Hertfordshire Growth Board

APPENDIX A

Hertfordshire Growth Board Investment Strategy

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1.0 The purpose of this paper is to describe the main features of an Investment Strategy for the Hertfordshire Growth Board. It represents a joined-up position between the public and private sectors in Hertfordshire with the clear intention of attracting and enabling further investment into the area.

Overview

2.0 This strategy is to operate in conjunction with a defined investment framework with agreed objectives, rigorous governance processes and consistent investor messaging that will support and enable Hertfordshire to attract the level of investment it seeks to support economic, social, and environmental projects and outcomes.

2.1 Hertfordshire has a clear ambition to secure public and private sector inward investment into the region to support jobs and communities, including growth that supports our climate change and net zero ambitions. While there has been recent Government, and substantial private sector investment, this strategy is predicated on a move to more strategic source of funds, with much greater recycling of investment, stronger measures of impact and greater efficiency.

2.2 The strategic intent is to create a position that provides greater certainty and security over long-term Infrastructure Investment and one that leverages the unique position afforded by Hertfordshire. This includes programmes that support economic growth; new/large settlements and regeneration; and major infrastructure such as town travel, EV charging and mass rapid transit. The strategy sets out a compelling opportunity for public and private investors, providing significant scope to think differently about how investors could combine to drive better overall value for money, attract better levels of investment, aligned to more attractive investment propositions.

What are the principles that underpin the Investment Strategy?

3.1 At the heart of the Hertfordshire Investment Strategy is a position that:

- demonstrates scale, impact, and innovation.
- is supported by strong political and executive leadership; and
- take advantage of transformed models of delivery.

The key principles of the strategy are that it will:

- provide extended opportunities for large private investors to engage – strategic partners who can work with Hertfordshire over the medium and long term.
- bring together combinations of infrastructure, commercial operations and place creating better longer-term returns.
- establish clearly defined and understandable investment propositions that are easier to fund.
- be backed by leadership and commitment at a local level to drive the delivery of investment programmes – delivery is king.
- include a pipeline of 'investable' programmes over the medium term.
- establish Hertfordshire's credentials to attract further investors.
- be manged and reviewed on a regular basis – with strong governance, cash management, focus and engaging specialist skills.

What is the Investment Strategy?

4.1 The purpose of the Investment Strategy is to provide a basis to demonstrate to stakeholders and potential investors Hertfordshire's strategic intent to attract funding to highly attractive place-based investment propositions. It provides a mechanism to assess projects for potential investment and will also be used when making recommendations for investments. It will be used as a reference document when approving those recommendations.

4.2 The core features of the Hertfordshire strategy are to:

- Leverage real sector strengths in:
    - Cell and Gene
    - Life Sciences
    - Film and Media
    - Modern Methods of Construction

- Focus on regeneration, large settlements, major infrastructure, and green/clean tech opportunities.
- Provide investors with a clear vision, strategy, planning landscape and decision-making process.
- Invite and facilitate access to Officers from potential developers and investors – Chief Executives, Heads of Planning, and a knowledgeable core team; and
- Offer flexibility and creativity, transitioning from strategy to implementation.

4.3 In order to respond to these features and to achieve the outcomes sought, the practical implementation of this investment strategy, is focused on Hertfordshire's two strategic growth corridors. This is described in more detail in the following section of this document.

4.4 The basis for assessing projects for potential investment and when making recommendations for investment will be that:

- All investments must be made against agreed investment criteria (to be determined); align with relevant Local Plans; and reflect Hertfordshire's economic and sustainable growth priorities.
- Investments will be sought and selected on the basis that the project is viable; carries appropriate risk and the terms are equal to or above the Hertfordshire minimum level of return.
- All investments will be subject to appropriate risk, business case assessments and due diligence by an appointed Fund Advisor and must fulfil the requirements of the Investment Strategy.
- This Investment Strategy is founded on commercial best practise, is sufficiently flexible and will be actively managed to cater for a changing political and economic environment.
- It will evolve the type of projects in the area mature, local priorities vary and as the public and private sector funding landscape changes overtime.

How will the Investment Strategy work in practice, and transform Hertfordshire's approach to long term infrastructure funding?

5.0 The proposed new approach aims to address the significant challenges of the existing system and provide a flexible, appropriate structure that can bring together stakeholders and investors in order to accelerate schemes, provide better value for money and higher returns on investment.

5.1 The basis of this approach reflects Hertfordshire's two strategic growth corridors. These spatial areas have clear identity and there is an established understanding of the potential within them to bring together social, environmental, and economic returns that can be achieved for their respective communities and businesses. This requires and builds on:

- a far stronger model of strategic spatial planning that joins together an integrated network of transport and connectivity, with thriving prosperous places, and new business and commercial opportunities.
- a developing pipeline of schemes, each backed by an appropriate business case, that connect together as a coherent whole, as well as having individual merit.
- a transformed delivery mechanism, that brings together the public and private sectors capacity and capability, to work jointly on design and implementation of the programme as a whole as well as the individual schemes within it; and
- the Hertfordshire Growth Board providing an appropriate governance and decision-making body.

5.2 With these components in place, the Investment Strategy seeks to align to the objectives of the spatial area by bringing together Government Investment, Private Investment and Local Investment. This structure is not intended to create one whole single flexible investment pot, or to co-mingle funding that has been secured for very specific purposes. More-over, it seeks to enable the strategic area to operate as though it is backed by a "regional bank".

5.3 This provides for a number of highly significant advantages:

- It is easier to attract funding at scale – all investors can see the strength of the long-term proposition(s).
- It provides clear definition of the strategic role of national and local government investment – either in strategic infrastructure and/or to act as an anchor for private investment.
- It will attract better commercial Investment – investors want to work together, and a holistic approach will bring in the best investors for each scheme type.

- Individual investment decisions can be taken alongside one another, improving sequencing, and reducing overall costs.
- It provides for the need for a much stronger focus on returns on investment, for each investor; and
- National and Local Government will have greater confidence that it is securing the full return on national infrastructure investment.

5.4 In summary it provides a structure for private, public, and local funds to be brought together, to achieve the objectives of each strategic growth area, and is illustrated in the diagram below:

Government Investment			Private Investment			Local Investment		
Direct Support	Specific Objectives	LEP	Commercial Developers	Project Finance	Philanthropy	Local Government	Local Developers/ Commercial operators	Local People

Strategic Growth *Area*	
Dedicated resource to drive investment and provide maximum funding efficiency	Growth Board governance Regional delivery team Business/Investment Plan

- Ambition & spatial strategy
- Strong leadership
- Joined up delivery of Productivity, Environment, Place, Connectivity

Each Area:
- Better schemes
- Better investors
- Better developers

Commercial Opportunities	Residential Opportunities	Place Opportunities	Enabling Infrastructure and Connectivity
Delivering the Economic Strategy - Focused on multiple secured debts in real estate	Delivering high quality place making – To address strategic and targeted interventions	Mix of solutions to finance leisure, environmental and other projects	Infrastructure and connectivity programmes that are aligned to economic and spatial plans

How will the Investment Strategy be managed?

6.0 The Investment Strategy has the potential to lead to the creation of an independent Fund that can support local projects across the Hertfordshire region on behalf of Hertfordshire Partners. Any fund will only exist when there are programmes or initiatives that are backed by a business case and investor ready. To maintain objectivity in decision making, it is recommended that the funding mechanism is supported by an independently appointed Fund Advisor.

6.1 The Fund Advisor will be responsible for sourcing, undertaking due diligence, documenting and management of all investments in accordance with the agreed Investment Strategy, reporting directly to an appointed Investment Board, which in turn will report to the Hertfordshire Growth Board. The Fund Advisor will be funded by the

Growth Board and will be responsible for attracting investment to meet the specific requirements of each funding opportunity.

6.2 This approach ensures the Hertfordshire Growth Board maintains its responsibility for strategy, has full oversight of activity and retains key final decision making. Decisions will be based upon clear recommendations from the Fund Advisor, with requisite FCA authorisations.

How will investments and projects be prioritised?

6.3 In the event there are a range of 'oven ready' opportunities to invest in across the region at any one time, it is necessary to have a mechanism in place to prioritise investments in accordance with this Investment Strategy.

6.4 A matrix will be developed to assess and select projects that offer the most in terms of outputs but are still appropriate to the Strategy. In practice this is seldom required as projects move at different paces and a large pool of projects that are investment ready immediately would be unusual. This approach builds on existing experience such as the systems developed by the LEP to evaluate Local Growth Fund. It will not necessarily result in allocations being shared out across the county, but instead will be based on the Growth Board agreed priorities including merits of each business case and its supporting detail.

6.5 The underlying principles of selecting investments (other than economic outputs) will be that the project is viable; carries appropriate risk and the terms are equal to or above the minimum target level of return. It is anticipated that where schemes have a viability gap, the project sponsor, alongside the appointed Fund Advisor, will need to consider complementary methods of improving viability. There are various interventions that could be considered. These have included elsewhere:

- Government grant
- Council providing a Put Option to the developer at loan level, providing security of exit
  Council pre-purchasing or pre-letting
- Council guaranteeing a rental level for a short period

6.6 The Fund Advisor should be involved as early as possible with these discussions to ensure that the minimum intervention necessary is employed.

How will individual investments be monitored?

6.7 Once funds are legally committed, there follows a significant process where more work is undertaken to clear any conditions to allow drawdown. After investments are made and capital is deployed, the loans need to be monitored to ensure the funding terms are complied with and that the underlying properties are delivered (thereby protecting the Fund's security). This will be carried out by an appointed project monitor paid for by the borrower in accordance with standard market practice.

6.8 In accordance with standard practice, it will be important to ensure that performance is monitored on a regular basis. This will comprise both economic outputs and financial performance monitoring. The intention of these economic output measures is to demonstrate the added value of the investments made and the economic benefits to the sub-region. Statistics will then be used to build the case for securing additional public funding for investment in the Fund.

6.9 Financial performance monitoring will be undertaken in accordance with standard market practice. The Fund Advisor will be responsible for ensuring investments underwritten meet the minimum return requirements and monitor the cumulative returns to the Hertfordshire Partners.

What is the marketing strategy?

7.0 Creating a distinct investment brand for Hertfordshire, building on work already undertaken, will be of critical importance to its success as has been demonstrated in other similar regional Funds in the UK. An effective marketing and engagement strategy will ensure that it enters the thought process of anyone intending to deliver development in the area.

7.1 The marketing strategy for the Fund will be in two stages. The first stage will involve soft marketing of the Fund prior to launch. This involves meeting with developers, investors, and local stakeholders, to enable a pipeline of investments to be developed. At the same time, the establishment of an online web presence is recommended.

7.2 It is then proposed that there should be a launch event with advertisements in the local and national press. The press coverage and launch event will provide a local, regional, and national platform to attract investment and developers into the region. Once launched and a track record of investments is established, the next stage will be to work to bring forward new opportunities across the region with existing project sponsors and other potential third-party funders.

What are the key risks and mitigations?

8.0 The following headline risks have been identified:

- Market risks – includes changes in market conditions, economic and political environments, debt markets, taxation policy and currency movements.
- Property risks – relating to the building or site, risks considerations include environmental, structural, tenant, legislative, planning and rates.
- Developer risk – relating to developer, contractor insolvency.
- Reputational – concerning liability surrounding investments, public perception of investments made and adhering to responsible and sustainable practice.
- Legal – regarding changes in legislation for carrying out such activities, as well as public and property owners' liability.
- People – adequate availability of personnel with the appropriate skills and expertise to deliver the objectives of the Fund.

8.1 The proposed governance structure and due diligence processes should be adopted with immediate effect to mitigate these risks as far as possible.

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Growth Board

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