



**WEST MIDLANDS**  
COMBINED AUTHORITY

## Board Meeting

<b>Date</b>	12 May 2017
<b>Report title</b>	Collective Investment Fund Update
<b>Member Portfolio Lead</b>	Councillor Izzi Seccombe – Finance and Investments
<b>Accountable Chief Executive</b>	Martin Reeves, Chief Executive, WMCA
<b>Accountable Employee</b>	Mark Taylor, Director of Finance, City of Wolverhampton Tel: 01902 55 6609 Email: <a href="mailto:mark.taylor@wolverhampton.gov.uk">mark.taylor@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Management Board – 30 March 2017 Programme Board – 28 April 2017

### Recommendations for decision:

#### WMCA Board is recommended to approve:

1. That until such time as the Combined Authority has the power to borrow, the Collective Investment Fund (CIF):
  - a) Will be reduced from the £70 million originally approved to £60 million.
  - b) Will no longer be available to support projects within the geographical area of Sandwell Metropolitan Borough Council.
2. That at the time the Combined Authority has the power to borrow, the CIF:
  - a) Will revert back to the £70 million originally approved.
  - b) Will once again be available to support projects within the geographical area of Sandwell Metropolitan Borough Council.

**WMCA Board is recommended to note:**

1. That all Metropolitan District Councils, with the exception of Sandwell, have formally agreed to enter into a legal agreement with Birmingham City Council to share the risks associated with the CIF and therefore any losses in equal proportions. It is for this reason that the total value of the CIF must be reduced to £60 million.
2. That it may now be necessary for individual Metropolitan District Councils to seek approval to underwrite one sixth of the revised CIF fund of £60 million.
3. The progress that Finance Birmingham has made developing the pipeline of potential projects, along with the investments that are already being part funded by the CIF.

## 1.0 Purpose

1.1 To seek agreement from the Combined Authority Board to reduce the Collective Investment Fund (CIF) to £60 million, from £70 million, until such time as the Combined Authority has the power to borrow. An update on the progress that Finance Birmingham has made developing the pipeline of potential projects, along with the investments that are already being part funded by the CIF, is also provided.

## 2.0 The Collective Investment Fund

2.1 On 10 June 2016, the Combined Authority Board approved the establishment of a £70 million CIF. The CIF was to be funded from prudential borrowing, however, as the Combined Authority did not have the power to borrow for non-transport related investment, the Combined Authority Board also approved that until such time as the Combined Authority has the power to borrow:

- Birmingham City Council would undertake any borrowing relating to the CIF.
- Each of the other 6 Metropolitan Districts would enter into a formal agreement with Birmingham City Council to confirm that they will share the risks associated with the CIF and therefore any losses in equal proportions.
- That when the Combined Authority has the necessary power to borrow for these purposes, any borrowing undertaken by Birmingham City Council relating to the CIF will be 'purchased' by the Combined Authority.

2.2 The draft agreement between Birmingham City Council and the other 6 Metropolitan Districts is nearing completion, however, Sandwell Metropolitan Borough Council has confirmed that it does not intend to enter into the legal agreement. In order to ensure that the other 6 Metropolitan Districts exposure does not exceed the £10 million originally anticipated, it is now necessary to reduce the total of the CIF to £60 million.

2.3 During this period, i.e. while the Combined Authority does not have the power to borrow for these purposes, it is recommended that the CIF will no longer be available to support projects within the geographical area of Sandwell Metropolitan Borough Council.

2.4 It is important to note that it may now be necessary for individual Metropolitan District Councils to seek approval to underwrite one sixth of the revised CIF fund of £60 million.

2.5 It is also recommended that at the time the Combined Authority has the power to borrow, the CIF will revert back to the £70 million originally approved and that once again the CIF will be available to support projects within the geographical area of Sandwell Metropolitan Borough Council.

2.6 The CIF was established to bring forward commercial land and property investment opportunities and consistent with the principles of balance and fairness the CIF was to be focussed on securing a broader economic return across the West Midlands region, rather than purely maximising the financial return for the Combined Authority.

2.7 The CIF was set up to operate as a revolving fund, for an initial 10-year period, with the aim being that the initial capital would be repaid to the Combined Authority in full at the time the CIF was wound up.

- 2.8 In addition, the Combined Authority Board approved that the CIF would be available to support projects within the geographical areas of those constituent and non-constituent members of the Combined Authority named in the original Parliamentary Order.
- 2.9 Finance Birmingham were appointed as the Fund Manager for the CIF and significant progress has already been made in developing the potential pipeline of investments, in addition a number of investments have been approved to receive CIF funding.
- 2.10 In summary, the first 8 months since launch, the CIF has been very well received within the commercial real estate development community, to date £17 million of funding has been agreed across 5 separate investment opportunities, all sites are brownfield regeneration sites that are not currently in economic use and will deliver circa 1,045 new jobs and significant inward investment, including direct equity of £10 million.
- 2.11 The work to developing the pipeline of investments is also strong, with a further 8 opportunities, totalling £29 million currently going through due diligence, with a view to progressing to the Combined Authority Investment Board for approval. These opportunities are across a range of sectors including industrial, technology to social housing. Opportunities being geographically spread across the region, in Walsall, Birmingham, Wolverhampton and Stratford-upon-Avon.
- 2.12 All investments to date have been senior debt first charge secured transactions at a commercial rate of interest.

### **3.0 Financial Implications**

- 3.1 These are set out in the body of the report, in summary the CIF, including the Finance Birmingham management fee, will be funded from the interest charged on loans granted from the CIF.

### **4.0 Legal Implications**

- 4.1 Finance Birmingham is a company wholly owned by Birmingham City Council and therefore able to enter into an agreement to deliver the CIF fund management services directly to the Combined Authority.
- 4.2 Birmingham City Council will undertake the prudential borrowing required to support the CIF, until such time as the Combined Authority has the power to undertake the borrowing.
- 4.3 Where providing funding to private developers out of the CIF the Combined Authority will be required to satisfy itself that any funding arrangements are not caught by applicable 'state aid' restrictions. It is also the intention to develop a mechanism to ensure that, where appropriate, any potential super profits realised by developers, as a consequence of CIF funding, is shared equitably with the public purse.

### **5.0 Equalities Implications**

- 5.1 There are no Equalities implications arising from the recommendations in this report.