

Investment Board

Date	29 th July 2019
Report title	Concentration Risk Proposal
Portfolio Lead	Councillor Bob Sleight – Finance and Investments
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Report has been considered by	N/a

Recommendation(s) for action or decision.

The WMCA Investment Board is recommended to:

1. Approve the concentration risk proposal to be applied to the WMCA Collective Investment Fund (CIF) and Revolving Investment Fund (RIF) as detailed within Section 3;
2. Approve that individual or multiple loans to the same group, where the total value exceeds £10 million but is less than £20million can be granted subject to WMCA Board receiving a report on the risks and approving the investment;
3. Agree to set a maximum cap of £20m on individual or multiple loans to the same group at any one point in time;
4. Note that whilst this report proposes a maximum cap on WMCA loans to third parties, the provision of grants to third parties is unaffected by this report.

1. Purpose

- 1.1 The purpose of the report is to confirm the approach to be taken and policy with regards to applicants for loans (or multiple loans) under the CIF and / or RIF.

2. Background

- 2.1 A request was made in the Investment Board meeting 3rd June.
- 2.2 During the discussion regarding a request for a loan to be potentially made from the Collective Investment Fund (Item 174), the Board has requested that a policy is stated with regards to applicants that may apply for loans (or multiple loans) and the maximum funding that should be provided.
- 2.3 The purpose of limiting the cumulative amount is to ensure that the CIF / RIF does not have undue exposure to any one group of companies. This could potentially increase risk as failure of one company within a group could have a detrimental effect on other companies that may have loans under CIF / RIF.

3. Proposed Policy

- 3.1 The policy will apply to a group. This is defined as borrowers or potential borrowers being companies, individuals, or other entities where there is the same majority control or ownership.
- 3.2 A loan is defined as the total commitment WMCA makes to a group in the form of a loan, equity investment, or guarantee.
- 3.3 The policy will dictate that all loan commitments under WMCA's commercial funds (be those commitments to be made through CIF and /or RIF):
 - 3.3.1 Will continue to follow the agreed Assurance Framework, requiring Investment Board approval to each loan irrespective of value;
 - 3.3.2 Will remain compliant with the Single Commissioning Framework;
 - 3.3.3 Shall not, without the prior approval of the WMCA Board, exceed £10m for an individual loan;
 - 3.3.4 Shall not, without the prior approval of the WMCA Board, exceed £10m as a cumulative value (one or more loans) where those loans are to be made to the same group as defined above;
 - 3.3.5 Shall not exceed £20m as a cumulative value (one or more loans) where those loans are to be made to the same group as defined above, at any one point in time.
- 3.4 Whilst all loan investments carry a degree of security (typically in the form of a charge over assets) the requirement for the maximum cap of £20 million as detailed above is put

forward as a means of controlling the maximum exposure WMCA would face in the event of a default or a series of defaults.

- 3.5 WMCA are using the surpluses from the loan funds to create a financial provision to meet any losses realised from the investments in line with current accounting standards.
- 3.6 It is considered, however, that until WMCA have built up a material provision to accommodate realistic potential losses, WMCA are vulnerable if one or more defaults occur in the event of a main contractor liquidation or a material event in the market.
- 3.7 In such an event and where provisions are not adequate to meet extent of the losses, WMCA may look to Local Authorities to provide the financial support in line with the principles underpinning the original investment fund and the WMCA in general.
- 3.8 As such, the suggestion for a cap serves to protect WMCA and Local Authorities from any avoidable, excessive financial exposure.
- 3.9 The following scenarios below are provided for clarity:

Loan Request From Group	Approval Requirement	Details
Request for a CIF or RIF loan for £10m in total where no other loans are currently held by that group	Investment Board	Under £10m threshold
A group holds a £10m CIF loan and submits a request for a new RIF loan of £2 million	Investment Board and WMCA Board	The £10m loan will have received approval from Investment Board but the incremental increase of £2m (or any amounts between £10m ad £20m cumulatively) would require WMCA approval.
Cumulative value at any given time of one or more loans to the same group exceeds £20m in total from a combination of CIF and / or RIF	Not Applicable	A single loan exceeding £20m would not be approved in any circumstances. Where this applies to a Group with a number of loans, the request taking the cumulative value to above £20m could not be approved until existing loans were repaid.

- 3.10 It is proposed that the Single Commissioning Framework is updated to provide this clarity on the concentration risk proposal.

4. Financial Implications

- 4.1 There are no financial implications as a result of this proposal other than the potential to reduce risk in the future.

5. Legal Implications

- 5.1 There are no legal implications as a result of this proposal.

6. Equalities Implications

- 6.1 There are no equalities implications.

7. Inclusive Growth Implications

7.1 There are no inclusive growth implications.

8. Geographical Area of Report's Implications

8.1 The CIF extend to both Constituent and non-Constituent Local Authorities.

9. Other Implications

9.1 There are no other implications.

10. Schedule of Background Papers

10.1 Not applicable