



WMCA Board Meeting

Date	21 July 2017
Report title	Establishing West Midlands Development Capital Limited
Portfolio Lead	Finance & Investment - Councillor Izzi Seccombe
Accountable Chief Executive	Keith Ireland, Managing Director, City of Wolverhampton Council email: keith.ireland@wolverhampton.gov.uk tel: (01902) 554500
Accountable Employee	Mark Taylor, Director of Finance, WMCA email: mark.taylor@wmca.org.uk tel: (0121) 214 7600
Report to be/has been considered by	WMCA Management Board 27 April 2017 WMCA Programme Board 2 June 2017

Recommendations for decision:

The WMCA Board is recommended to:

1. Approve the creation of a company to be called 'West Midlands Development Capital Ltd' as fund manager for the combined authority to be owned by WMCA.
2. Invite Constituent Councils and non-constituent members of the WMCA to join West Midlands Development Capital Ltd.
3. Invite other authorities to join West Midlands Development Capital at its discretion.
4. Delegate authority to the Cabinet Portfolio lead for Finance and Investments, in consultation with the Director of Finance and the Monitoring Officer, the progression of legal structures and branding and to take all necessary actions and decisions on behalf of the West Midlands Combined Authority to ensure that West Midlands Development Capital Ltd goes live in summer 2017.

Recommendations for noting:

The WMCA Board is recommended to:

1. Note that West Midlands Development Capital Ltd will replace Finance Birmingham Ltd as the fund manager of the Combined Authority's Collective Investment Fund and the £50 million element of the Land Remediation Fund.
2. Note that when establishing the CA's Investment Board it was reported that future contractual relationships, and any necessary group structural changes, in respect of Finance Birmingham were being worked on.
3. Note that West Midlands Development Capital Ltd will be established in such a way that the Constituent and Non-Constituent Members of the Combined Authority will be able to become shareholders enabling each to use West Midlands Development Capital Ltd as their own fund managers should they wish. Further legal advice is being sought regarding the appropriate shareholding arrangements should other Authorities wish to become members in the future.

1.0 Purpose

- 1.1 To establish West Midlands Development Capital Limited as the vehicle to advise and arrange in investments on behalf of the Combined Authority.

2.0 Background

- 2.1 The WMCA devolution deal established two investment funds being the Collective Investment fund and the Land Remediation Fund.
- 2.2 The Collective Investment Fund is an evergreen fund of £60m representing 6 metropolitan councils (excluding Sandwell) that will be used to stimulate economic growth by providing senior debt and mezzanine loans for commercial estate development.
- 2.3 The Land Remediation fund is a £200m fund and will be used to finance individual projects for housing and environment growth.
- 2.4 CIF and LRF are up and running and making investments across the region in accordance with WMCA assurance and governance processes.
- 2.5 Currently as an interim solution, Finance Birmingham, (a 100% Birmingham CC owned company) is providing this fund manager service for these funds to the Combined Authority.
- 2.6 West Midlands Development Capital (WMDC) will be developed to takeover and provide this fund manager service to the Combined Authority.
- 2.7 Views regarding company name options have been sought through consultation with Leaders and the recommended name, West Midlands Development Capital Ltd, has been agreed for approval as the most suitable reflecting the region wide scope and the nature of the business.
- 2.8 WMDC will be incorporated as a public authority controlled subsidiary of the Combined Authority with the 7 Metropolitan Councils and non-constituent members having the option to buy in should they so wish.
- 2.9 On 8 April 2017 West Midlands Development Capital Limited was incorporated with 100 shares and 1 establishing Director by the Combined Authority. In addition the relevant domain names have also been acquired.
- 2.10 WMDC will be set up as a Teckal company and will act similarly to a 'framework' where any member of the WMCA will have the right to use WMDC for fund management services without the need for a procurement process. Furthermore, and very positively, WMDC will benefit from the established infrastructure and best practises already in place through Finance Birmingham.
- 2.11 Importantly, all interest flows straight to WMCA and in addition, so will any profits after tax from income into WMDC.
- 2.12 WMDC will be part of an existing group relationship with Finance Birmingham and the separate non-Teckal company, Frontier Development Capital FDC).

- 2.13 FDC addresses the deployment of funds across a national geography under a neutral brand rather than Finance Birmingham and when attracting private capital/leverage.
- 2.14 The proposed legal relationship is set out in Appendix 1 of this report.

3.0 Next Steps

- 3.1 Legal structures, membership and director appointments, branding and operational service agreements now need establishing and this work will be undertaken over the next 2 months.
- 3.2 The intention is for WMDC to act as fund manager in its own right, however it will take some time to obtain appropriate Financial Conduct Authority (FCA) authorisations. Therefore WMDC will acquire the services of an entity that has in place the appropriate FCA regulatory permissions, being Finance Birmingham.
- 3.3 As a subsidiary of WMCA individual constituent authorities and non-constituent members will have the option of buying in should they so wish and subject to their own cabinet approvals being obtained in due course.
- 3.4 A progress update report will be brought to a future meeting.

4.0 Financial Implications

- 4.1 The two funds will be managed by WMDC on the same terms as those previously approved when Finance Birmingham were appointed Fund Manager, i.e. a management fee of ½% of the CIF fund amount and the marginal cost to Finance Birmingham of operating the LRF.
- 4.2 These costs are provided for within the approved WMCA Operational Budget.
- 4.3 Over time returns on CIF investments are expected to be sufficient to cover MDC's management fee and the surplus over and above that will be reinvested in new CIF initiatives across the region.
- 4.4 Investments made are subject to the Combined Authority assurance and governance delegations set out in the constitution.

5.0 Legal Implications

- 5.1 External Solicitors Pinsent Masons have provided effective legal advice as required to inform both the legal structure and procurement options which may be adopted by the Authority to facilitate delivery of the desired outputs for the LRF and the CIF respectively. The advice has been reviewed collectively by the Constituent Authority Legal Heads and confirms that the proposed arrangements as outlined provide a robust mechanism to deliver this objective whilst minimising the risk of procurement challenge.
- 5.2 There are no further legal implications flowing from the contents of this report.

6.0 Equalities Implications

- 6.1 There are no implications arising from this report.



