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***West Midlands Combined Authority  
Land Remediation Fund  
(Individual Strategic Developments Element)***



***November 2016***

***“Growing the UK Economy  
Through a Midlands Engine”***

# Information Memorandum

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*This Information Memorandum has been prepared by Finance Birmingham in order to position the West Midlands Combined Authority Land Remediation Fund (Individual Strategic Developments Element) to be launched Q4 2016.*

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*The information contained in this document is subject to completion, alteration and verification.*

# WMCA's Land Remediation Fund

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The West Midlands Combined Authority (WMCA) intends to create the most effective CA in the country in order to propel the regional economy to further growth. In line with the early priorities identified, the establishment of a Land Remediation Fund "LRF" will enable the WMCA to bring brownfield and contaminated land back into use for housing and employment.

- The WMCA LRF will have an initial pool of £200 million to invest, 75% being allocated for strategic developments, 25% being set aside for **individual strategic developments** and to compliment the Collective Investment Fund
- Providing capital for remediation projects where mainstream funding is proving difficult to find
- Eligible projects will include; commercial, light industrial and residential regeneration opportunities

Eligibility criteria for the LRF is deliberately broad with the high level objective of creating a portfolio of brownfield sites attracting inward investment.

Pump priming strategic development opportunities will unlock sites, remediate the industrial legacy and bring forward investable propositions. The LRF will be deployed though a grant with commercial investment potentially provided through the Collective Investment Fund 'CIF'.

In this way the WMCA is able to offer:

- A blended financial instrument that recognises shared risk and reward
- Economic return through the fully warranted site
- A brownfield platform across the WMCA's geography which extends Greater Birmingham and Solihull, the Black Country and Coventry and Warwickshire

The LRF will recognise and have due regard to the principle of balance, whereby all members benefit albeit not necessarily at the same time or to the same degree.

**This document will focus on the investment strategy and management of the Land Remediation Fund set aside for individual strategic developments**

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# Investment Strategy

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- **Creating a high employment region** – WMCA LRF will invest in projects that will create the conditions for businesses to grow and to attract inward investment into the region as a whole.
- **Ensuring sustainable sites are ready for development** – supporting remediation of brownfield sites ensuring they are ready for development, allowing further growth to be created.
- **Supporting strong cities 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 key service functions for the local communities they serve.
- **Building on the region's strengths in manufacturing** and promoting a stronger and more sustainable industrial base – diversifying the business base, supporting existing successful companies and helping create more businesses of the future. The fund will be aligned to the objectives of the **#MidlandsEngine** initiative.
- **Accelerating regeneration sites for sustainable residential housing** and to bring forward much needed housing development. The LRF, where appropriate, will invest in tandem with the intended housing and CIF funds.
- **Supporting new technologies, science and innovation** – by investing in this sector the Fund will support growth and encourage inward investment into the region.

# WMCA Land Remediation Fund (Individual Strategic Developments Element)

## Fund objective

To seek out high growth strategic regeneration sites and bring forward redevelopment to accelerate West Midlands' Gross Value Added. Each project will be subject to detailed consideration to determine method & structure of financial support.

*WMCA has recognised that there are a significant number of brownfield sites that require access to non-standard financial support structures to enable accelerated economic redevelopment.*

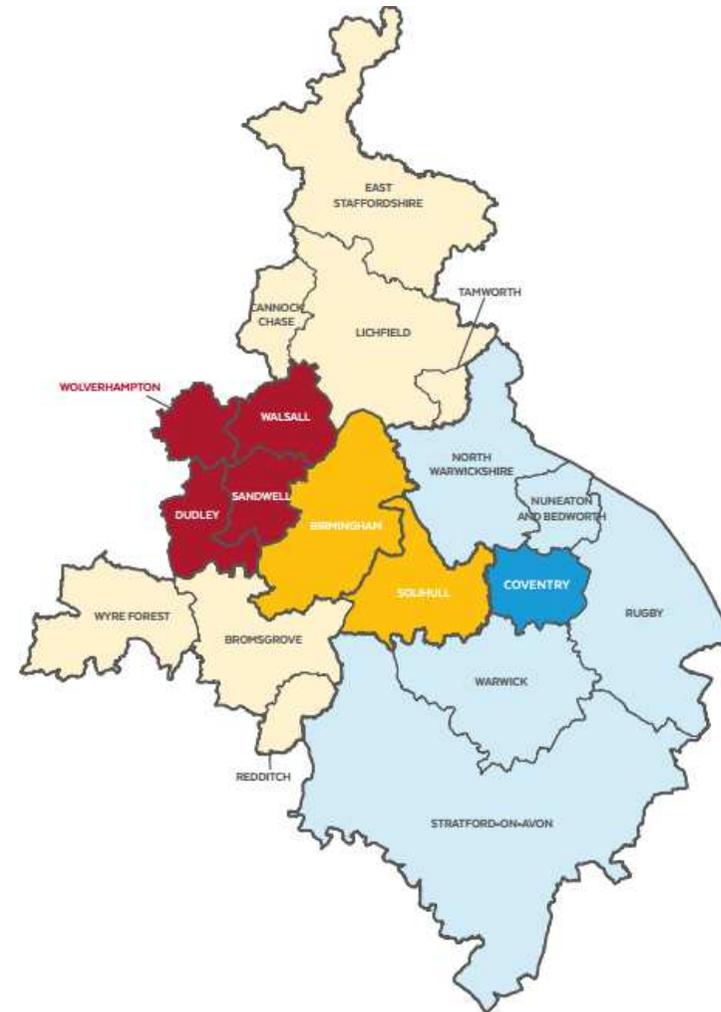
## Eligibility criteria

- Known or referenced developers with a successful and proven track record of delivering regeneration projects
- Strategic brownfield regeneration sites that are unlikely to be redeveloped in the short term via normal capital markets
- Sectors – commercial, industrial, offices, residential, retail and leisure
- Amount – maximum investment 20% of the Fund (Funding quantum will not by itself preclude investment). No Minimum
- Funding will typically be via grant or gap funding however other instruments may be used where developer super profit anticipated. Security will be taken where feasible.
- Maximum repayment term (if applicable) – 10 years

# Addressable Market

## The WMCA will consist of

- **The seven Metropolitan Authorities**
  - Birmingham City Council
  - Coventry City Council
  - Dudley Metropolitan Borough Council
  - Sandwell Metropolitan Borough Council
  - Solihull Metropolitan Borough Council
  - Walsall Metropolitan Borough Council
  - City of Wolverhampton Council
- **The three Local Enterprise Partnerships**
  - The Black Country LEP
  - Coventry and Warwickshire LEP
  - Greater Birmingham and Solihull LEP
- **The following non-constituent members**
  - Cannock Chase District Council
  - Redditch Borough Council
  - Tamworth Borough Council
  - Nuneaton and Bedworth Borough Council
  - Telford and Wrekin Borough Council



# Managing the LRF – Finance Birmingham

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Finance Birmingham (FB), as Investment Fund Manager, will be responsible for delivering the fund's Investment Strategy.

Formed in 2010 FB is a fund management business which has circa £0.6bn under management. Originally established in partnership with Birmingham City Council, FB is uniquely positioned to invest in regional businesses via a range of funds and programmes operated on a strong and clear commercial basis.

FB has a proven track record in meeting market demand by providing flexible funding solutions for transactions of between £500k and £7m involving debt, mezzanine and equity in response to regional funding gaps. A strong multi-disciplined team is in place - seasoned “on the ground” professionals with deep knowledge of chosen sectors and regional markets. This is evidenced by the success of FB's existing funds.

FB were appointed Fund Manager on the Collective Investment Fund in June 2016, have built a strong deal flow with £13.6m proceeding through due diligence and demonstrating significant economic impact.

FB is an FCA regulated business and a secure and robust platform supporting the highly experienced “on the ground” origination capability exhibiting a culture of strong rigour and discipline in sourcing, evaluation and execution of new opportunities. This, combined with rigorous third party due diligence and close and careful management of its invested portfolio, ensures that:

- only quality deals are executed
- the portfolio mix is appropriate (sectors, exposure, structure and geography)
- risk management controls are in place for early warning triggers
- robust systems and procedures for monitoring/reporting and accountability are maintained

# Background

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## FB's key achievements

- From a standing start to just under £0.6bn funds under management in five years
- Recognised as an innovative provider of alternative funding solutions
- Recruited a highly experienced and skilled team
- After three years of investing BCC's own funds in debt and equity products and running national investment programmes for BIS, FB raised circa £90m of new funds including private investor funding during 2014
- Winner of '*Funder of the Year*' and '*SME Deal of the Year*' at the 2016 Dealmaker Insider industry awards

# Engagement with WMCA

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## Set – up options

- Day 1 option - In order to secure early wins for the WMCA's LRF, Birmingham City Council (BCC) will act as the Accountable Body with Finance Birmingham as the Fund Manager. This is consistent with FB's existing operating model, fast tracking the launch for minimal set-up costs
- If required, FB set up a Limited Partnership – set-up costs estimated at circa £250K across the seven Metropolitan Authorities
- Once the WMCA is constituted, Pinsents will advise on the most appropriate structure

# Product

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- The product needs to be as flexible as possible, to allow for land remediation opportunities which deliver a mix of commercial, retail and housing projects.
- Typically the fund will provide support on a grant or gap funding basis however depending on viability equity upside instruments may be negotiated where anticipated developer profits exceed industry norms. The investment will be the minimum necessary for the development to come forward and overage will be applied. The fund may widen to include provision of guarantees.
- The terms and structure of investment, rate of return, security and other conditions of support to projects will be determined on a individual project basis, however noting the fund's primary objective of remediating sites and accelerating development on key WMCA regeneration target sites.
- The fund may invest alongside a developer on a joint venture basis where appropriate and as a co-investor with the WMCA CIF.
- LRF members will also be requested to identify and bring forward suitable sites within their respective areas for fund investment consideration.

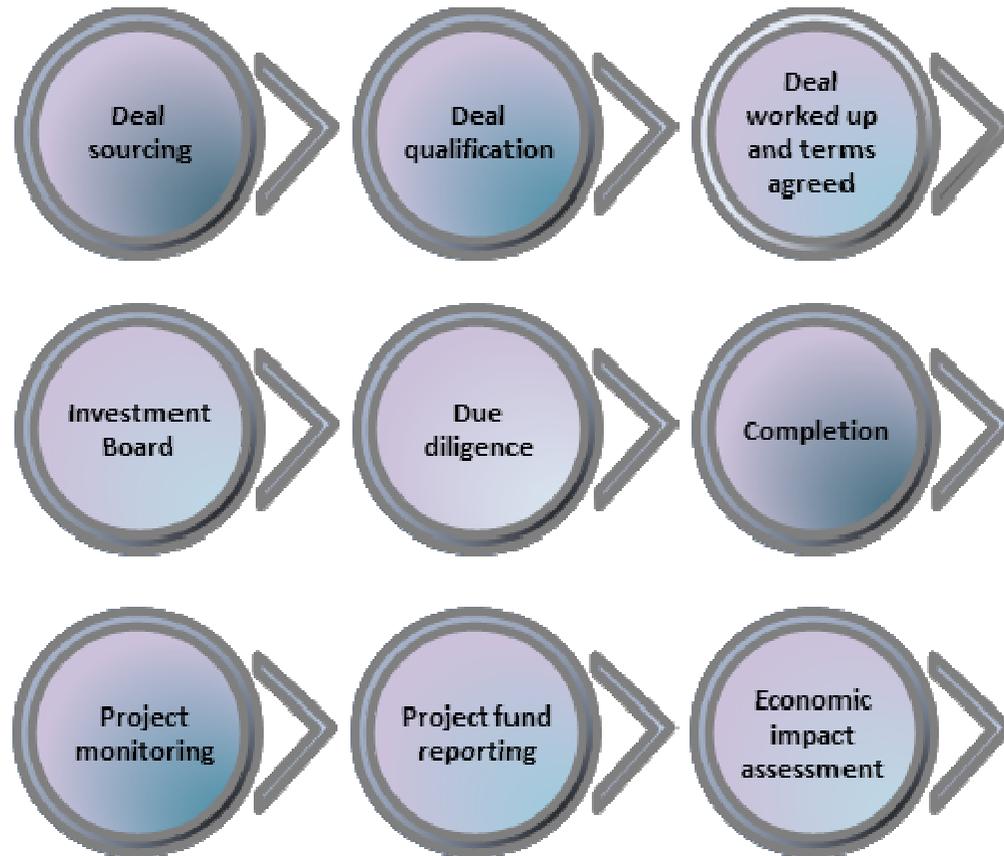
# Governance and Reporting

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- It is proposed that Finance Birmingham will manage the LRF (Individual Strategic Developments Element) within their existing permissions and consistent with their existing fund management models and all applications will be assessed by Finance Birmingham
- Pinsents are currently evaluating this is model which will accelerate the launch of the LRF leveraging the significant investment into the proven and robust infrastructure
- FB will advise on and arrange the WMCA investments and then drawdown from the respective LAs via an accountable body
- The decision to proceed with an investment will be taken by the investment board the composition of which is to be determined
- FB will be responsible for ensuring that the fund engages fully with the region's public and private sectors in order to maximise its potential to secure the objectives outlined in the investment strategy to include:
  - Quarterly reporting to the WMCA of its performance against the objectives in the Investment Strategy
  - Partner engagement through their nominees at Partner Board meetings
  - Private sector engagement through an advisory body 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

# Risk Appraisal and Project Management

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# Risk Appraisal and Project Management

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## **Project evaluation**

- Developer or Business track record/ management strength/experience
- Site location and eligibility/planning use
- Economic and regional impact analysis
- Appropriate funding structure negotiated grant or gap funding & exceptional profit upside if appropriate
- Exit position assessment
- Quality of security available
- Detailed independent due diligence (professional valuation, site investigation, geotechnical reports, specialist remediation assessment and development delivery cost appraisal analysis)
- Delivery of project forecast and regional growth impact forecast
- Key risks and mitigants assessment
- Economic development impact, exit value assessment and timing
- Grant & Funding terms negotiation

## **Project monitoring**

- Bi-monthly investment director site visits
- Appointment of independent remediation project surveyor with quarterly report on cost v budget analysis

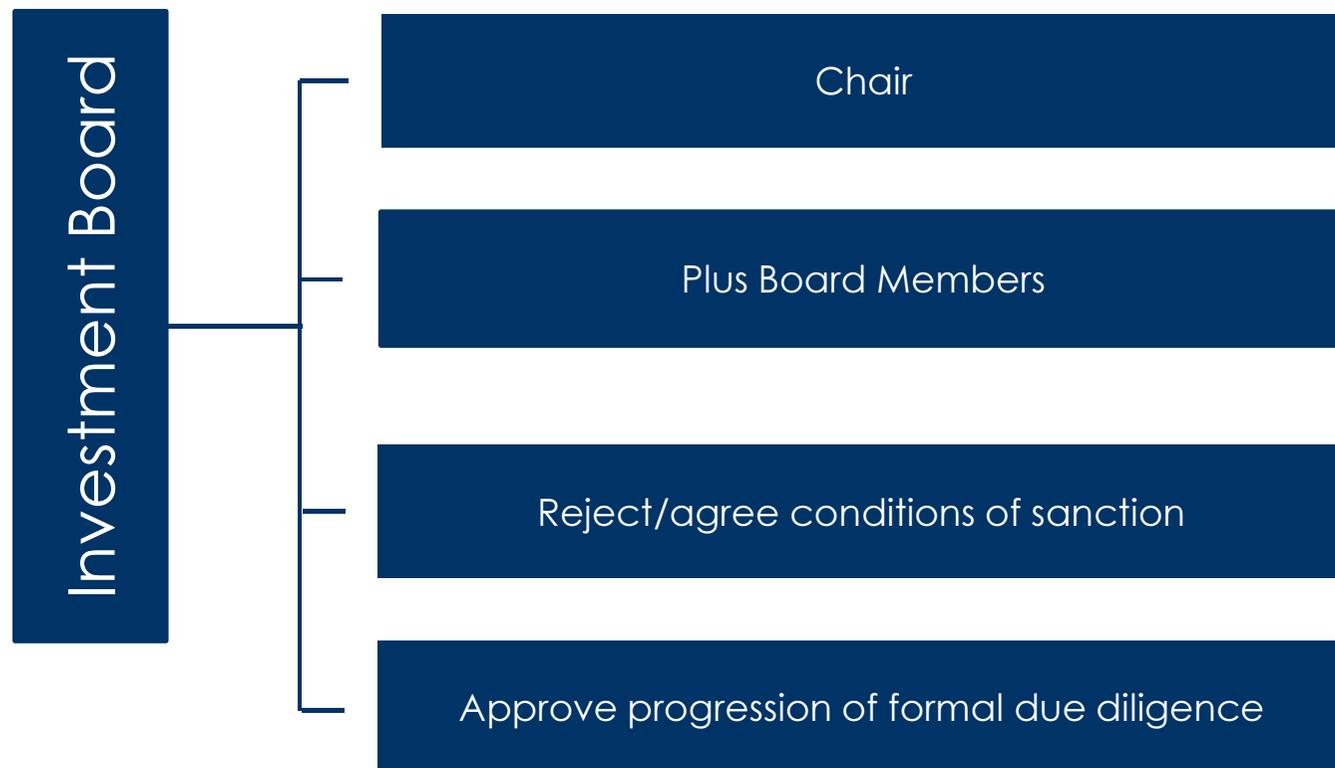
## **Development completion**

- Economic Review Impact assessment completed
- Conclusion Grant/Funding impact assessment

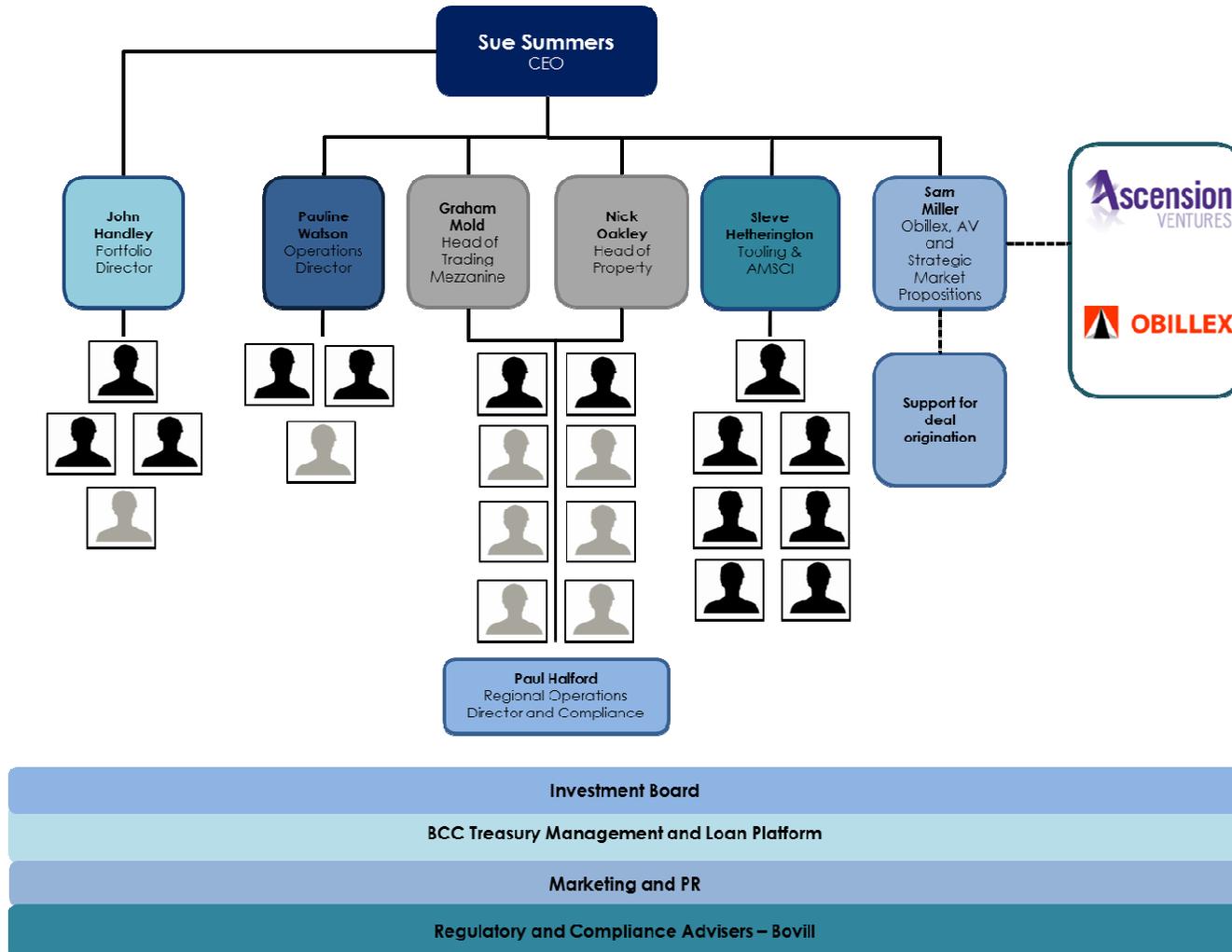
# Investment Board

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Investment Board meetings held monthly



# FB's Corporate Structure



# Commercial Considerations

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Finance Birmingham's costs will be recovered through a combination of a management fee, payable by the CA and arrangement and monitoring fees paid by the applicant direct to Finance Birmingham.

## **Management Fee**

The management fee for the LRF will look at the incremental costs over and above those required to operate the CIF

## **Arrangement and monitoring fees**

Arrangement and monitoring fees are paid direct to Finance Birmingham by the applicants, to supplement the management fee in the recovery of Finance Birmingham's costs.

Finance Birmingham will be recruiting additional highly-experienced professionals, to support the LRF.

# Management Biographies

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## Sue Summers, CEO

Over a decade's experience of running FCA regulated businesses

Strong industry experience – both start-ups and board level appointments

Ran Europe's largest IFA trading exchange and was deputy MD of a FTSE 250 business

Responsible for strategic direction and growth of FB

Investment Committee member and responsible for due diligence sign-off



## John Handley, Portfolio Director

Over 25 years' experience in private equity including Bridgepoint and LDC (the private equity division of Lloyds Bank)

Chartered accountant

Highly experienced and highly regarded with a portfolio of chairmanships

Responsible for the management of the invested portfolio

Investment Committee member and responsible for due diligence sign-off

# Management Biographies

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## Graham Mold, Head of Trading Mezzanine

FCA with 13 years experience in VC including Catapult Venture Managers and FB

Head of West Midlands Mezzanine Fund

Involved in more than 100 SME deals

Previous roles include Fund Principal, Finance Director and Portfolio Director

Responsible for trading mezzanine element of the Fund, ensuring investment objectives are met



## Nick Oakley, Head of Property Investment

Corporate banking, lending and restructuring specialist

Regional Director Real Estate Finance, Midlands. Led a team of 28 relationship managers.

Funding residential & commercial developers & property investment transactions. Managed £850m loan book.

Set-up and managed a £40m Residential Mezzanine Joint Venture Fund

Responsible for property development element of the fund, ensuring investment objectives are met

# Management Biographies

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## Sam Miller, Strategic Market Propositions

Integrated finance specialist, venture capital and treasury

Supports and develops key market propositions

Strong track record in deal origination

Responsible for raising private investment from institutions and HNWIs

Manages key strategic relationships and joint ventures with Obillex and Ascension Ventures



## Paul Halford, Regional Operations Director

Over 40 years corporate banking experience in SME sector

Headed-up numerous relationship management teams

Strong credit experience

Extensive professional network

Responsible for compliance & regional operational structure