
A separate report is submitted in the private part of the agenda in respect of this item, as it contains details of financial information required to be kept private in accordance with Schedule 12A of the Local Government Act 1972. The grounds for privacy are that it refers to the identity, financial and business affairs of an organisation and the amount of expenditure proposed to be incurred by the Council under a particular contract for the supply of goods or services.

Cabinet
Council

7th October 2014
7th October 2014

Name of Cabinet Member:

Cabinet Member (Business, Enterprise and Employment) – Councillor K Maton

Directors Approving Submission of the Report:

Executive Director, Place
Executive Director, Resources

Ward(s) affected:

All

Title:

Coventry Investment Fund Investment into Finance Birmingham Mezzanine Fund

Is this a key decision?

Yes – investment over £5m and potential to impact businesses in multiple Wards of the City

Executive Summary:

The Coventry Investment Fund (CIF) has been put in place to invest in real growth opportunities and grow Coventry's business rates. Investment is envisaged right the way through from manufacturing businesses to retail businesses, leisure services and road improvements and include the development of the Council's commercial property portfolio, with a view to getting the best return possible from its assets.

Finance Birmingham recently launched a £56m mezzanine based business support loan programme in the West Midlands. Finance Birmingham has approached the City Council for investment in the mezzanine fund with an offer to match any contribution the Council will make up to the value of £5m, so for a £5million investment by the Council a further £5m would be added through the Fund. Finance Birmingham does not require any resources from the Council until 2015/2016 at the earliest and would effectively be the managing agent for the Council for its investment, but will not take any management fee from the Council. The investment by the council will be ring fenced for businesses within Coventry.

The allocation of £5m would enable projects to progress in the City that would not otherwise be able to in addition to generating substantial returns on investment.

Recommendations:

Cabinet is requested to:

- (1) Recommend that the Council approves the investment of £5m of the Coventry Investment Fund in the Finance Birmingham Mezzanine Fund.
- (2) Recommend that the Council approves that investment decisions involving the use of the Coventry Investment Fund allocated to the Finance Birmingham Mezzanine Fund be delegated to the Investment Committee of Finance Birmingham.
- (3) Delegate authority to the Executive Director, Resources and the Council Solicitor as appropriate, in consultation with the Chair of the Cabinet Committee – Coventry Investment Fund, to complete the funding documentation and such other ancillary documentation as is deemed necessary.

Council is recommended to:

- (1) Approve the investment of £5m of the Coventry Investment Fund in the Finance Birmingham Mezzanine Fund.
- (2) Approve that investment decisions involving the use of the Coventry Investment Fund allocated to the Finance Birmingham Mezzanine Fund be delegated to the Investment Committee of Finance Birmingham.

List of Appendices included:

None

Background Papers

None

Other Useful Documents:

[Growing Business Rates through creating the Coventry Investment Fund Council 3rd December 2013 - www.coventry.gov.uk/meetings](http://www.coventry.gov.uk/meetings)

Has it been or will it be considered by Scrutiny?

No

Has it been or will it be considered by any other Council Committee, Advisory Panel or other body?

No

Will this report go to Council?

Yes – 7th October 2014

CIF Investment into Finance Birmingham Mezzanine Fund

1. Context

- 1.1 Finance Birmingham recently launched a £56m mezzanine based business support loan programme in the West Midlands. The fund is presently open to businesses in Coventry due to £7m of Regional Growth Fund which forms part of the overall package. However when that money is allocated Coventry companies will not be able to apply unless Coventry contributes towards the Fund. Finance Birmingham has approached the City Council with an offer to engage in the fund.
- 1.2 Mezzanine Finance is a hybrid of debt and equity financing that is typically used to finance the expansion of existing companies. In certain circumstances it may give the lender the rights to convert the loan into an ownership or equity interest in the company if it is not paid back in time and in full. In terms of security it generally ranks lower than senior lenders such as banks.
- 1.3 Finance Birmingham (FB) was set up by Birmingham City Council as a public-private partnership, using private-sector experts to lead the provision of funding solutions for growing businesses in the Birmingham area. It has been created to provide a channel of funding, filling the gap left by risk-averse high street banks. It provides funding streams targeting small and medium-sized business market across all industry sectors.
- 1.4 Finance Birmingham would like to bring on board LEPs or Councils to be able to offer the funding to a greater number of businesses. The Coventry and Warwickshire Local Enterprise Partnership has already set aside up to £3m of its future European Funding allocation as part of its business support programme which will also be matched making its overall value £6m. It will be available to businesses across the LEP area but would have to operate within the strict confines of European programme eligibility rules.
- 1.5 As the RGF funding is required to be spent within 2014/15, the fund has a year 1 budget of £14m consisting of £7m RGF and £7m matched funding. Crucially, this is not restricted to contributing LEPs and thus Coventry businesses can apply for this funding. From years 2 onwards the funding will only be available to areas whose LEPs or Councils who have invested. FB has confirmed that if Coventry invests £5m this would be ring fenced to Coventry and attract £5m of match funding resulting in £10m being available for Coventry investments only, protecting any investment the CIF may choose to make. Birmingham City Council (BCC) is the Accountable Body for FB and as such all loans will be between BCC and applicants – it would be made very clear on all projects that they are made possible by the investment of Coventry City Council. Coventry would not be required to put any monies into the fund until individual projects are approved. As such the amount of money invested in FB will rise over time until it hits the £5m maximum.
- 1.6 In terms of loan rates FB says typically these are likely to start at a 12% interest rate plus up to 25% redemption premiums on repayment. FB has a strong track record in fund management, has experienced staff from banking/equity/corporate finance and has already passed due diligence with the pension fund and regional growth fund. The loans can include flexible repayment plans including interest and capital repayment holidays for up to 3/4 years. The fund is presently expected to have a nine year life and there would be no Coventry drawdown until 2015. No management fees would be payable by the City Council.
- 1.7 Investment Managers make recommendations to an independent Investment Committee and the Assistant Director (City Centre and Development Services) would be invited to join the Board, where majority decisions apply. All decisions to invest are referred onto the Accountable Body for sign off and completion of legal documentation. Established

investment criteria are used by Investment Managers and this is documented in the FB Investment Manual which takes risk into account. Finance Birmingham reports to the pension fund on a quarterly basis and would provide reports to the Council on the same basis.

2. Options considered and recommended proposal

2.1 Options Available

2.2 Invest an element of CIF funding in the mezzanine fund which would be match funded for the same amount. It is prudent for the CIF to have a range of investments within its portfolio. This presents an opportunity to take loan funds to the market by a tried and tested loan fund manager with strong expertise. Coventry would see double its investment coming back into the local economy. By investing in this fund Coventry not only has another financial instrument to offer local businesses, it can also build up an evidence base in testing the demand from local businesses for these types of finances. It provides a strong commercial arm to the CIF Programme.

2.3 Do not invest in the scheme. The Council does not have the complete technical ability nor systems in place to offer this type of scheme currently. The costs in putting the infrastructure in place would be prohibitively high at this point in time for such a small amount of funding. Not investing in this fund will mean Coventry losing out on the opportunity to double its investment pot for Coventry Businesses to access.

2.4 Recommended Proposal

2.5 To invest £5m of CIF in the Finance Birmingham mezzanine fund.

3. Results of consultation undertaken

3.1 Finance Birmingham has looked into the market demand for mezzanine funding. Blue Sky Consultancy specialises in accountancy, corporate finance and due diligence. In its report on 'Collaboration on Financial Engineering Instruments under the EU 2014-20 Structural Funding Budget Programme' it examined the unmet demand for business investment. It identified that 21% of SMEs that sought finance in 2010 are unable to obtain any finance from any source. Further the report explains how the manufacturing and construction industries are particularly affected.

4. Timetable for implementing this decision

4.1 Finance Birmingham will not be drawing down any money until 2015/16 as it already has Regional Growth Fund to match the pension funds until that time. Finances will only be drawn down from the council as individual investments are identified in Coventry and approved by the committee. As such, the council contribution will build up over time.

5. Comments from Director of Finance and Legal Services

5.1 Financial implications

5.1.1 The proposal outlined would provide an investment of up to £5m from the CIF allocation of £50m of which £8.5m has already been allocated to other projects. This investment would result in up to £10m being available for businesses in Coventry through the match funding. This is in addition to the £7m that businesses in Coventry can access in 2014/15.

5.1.2 The investments made by Finance Birmingham will be in the form of a loan provided on commercial terms. In terms of loan rates typically these are likely to start at a 12% interest rate up to potentially 25%. The predicted returns will contribute towards achieving existing ABC targets. . Furthermore, the Council will only make the investment as and when it has been approved.

5.2 Legal implications

5.2.1 The Council will use its general power of competence under section 1 of the Localism Act 2011(the Act) as power to make commercial loans, in this instance via Finance Birmingham’s Accountable Body. Section 2 of the Act provides that where the power of competence is conferred on the Council to do something it confers power to do it in any way whatever including for or otherwise than for the benefit of the Council, its area or persons resident in its area.

5.2.2 Finance Birmingham has taken independent legal advice on State Aid issues and loans will be State Aid compliant. FB will be notifying the Commission of the programme under the provisions for the newly updated General Block Exemption Regulations

6. Other implications

6.1 How will this contribute to achievement of the Council's key objectives / corporate priorities (corporate plan/scorecard) / organisational blueprint / Local Area Agreement (or Coventry Sustainable Community Strategy)?

6.1.1. The investment of Coventry Investment Fund into individual projects via Finance Birmingham will contribute significantly to the council’s vision as set out in the Coventry Plan. It will support the priority of being globally connected through supporting businesses to grow, creating infrastructure, developing the city centre and raising the profile of Coventry. It will support sustainable growth within the local economy as well as providing local employment opportunities.

6.2 How is risk being managed?

6.2.1 The following table shows the key risks associated with the proposal as well as the actions to mitigate and reduce those risks to the council:

Risk	Mitigating Action
The mezzanine fund is not taken up by businesses	<ul style="list-style-type: none"> • Clear marketing strategy by Finance Birmingham • Strong promotion by the Council’s business investment team and via the Local Enterprise Partnership
Finance Birmingham is unable to act quickly enough to take advantage of an investment opportunity	<ul style="list-style-type: none"> • FB has strong governance and due diligence conducted on a timely basis whilst ensuring rigour and appropriateness • Investment Board membership at the right level and frequency of meetings
Return on investment is not delivered	<ul style="list-style-type: none"> • Risk cannot be completely eliminated but can be minimised by Finance Birmingham by use of investment criteria, due diligence and monitoring process.

Reputational damage as a result of bad investments	<ul style="list-style-type: none"> • Clear and transparent governance process with Coventry represented on the Board. • Due diligence and monitoring process put in place.
Finance Birmingham's capability to deliver the fund	<ul style="list-style-type: none"> • FB has passed due diligence from RGF and match funding providers. • FB already manages £345m of funding approved by the government for the Advanced Manufacturing Supply Chain Initiative (AMSCI) • FB has provided extensive information including CVs of key staff and the Investment Committee members, anonymised version of its existing loan book, its investment manual and procedures as part of its due diligence process with the council.
State Aid Compliance	<ul style="list-style-type: none"> • FB has provided copies of its state aid notification and will re-notify under the new regulations (all providers of state aid across Europe will have to re-notify)

6.2.2 The progress of the fund will be managed as part of the Coventry Investment Fund processes. It will be monitored on a regular basis by the CIF Management Team chaired by the Assistant Director (City Centre and Development Services) and reported to the Cabinet Committee – Coventry Investment Fund.

6.3 What is the impact on the organisation?

6.3.1. There will be no direct impact on staffing resources.

6.4 Equalities / EIA

6.4.1 The Coventry Investment Fund is open to all businesses and investments within the Coventry Area and a number of businesses in the Warwickshire area that benefit the residents of Coventry. No equality impact assessment is required as the recommendations do not constitute a change in service or policy.

6.5 Implications for (or impact on) the environment

None.

6.6 Implications for partner organisations?

None.

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