**PROPOSAL**

**The UK Government should immediately establish a £5 billion Sovereign Wealth Fund (SWF)** to invest in a range of measures designed to stabilise, support and grow the whole economy and, in particular, the nation’s Small & Medium Sized Enterprises (SMEs).

**The SWF will be “UK PLC” made manifest** and builds on recent Cabinet Office statements about Public Procurement strategy. The SWF’s balance sheet will be built from equity holdings in UK enterprise and inflows of interest paid on taxpayer provided loans, all received in return for the investments that must be made during and after the lockdown period.

**The SWF will be a powerful player.**  It will be able to influence the direction and style of the post-C-19 national and global economy by, for example, emphasising “social-capital” principles such as “wellbeing”, “social conscience” and “ecology” alongside the traditional pursuit of profit.

**BACKGROUND**

The background to this paper is so current and well understood that it needs almost no further explanation. C-19 has transformed the social, economic and commercial landscape far beyond anyone’s expectations. The following statistics illustrate the scale of what we now face:

* + The CBI’s research shows that, between 27 March and 15 April, retailers report:
  + 67% - “significant negative” effect on sales.
  + 39% - “total shutdown” of UK activity.
  + 44% - furloughing staff.
  + 8% - permanent layoffs.
  + 96% - “cash-flow difficulties”.
  + 31% - “constraints on the availability of external finance”.
  + The OBR, in the first week of April, warned of:
  + 35% fall in GDP this spring, potentially, a fall of 13% for 2020.
  + More than 2 million people could lose their jobs by June, 2020.

**This too will pass** - One day, the world will have eradicated C-19 or, at least, learned to control it and its effects. No one yet knows how long that will take and this uncertainty haunts the world. Governments, acting alone and collectively, have the capacity and power to deal with that uncertainty.

A coherent, organised and sustainable plan for the UK’s economic future is evolving. The UK Government has acted quickly and committed huge amounts of support to the nation’s population - by current (1 May, 2020) estimates, approximately £100bn has been spent or committed, but the final total is inestimable.

However, the nation’s economy needs even more support until the “new normal” is established.

**The need to buy time.** The SWF can do that. It can also take a much longer view and ensure that the “new normal” economy will actually be the “better normal” economy, providing benefits long into the future and to the broadest possible expanse of the population.

**SUMMARY**

**The SWF will:**

* Be “UK PLC” made manifest; a commercial entity, owned and funded by the nation and operating for the good of the nation.
* Take equity interests and provide loans at very attractive rates, all within the SME sector. Buy-back and pay-off systems will be included so as to preserve the option of a return to future independence.
* Build a balance sheet of assets set against liabilities created by injections of financial support.
* Have a transparent, clear and accountable governance structure.
* Operate with a strong, local presence so as to reach all parts of the UK.
* Initially support the nation’s economic assets through the crisis. Then, it will consolidate and refine its operations and become an integral part of the new-world economy.
* Act quickly to deal with immediate issues; but it will also take a long view on the nation’s economic recovery. It has an expected operational life of at least 25 years, but there is no need to think of end-dates.
* Use different tools and mechanisms over the short (2020), medium (2021-2025) and long (2026 onwards) terms. There is no “one size fits all” solution.
* Be designed to drive economic results and to help avoid, delay or at least control certain negative effects of C-19.
* Deploy a range of commercial tools, including:
  + Guaranteeing a business credit card for SMEs that provides vital, immediate liquidity;
  + Accelerated payment mechanisms promoting rapid settlement of invoices;
  + Invoice financing facilities;
  + Credit insurance; and,
  + Payment guarantees.
* Not operate in a vacuum. Private enterprise will be a partner on the journey. Private funds can be invested with, or through, the SWF. Pension and Insurance Funds, in particular, will find the SWF an attractive investment channel, not least because of the long-term stability the SWF will provide.
* Be able to implement “Special Projects” focused on specific parts of the economy such as the hotel sector, airlines, UK vehicle manufacturers, real estate, construction, facilities management, small retailers and shopping centres. Collaboration with private funds will be particularly important here.
* Enable discrete geographical areas to pool their resources and work with the SWF and private funding to drive highly localised recovery plans.

**DISCUSSION**

1. **General Points**

There are two significant factors in the interplay between C-19 and the economic wellbeing of the nation:

* **Time** - the world will control C-19. Therefore, a primary responsibility of the Government is to take action to protect as many of the UK’s economic assets as possible until that time arrives.
* **Liquidity** – the flow of money around the economy is vital. During the early stages of the C-19 crisis, immediate steps will be required to keep the money flowing. After the situation is stabilised, more traditional approaches can be taken.

1. **Formation of the SWF**

The concept of the “sovereign wealth fund” is well understood and there are many current examples. Therefore, creating the basic SWF structure will not be a new, or unusual challenge. A major UK law firm has already expressed an interest in providing advice and assistance and other professional firms should be keen to provide support and services.

Technically, the SWF is a fully regulated investment fund operating within standard parameters. However, in the short term, certain immediate and circumstance-specific requirements might be met using legislative powers. This ability to do the right thing, quickly, is a key and unique power that the Government can deploy.

1. **Management, control and operations**

**Control** - The SWF will have an operational Board of Directors and an Oversight Committee. The former will have day-to-day responsibility for, and control of, the SWF’s business activities. The latter will provide policy advice and act as the nation’s eyes and ears in respect of governance matters. An overarching requirement for the SWF’s operation will be maximum transparency of operations. The Government and Parliament, probably acting through The Treasury, will maintain ultimate control of the SWF.

**Acting Locally** - Operationally, the SWF will use the skills and experience of existing groups such as: Business in the Community; Chambers of Commerce; the National Enterprise Network; and, Business Schools and Universities. These groups should be a good source of talent that, in conjunction with technology hubs will create fast, effective and “best practice” operations so as to control costs and enhance performance.

**Support** - A key part of the SWF’s day-to-day activity will be the delivery of support, advice, education and assistance to its invested businesses. It is envisaged that a large number of very experienced people will be ready, willing and able to step in to act as mentors and advisors as, when and where needed. This facility will provide the SWF with a strong management base for its invested businesses that, in turn, will help those businesses succeed; thereby enhancing the SWF’s investment returns.

**Governance** - All enterprises taking benefits from the SWF will be required to conform to certain principles. In particular, they must be registered and administered in the UK as limited companies or LLPs and, most likely, participate in the PAYE and NI systems. In addition, they will be asked to commit to act ethically, without discrimination of any kind and in pursuit of environmentally friendly principles.

**Compliance** - When applying for SWF investment support, applicants will be required to certify various pieces of information – turnover, expense requirements, operational needs, etc. – so that the SWF can determine the most appropriate way(s) to provide help. Some businesses will need immediate financial help. That can be delivered via the SWF branded credit card (see below). Or, the business might just need an experienced advisor or mentor. As noted above, those services will be available locally, across the whole of the UK.

1. **The Business Case**

**Self-supporting business** – The SWF will initially invest £5bn of taxpayer funds in return for equity, interest income, and fees from third party participants in SWF schemes and programmes. In essence, the SWF will offer a revolving credit facility, on supportive terms, including very low interest rates and highly competitive fee structures. The SWF’s balance sheet and P&L will show assets – equity and revenue – set against liabilities so as to create a self-funding organisation that, in the relatively near term, should be a net contributor to the UK’s Treasury. The gross ROI is likely to be in the region of 1.5%-2% per year.

**Repayments and buy-backs** – The SWF structure will allow participants to repay loans over whatever periods are appropriate and to buy-back equity by repaying SWF’s capital contributions.

**Costs** – Operating costs will be dependent on: the SWF’s operating structure; rate of success; and, how much support is given by the wide range of national groups that will benefit, directly and indirectly, from collaboration with the SWF.

**Collaborations** – It is expected that private funding groups will want to collaborate with the SWF. Through these arrangements, SWF’s costs could be shared. The power of these joint ventures will be enormous. Under SWF control, global funds will contribute not just their money but also their expertise, experience and resources. There will be sharing of the up-sides, of course; but that will be a reasonable price to pay for the added financial power – potentially hundreds of millions of Pounds - that will be injected into to UK’s economy.

1. **The economic tool-kit**

There is no single economic, financial or commercial tool or facility that can be applied to solve all of the economy’s problems. Rather, the SWF will deploy a range of tools according to requirements. Under current consideration are:

* **SWF branded credit/payment card**

This would be consistent with the recent PPN issued by the Cabinet Office:

*“The COVID-19 outbreak has placed increased pressure on commercial and finance teams and increased importance on maintaining cashflow to suppliers. Increasing use of procurement cards can improve organisations’ efficiency and accelerate payment to their suppliers while still ensuring robust controls.”*

Supported by current card issuers; guaranteed by the SWF’s own, government-backed funds; and, operated through a provider such as Visa or MasterCard, the SME card-holder would be free to pay bills and buy vital supplies within a controlled environment.

Current card systems and processes will take care of many of the obvious concerns – abuse of cards, improper spending, etc. – but specific SWF controls will be implemented so as to minimise the opportunity for misuse.

The online application form process will gather relevant information. The requirement for limited company or LLP status will add another level of oversight.  In addition, the accountancy profession will be encouraged to provide compliance services, as part of the normal accounting process, to further protect the nation’s investments.

A guarantee will be provided by the SWF for a monthly balance. This could be on a ratchet scale, depending on the size of SME. The guarantee will run for at least a year, thus giving the SME a credit record that enables it to move on, eventually to normal credit card terms. In recognition of the guarantee, charges for the card to the SMEs will be low.

As an alternative, or in particular sectors or cases, the SWF card will be provided with a pre-loaded credit balance allowing the holder to access national funds.  These cards could then be topped-up to meet clearly identified needs.

All advances and spending will be accounted for and traceable through the normal credit card statement processes and the annual business accounting process.  It will even be possible to block certain types of spending, again using existing mechanisms.

* **Rapid invoice payment terms**

**Turbo-charge cash flow** - Accelerating the flow of cash through the UK economy will have a material, immediate and positive effect by injecting liquidity and supporting the integrity of supply chains. This will make a direct, bottom-line addition to the nations’ cashflow simply by the act of paying on time, or, better still, early.

Conservative estimates indicate that late payment to SMEs, before C-19, had risen to £23.4bn, up by £10.4 billion since 2018. Estimates now are that late payments – typically larger companies delaying payment to smaller ones – will get worse through the C-19 period.

According to the latest data on the UK Government’s Payment Practices website, 59% of the UK’s largest businesses pay their suppliers more than 30 days after invoice delivery. Nearly half report that 25% or more of the invoices they receive are not paid according to the terms agreed.

**SWF as “Prompt Payment Champion”** - The SWF will confront the late payment problem. It can mandate that membership of the SWF structure requires strict adherence to “good payment practices” – payment on time, or more quickly, particularly among the SWF members. It might also implement systems that encourage non-SWF members, from anywhere in the world, to pay quickly.

* **Invoice financing**

**Nervousness in the system** - Some businesses operate well by using invoice-financing mechanisms. In the current environment, there may be nervousness causing these systems to slow, stop, or become more expensive. The financing platforms servicing these transactions depend on credit insurance covering the subject invoices. Such insurance has become more difficult to obtain as companies’ credit standings have been blurred by the C-19-driven economic crisis.

This is a critical issue because it has caused a collapse in the volumes of invoice financing – there is a lack of available finance. The SWF could step in to provide guarantees and other forms of support, thus freeing the logjam and allowing funds to flow again.

**The SWF as a stabilising force** - For example, the SWF could provide the source of investment to platforms for invoice financing, up to a limit per invoice-issuer, which would then not require credit insurance. Current invoices could be paid as liquidity eases, thus freeing insurance capital to support the system, with the timing dependent on the circumstances that play out.

1. **Elements of the economy**

The UK economy is complex and, even within the C-19 crisis, there are those who are thriving while others have already lost the battle to survive.

The SWF will not exclude participation in any part of the UK economy and it is very likely to operate, eventually, on a global scale. However, there are different considerations relative to different parts of the economy and different plays within those different parts:

* **SMEs** – 97% of the UK’s businesses are operated through Small-to-Medium-sized Enterprises. Therefore, a primary focus of SWF activity will be the SME sector and the SWF credit card is expected to be particularly powerful there.
* **Sub-Sectors**, such as “Hospitality” – restaurants, bars, hotels, clubs, cinemas, theatres, etc. – and “Transport” – airlines, taxis, coach operators, train services, etc. - have been mercilessly cut down by the effects of C-19. Therefore, in its early activities, the SWF will pay particular attention to these areas.
* **Large Companies –** Many SMEs have large corporate clients that, if compromised in the crisis, will reduce orders.

**CONCLUSIONS**

**Time and liquidity** - The UK economy needs time and liquidity to carry it through the C-19 storm and into the better future that can be achieved.

The UK is facing unprecedented challenges that are immediate, without pause and potentially overwhelming. Strong and viable businesses that would thrive under normal circumstances are facing collapse over the short term. The country faces a real prospect of emerging from C-19 with a landscape of destroyed, or at best weakened, businesses that could have survived and prospered if appropriate support had been available.

**We must keep the economy afloat and safe** - Currently, the UK economy is like a ship, holed and taking on water. The crew must act quickly, making swift decisions on the best solution. With water flooding in, there is no time for committees or studies and, only when effective repairs are in process can they focus on plotting a course to a safe harbour and organising longer-term, more considered actions.

This analogy illustrates the need for thoughtful, but fast action based on expediency. C-19 has changed the world and the way we live in it. We cannot solve all of the actual and emerging problems either at once or with conventional activities. We need time.

**With time will come opportunities -** The UK can ensure that the new world emerging from the C-19 crisis is better than the one that existed before. The “new normal” can be the “better normal”. Indeed, a sophisticated society learns from its past and makes progress. The survival of the fittest will be determined by those who can adapt most quickly to change.

The Sovereign Wealth Fund can play a major part in the construction of the “new and better normal”, resulting in a new approach that can have UK PLC working with and for all of us.

**The Genesis Initiative**

**May 2020**