GROWTH INVESTMENT AND SUSTAINABILITY Strategic Development
SUBJECT MATTER:	GREATER MANCHESTER LOAN FUND
DATE OF DECISION:	7 June 2013
DECISION TAKER	Councillor Jim Fitzpatrick
REPORTING OFFICER:	Damien Bourke, Head of Strategic Development
REPORT SUMMARY:	<p>This report seeks approval for the Council to enter into an indemnity agreement to support the proposed Greater Manchester Loan Fund.</p> <p>The Indemnification will provide security to allow Manchester City Council to loan the fund between £12m and £14m. The indemnity provides for the districts to cover any loan fund losses over £2m based on a population based proportion.</p>
RECOMMENDATIONS:	<p>That:</p> <ol style="list-style-type: none"> (1) approval is given to enter into a Deed of Indemnity in the terms set out in the Report; and in accordance with the legal obligations in the legal documents setting up the GMLF; and (2) the Borough Solicitor is authorised to agree and approve the legal documents setting up the GMLF; and (3) the Borough Solicitor is authorised to agree and complete the necessary documentation to enter into the Indemnity.
JUSTIFICATION FOR DECISION:	The Greater Manchester Combined Authority has agreed to finance a Greater Manchester loan fund which will provide over £20m of loan finance for SMEs in the Greater Manchester Area. Many of Tameside's firms are suffering from difficult access to finance or prohibitive costs. Entering into this indemnity is relatively low risk provided that RGF monies will be the first call on any loan write off. The benefits in terms of jobs created and investment in the borough should outweigh that risk.
ALTERNATIVE OPTIONS REJECTED (if any):	The only alternative option would be not to agree to the Indemnity. However, agreement in principle has already been given through the GMCA by all the GM authorities. If Tameside were to refuse to give the indemnity, this may impact on the viability of the scheme. It would also be likely to mean that Tameside businesses would not be able to apply for funding from the scheme if established.
CONSULTEES:	None.
FINANCIAL IMPLICATIONS: (Authorised by Borough Treasurer)	Any demand on the indemnity provided by the Council is unlikely, given that the £2m RGF would be used to write off bad debts before the indemnity was called. However, if there

	was to be a call on the indemnity then the cost would need to be met from the Corporate Contingency budget.
LEGAL IMPLICATIONS: (Authorised by Borough Solicitor)	The Council has power to enter into the agreement using powers under section 1 of the Localism Act 2011. The Indemnity is necessary to enable Manchester City Council to advance a loan to the Greater Manchester Loan Fund which will then enable it to make finance available to SME's. The indemnity is expected to mirror the legal obligations in the legal documents setting up the GMLF which have not yet been produced. The Indemnity will need to be consistent with the terms detailed within the report, and in accordance with the legal obligations in the legal documents setting up the GMLF.
RISK MANAGEMENT:	Risks can be managed by: Ensuring Tameside firms benefits from the loan firm through eligibility, support in application, marketing etc. Ensuring appropriate representation on the vetting panel. Ensuring Tameside's influence in the loan fund strategy.
LINKS TO COMMUNITY PLAN:	Economic growth and Prosperity
ACCESS TO INFORMATION:	The background papers (including consultation documents and responses) relating to this report can be requested by contacting the report writer Damien Bourke by:  Telephone: 0161 342 3544  e-mail: Damien.bourke@tameside.gov.uk

1.0 BACKGROUND

- 1.1 Since the economic down turn in 2008 the availability of investment finance for business has been severely limited. Many businesses have seen their access to debt limited or the cost of borrowing has become prohibitive. Small firms in particular have found it difficult to make investment decisions and as a result growth has slowed and job numbers in the economy have remained low.
- 1.2 Greater Manchester has responded to this in a number of ways with the emphasis on increasing the availability and access to finance. A number of products have been aimed at intervening in this issue:
- The Evergreen fund – ERDF financial instrument to loan development finance;
 - Access to finance product;
 - The Investment Framework, a pot of RGF and Growing Places funds linked into an investment finance pot.
- 1.3 The Investment Framework has been a useful source of funds for some businesses. Tameside's Hill Biscuits was the first recipient of loan funding from the fund itself. Early recipients have found the early stages difficult and bureaucratic as the investment framework funds had to be distributed strictly in accordance with RGF procedures. This has made the prospect of application unpalatable for firms looking for sums under £300k.
- 1.4 In August 2012 the Greater Manchester Combined Authority ("GMCA") gave approval to pursue the establishment of a Greater Manchester Loan Fund to provide loan finance for new and growing businesses in Greater Manchester. This fund was developed to provide lower levels of finance to suit the SME market. Management by an external fund manager would alleviate some of the process issues introduced by RGF and the decision making process would be accelerated.
- 1.5 In January 2013 the GMCA approved the establishment of a Greater Manchester Loan Fund ("GMLF") to provide loan finance for new and growing businesses in Greater Manchester. The GMCA agreed:-
- (1) to delegate authority to the Combined Authority Treasurer and Monitoring Officer to appoint the fund manager;
 - (2) to delegate authority to the Combined Authority Treasurer and Combined Authority Monitoring Officer to scope out the nature of their appointment including procuring external legal advisors to assist with the necessary legal work and drafting of documents, including setting up the legal structure, expected to be as a limited partnership with the GMCA becoming a limited partner;
 - (3) the award of £2 million Regional Growth Fund monies from the Greater Manchester RGF 3 programme, subject to satisfactory completion of due diligence;
 - (4) to note the proposals for the City Council to lend to the fund between £12-14 million and that the GM District Councils' agree to underwrite any losses alongside Manchester City Council in proportion to the resident population of each authority as at the date of the establishment of the fund; and
 - (5) that the GM District Councils' agree the appropriate form of guarantee and for the City Council to consider making the loan.
- 1.6 The Regional Growth Fund will provide £2m equity to establish the GMLF. Manchester City Council will (subject to due diligence) loan the GMLF between £12-14m subject to the remaining GM authorities each agreeing to indemnify a proportion of the loan corresponding their respective relevant populations at the date of the establishment of the GMLF.

2.0 THE PROPOSAL

- 2.1 The GMLF will be a public/private partnership using money borrowed by the fund together with £2m RGF (Regional Growth Fund) equity contribution. The fund will aim to invest approximately £20 million over a five year period and will focus on debt packages of between £50k and £500k.
- 2.2 The objectives of the Fund are to:
- create business growth, creating and safeguarding jobs;
 - provide flexible finance solutions at market rates for viable businesses unable to lever support from commercial banks and investors;
 - create a sustainable and independent fund for Greater Manchester;
 - integrate closely with businesses so as to maximise income and minimise cost;
 - generate private sector finance and leverage.
- 2.3 It is proposed that a Limited Partnership is established as the vehicle to deliver the fund. This is a similar vehicle to that which was used to establish the Evergreen fund, although in this case the General Partner, responsible for the management of the fund will be 100% owned by the Fund Manager. A procurement exercise has been undertaken by Transport for Greater Manchester on behalf of Greater Manchester Combined Authority to secure a Fund Manager and this has resulted in the appointment of Maven Capital Partners to this role.
- 2.4 The General Partner will make investment decisions on behalf of the GMLF in accordance with an Investment Strategy which is to be agreed by the GMCA. Loans will be in accordance with the agreed strategy and will be subject to due diligence and subject to the prior completion of appropriate loan agreements.
- 2.5 GMCA will be responsible for the agreement of the Investment Policy/Strategy. There will be quarterly investment meetings at which the GMCA will receive reports on progress on current investments, consider applications in the pipeline, monitor and review the investment strategy document as required.
- 2.6 The Fund will be available across Greater Manchester. It is proposed that Manchester City Council will contribute the £12m -£14m capital required for investment, subject to each of the other GM authorities providing an indemnity to Manchester up to that sum in the event that any of the loans cannot be repaid. The actual amount of the indemnity is proportionate to the population headcount for each authority at the date of the establishment of the Fund. The £2m equity contribution from RGF will be held to be offset against any such losses and will therefore take the first hit before the indemnity is called upon. The financial modelling, as reported to the GMCA, suggests that the actual recourse to the indemnities will be nil, but clearly that cannot be guaranteed.
- 2.7 The Fund model assumes funds invested/returned, net interest received and fees negotiated with Maven. The report also states that any fund losses will be mitigated by;
- 1 Equity position i.e. investment in business and fund having a small return on some appropriate investments;
 - 2 Cheaper borrowing costs and positive impact over fund life;
 - 3 Commercial arrangements with fund managers.

3. RISK

- 3.1 From recent Census data, Tameside's population currently accounts for 8.2% of Greater Manchester and therefore we would be liable for 8.2% of any costs in the event of sums being unpaid. It is difficult to model potential write off rates over a 5 year period, but in the worst case the maximum liability would be £16m which would lead to £1.3m risk. Any

losses would initially be a charge against the Regional Growth Fund equity which, depending on the sums available, could reduce the liability.

- 3.2 One key issue for Tameside would be the eligibility criteria which we understand would be guided by the Loan Fund strategy. If loans were predominantly guided towards sectors with low representation in the borough we might be bearing a population based risk indemnifying the city council with few of our firms able to benefit from the fund.
- 3.3 In reality this seems unlikely. We are able to influence the Loan fund strategy, and given experience in the early stages of the GM Investment Framework, Tameside's firms have been strong beneficiaries. Mavern will ultimately determine the investment decisions but the Combined Authority will have a vetting role. It will be important that the districts are represented on this body to ensure viable propositions for firms across Greater Manchester are considered on strong commercial grounds.

4. NEXT STEPS

- 4.1 The establishment of the Fund has been agreed in principle by the GMCA. Manchester City Council have now advised that it is intended to establish the Fund as soon as possible, which means that the formal Indemnity should be approved and completed before that happens. The independent solicitors appointed by Manchester City Council have drafted the Indemnity for approval by the other GM Chief Legal Officers.
- 4.2 In order to enable the matter to be progressed formal approval of the proposal to enter into a form of Indemnity must now be given by each of the GM authorities.

5. RECOMMENDATION

- 5.1 That:
 - (1) approval is given to enter into a Deed of Indemnity in the terms set out in the Report, and in accordance with the legal obligations in the legal documents setting up the GMLF; and
 - (2) the Borough Solicitor is authorised to agree and approve the legal documents setting up the GMLF; and
 - (3) the Borough Solicitor is authorised to agree and complete the necessary documentation to enter into the Indemnity.