August 2020

COVID19 and an Investment Fund for Warwickshire

Report to Warwickshire County Council

SQW

Contents

Contact:
Christine Doel/Bruce Macdonald
Tel: 01223 209400
email: cdoel@sqw.co.uk

Approved by:
Christine Doel
Director
Date: 25/08/2020

Executive Summary

Context for – and purpose of – this study

1. The health crisis surrounding COVID19 has turned into an unprecedented economic shock. The forecasts are stark. There will be a global recession; and the UK is expected to fare worse than elsewhere (predominantly because of its sectoral structure).

2. In thinking about the future, there are major risks and uncertainties. The UK government has intervened to mitigate the worst economic effects of COVID19 (e.g. through the Coronavirus Job Retention Scheme, the Self-employment Income Support Scheme, and various loan schemes for businesses). Whilst its interventions may have cushioned the immediate crisis, it is not yet clear to what extent redundancies have been *prevented* or simply *delayed*. Every situation is different; businesses' ability to survive will reflect both internal (e.g. the strength of balance sheets as lockdown started) and external factors (e.g. whether business activity is possible with prolonged social distancing).

3. There are also two further, more overarching, risks:

- first, the **possibility of a second peak during the autumn/winter is real**.
- amidst all of this, there is also the process of **EU transition** and the possibility that trade agreements are unsorted by the end of the year.

4. Against this backdrop, SQW was commissioned by Warwickshire County Council in June 2020 to consider two main issues:

- First, the **Council wanted to explore how the economy of Warwickshire might change over the next period given the effects of the pandemic and the process of EU transition**. The purpose of the analysis was really to understand where the biggest risks (upside and downside) might be within Warwickshire.
- Second, **the Council wanted to understand the difference it could make by using its financial strength to set up an Investment Fund**.

How the economy of Warwickshire might change

5. One lens on how Warwickshire's economy might change is provided by its key sectors. Warwickshire County Council's economic strategy[1] outlined seven strategic priorities for economic growth in the county, and particular attention was given to four sectors: **automotive technology, advanced manufacturing, digital creative/video game development, and tourism**. In the context of COVID19, we also thought it was important to

[1] Warwickshire County Council (2020) Economic Growth Strategy 2020-25

add **logistics,** a sector for which Warwickshire has significant locational assets and which is increasingly important.

6. Based on a desk-based review of national and local evidence, Table 1 provides a snapshot of challenges and opportunities facing each sector.

Table 1: Issues facing Warwickshire's key sectors

Sector	Major issues
Automotive technology	• In the medium term, there ought to continue to be an opportunity for Warwickshire (and the West Midlands) to be a centre of excellence in relation to the future of mobility, although it must be recognised that this transition will be one for the whole supply chain, not just the prime contractors. A key question for Warwickshire County Council (and CWLEP) is the extent to which the wider supply chain is equipped to respond. • Leading names such as BMW, Jaguar Land Rover (JLR), London Electric Vehicle Company, and Tata Motors are R&D focused. However, national evidence suggests that investment in R&D will fall as a result of COVID19 which may well present a short-medium term threat. The 'shape' of the impact may be different from that in areas where the focus is exclusively manufacturing (i.e. the effects will materialise as decisions about R&D priorities are made, and these will need to take some account of the process of Brexit). • Prior to the pandemic, a lack of appropriate employment land and premises had been identified as a concern. In 2019, it was estimated that although B2 / B8 floorspace availability had increased across the LEP area (with the exception of Nuneaton & Bedworth), overall the existing supply provided for about 2.25 years at the then-current rate of demand.[2] Given the new circumstances, this timescale will have been extended, but there is likely still to be an issue in the medium term • In the automotive sector, the automation of activities/occupations had started to take effect prior to the pandemic (with artificial intelligence and robotics able to effectively replicate many tasks).[3] It seems probable that this process will accelerate. A labour market response – through the retraining of existing staff and new/different opportunities for younger people – will therefore be important.
Advanced manufacturing	• Warwickshire's advanced manufacturing businesses are at the "knowledge-intensive" end of the spectrum and might therefore perform a little better than the UK average. However, Warwickshire's companies are likely to experience loss in revenue due to dampened demand and disruption to supply chains. • It is possible that parts of the sector might have found (or could find) new opportunities as they have pivoted in response to the COVID19 crisis; in practice, businesses within the supply chain might be expected to be more agile than the primes, which are facing major structural challenges • As with automotive, the lack of appropriate employment land and premises has been identified as a concern – although the crisis has reduced the immediate pressure

[2] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[3] Warwickshire Careers Strategy (2019/20 - 2024/25) Consultation Draft

Sector	Major issues
	• Automation of activities and occupations is likely to be particularly acute in advanced manufacturing. The number of routine jobs in the sector may well decline – suggesting a need for upskilling (to work in more knowledge intensive jobs in the sector) or re-skilling (to work in other sectors) • COVID19 has imposed tighter restrictions on working conditions in relation to social distancing, working from home etc. This may speed up the rate at which companies are investing in automation processes. Automation combined with a slump in demand for products suggest that unemployment seems more possible. • There are various interdependencies between automotive technologies and advanced manufacturing that are likely to strengthen the cluster. For example, it is possible that both sectors share a similar supply chain particularly in relation to sourcing raw materials and parts. National evidence suggests that COVID19 has forced businesses to nationalise their supply chain, as a result, there may be an opportunity for businesses in Warwickshire to absorb new demand.
Digital creative/video game development	• The “slightly alternative” ethos that is found – and the high incidence of free-lancers – may well mean that the sector is more resilient locally than it is nationally • It is likely the sector has seen an increase in home working as a result of COVID19. • Evidence suggests that there is a need to promote the sector more successfully to attract investment. This has been committed through the Department of International Trade’s High Potential Opportunities scheme. • According to Microsoft, in the next two decades, 90% of jobs will require some form of digital skills, and without further action to significantly increase understanding of programming, the skills gap is likely to continue to increase significantly. This issue is likely to be particularly acute in and around Leamington Spa
Tourism	• There are some concerns regarding low skill, low paid nature of employment in the tourist industry. • It is possible that Brexit may cause recruitment issues as many hospitality businesses are reliant on European employees, particularly seasonal employees. • The sector is likely to benefit from automation. However, evidence suggests that automation is likely to disproportionately affect those in low paid customer service roles. It is vital that these people are reskilled and supported to move into new careers. • Evidence suggests that day trips are more popular than overnight trips. Warwickshire County Council are committed to encouraging more overnight stays. • Domestic tourism will be much faster to recover than international or business travel. North Warwickshire is popular for business travel so is more likely to be affected by the interruption to business travel.
Logistics	• Opportunity to move to greener technologies in logistics and test new business models in relation to last mile delivery. • There are concerns about the low value of this sector, the continued need to reduce costs and increase productivity has meant the introduction of

Sector	Major issues
	technology and higher skills, albeit that employment density can be relatively low. • COVID19 has sped up the adoption of automation due to the costs associated with ensuring employee safety in relation to COVID19. This may result in unemployment as workers are replaced by robots. • COVID19 has accelerated the move towards online retail which provides opportunities across the sector. It may also change the nature of employment space required by logistics businesses. • Supply chains might be problematic - international logistics have been severely compromised due to COVID19. There might be opportunities arising from businesses looking to nationalise their supply chain. • Brexit is likely to have several impacts on the Logistics sector. The additional administration needed for customs clearance will increase the need for office accommodation associated with logistics sites. Slower customs clearances mean that businesses which currently operate on a just-in-time basis, with European suppliers, will need additional warehousing and storage space as they will need to stockpile some supplies. In the short-term at least, the view has been expressed that Brexit is dampening investment in the Automotive sector in Coventry and Warwickshire, because of the uncertainty about future trade between the UK and Europe.

7. These sectoral observations helped to inform a model of Warwickshire's economy. In essence, this applied national economic forecasts to Warwickshire data. The model reflects the industry structure in Warwickshire and was cross checked with local intelligence.

8. Table 2 summarises the main findings from the model. It suggests that:

- GVA in Warwickshire is expected to fall by around 10% in 2020 (equivalent to a fall of £1.6 billion, compared with 2019), before growing back by 5.6% in 2021 and continuing its recovery in subsequent years
- unemployment rises to almost 9.0% in 2020, higher than the UK, before gradually returning to the pre-pandemic level.

Table 2: Overall GVA and employment results

	2020	2021	2022	2023	2024	2025
Warwickshire GVA	-10.0%	5.6%	3.5%	1.9%	1.9%	1.9%
UK GVA	-8.4%	4.5%	3.5%	1.9%	1.9%	1.9%
UK unemployment	7.5%	6.5%	4.5%	4.0%	3.0%	3.0%
Warwickshire unemployment	8.9%	8.0%	4.5%	4.0%	3.0%	3.0%
Warwickshire change in jobs	-19,507	+6,852	+5,658	+2,085	-	+2,978
Number unemployed Warwickshire	26,507	19,655	13,997	11,912	11,912	8,934

Source: SQW model – note that there were 7,000 people unemployed in 2019 which is added to the change in jobs

9. The other main conclusions are as follows:

- Overall, there could be an increase in the number of unemployed people from 7,000 before the pandemic, to around 26,500. The implication is an additional 19,500 people out of work. The sectors that are projected to be affected most in 2020 are shown in Table 3.

Table 3: The four worst hit sectors and job losses in Warwickshire

Sector	Jobs lost through 2020	Total jobs in 2019	Job losses as a % of 2019 employment
Motor vehicle manufacture	1,635	12,620	13%
Accommodation	1,724	6,494	27%
Retail trade	2,658	26,580	10%
Food & beverage services	2,663	17,750	15%

Source: SQW model

- Like the rest of the UK, the challenges facing sectors that rely on in-person service delivery, such as retail, hospitality, leisure and recreation, are especially acute. Perhaps a third of the additional 19,500 jobs lost in 2020 could be in food and beverage services, retail and accommodation. These sectors employ a large proportion of younger people, on lower wages and lower productivity, and the effects will be spread across Warwickshire. This all points to some clear priorities for recovery.
- Alongside this, the number of jobs lost in manufacturing is also likely to be high. The model suggests there could be almost 1,700 job losses in automotive manufacturing.
- Overall, the results are particularly sensitive to the impacts on the automotive manufacturing sector and its supply chain. A significant drop in activity in this sector in 2020 is one of the reasons that GVA and employment in Warwickshire is expected to be hit harder than in the UK as a whole.

Warwickshire Recovery and Investment Fund (WRIF): what is the rationale for it and what difference could it make?

10. Warwickshire County Council is in a relatively strong financial position. As part of the budget report in February 2020, a review of reserves was requested to consider whether there was potential to use some of these to invest in the policy objectives of the Council. This included exploring high level outline business case arguments with a clear statement of rationale, the underlying theory of change, and an indication of the scale of impacts that might be achieved.

11. The analysis completed in the first part of the study identified challenges in specific sectors and more widely in the economy. These include finance and employment, and they are particularly acute for SMEs. There is also the harm that the loss of employment will have on individuals and on the social fabric of communities. The climate of high uncertainty means

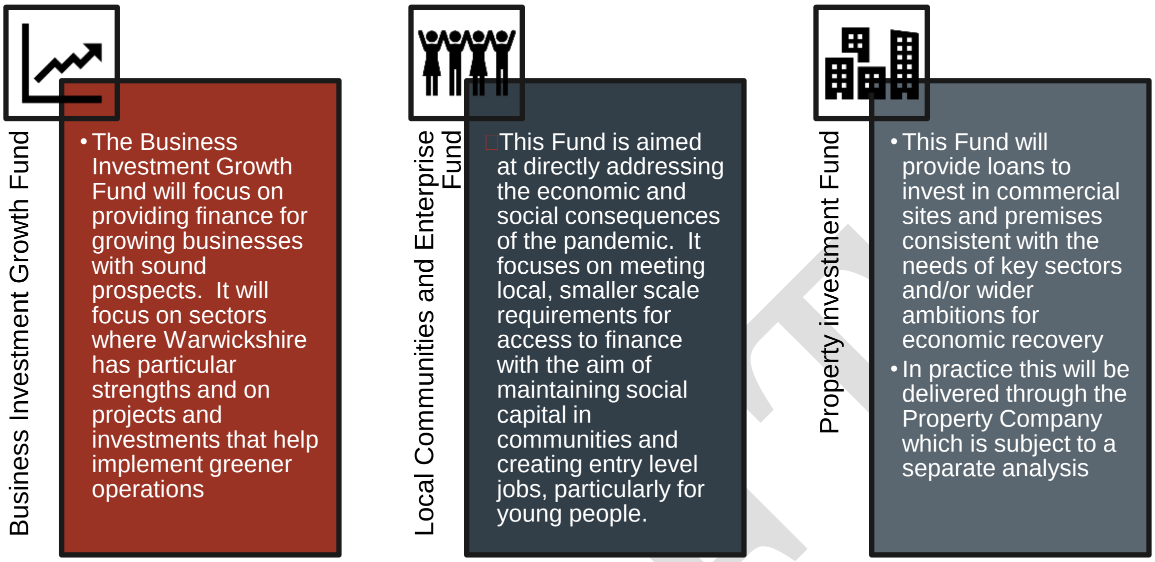
that despite a good longer-term outlook, these businesses will find it harder to access finance. There are similar issues for social enterprises and charities that face reduced incomes but growing demand for services. The WRIF can provide the funds to unlock economic potential and help to mitigate some of the effects of the recession.

12. The analysis led to a set of principles for a Warwickshire Recovery and Investment Fund. These indicated that it should:

- be developed from analysis of economy and strategic sectors
- support new and growing business with sound prospects
- support local recovery
- support new, small and medium sized businesses
- support key sectors and growth rather than weaker sectors
- support the creation of new jobs
- target higher productivity activities and skills
- support environmentally and/or economically sustainable businesses
- support social enterprises and local solutions
- deliver both short and medium-term options
- offer potential for return on investment
- target full recovery of investments.

13. In response, the WRIF could be structured under three headings as shown in Figure 1. More detailed synopses of the three Funds are provided in Table 4.

Figure 1: WRIF themes and objectives



Source: SQW

14. In terms of the differences that the WRIF could make:

- a Business Investment Growth Fund of £15 million could support around 300 jobs
- a Local Communities and Enterprise Fund would be unlikely to generate a financial return but would offer more direct support for social capital and creating entry level jobs, particularly for young people. As a result, it would have a bigger immediate impact on jobs – an indicative estimate is that a £5 million Fund could support around 200 jobs.
- a Property Investment Fund is expected to generate a steady return, although its impact will depend on the scale, type and employment density of the projects supported. This is the element most likely to generate an income that can be recycled to support the Business Investment Growth and Local Community Funds.

Next steps

15. In such an uncertain situation, the Council's role in supporting economic recovery must encompass more than an investment fund and its role is also likely to change as the scale of the challenge becomes clearer. Within this fluid context, we suggest the following next steps.

Analysis and modelling

16. The analysis has been undertaken at a highly uncertain time and the outlook will no doubt change over the next six months. WCC should revisit the conclusions as new evidence and priorities emerge.

Warwickshire Recovery and Investment Fund

17. Whilst the study has defined a rationale for the Fund, there is a need to move to more detailed design work. This will include:

- testing the potential demand for the different elements of Fund and identifying more specifically the type of funding required
- discussions with potential Fund managers (the report suggests some examples) to understand what they could offer, the potential costs and how each element of the Fund could be structured
- based on this, refine the concept and complete an appraisal of possible options, taking into account issues relating to financing models as well as the broad rationale and impacts of different types.

Table 4: Warwickshire Recovery Investment Fund outline

Name	Objective	Focus	Funding	Delivery
Business Investment Growth Fund	The Business Investment Growth Fund will focus on providing finance for growing businesses with sound prospects. It will focus on sectors where Warwickshire has strengths and on projects and investments that help implement greener operations	• The automotive supply chain and supporting its transition towards electric vehicles • Advanced manufacturing • Logistics • Investment in early stage technology businesses (specifically the digital and games sectors)	• Loans, trade funding, revenue funding, equity, convertible loan notes or other. • Support early stage business incubator/ accelerator model through property investment	• Professional fund management company • Investment fund of £15 million • Aim to maintain value • Supports around 300 jobs
Local Communities and Enterprise	Aimed at directly addressing the economic and social consequence of the pandemic. Focus on meeting local, smaller scale requirements for access to finance with the aim of maintaining social capital in communities and creating entry level jobs, particularly for young people.	• Key local businesses • Cultural assets • Social enterprises • Start-ups • Smaller town centres	• Could provide loans, revenue funding, equity, convertible loan notes and grants. • The Fund will provide (much smaller) loans, however, we also suggest blended finance that includes initial grant funding to be used to ensure the business is finance-ready.	• Consider professional management but elements could be delivered inhouse • The returns are social rather than financial, maintaining the County's key social capital assets, local businesses and arts and cultural facilities • Fund value between £1 million and £10 million
Property Investment Fund	This Fund will provide loans to invest in commercial sites and premises consistent with the needs of key sectors and/or wider ambitions for economic recovery. Details relate to the proposals for a Warwickshire Property Company	• Developers and contractors of house building • Developers of employment land • Developers of office space • Developers of operational business buildings	• The type of funding will depend on the projects and will be considered as part of the Property Company case, but is likely to be in the form of loans • Also consider the use of the Property Fund to finance an early stage incubator/ accelerator model • Use of property Fund to invest in town centres and high streets	• This is a medium-term measure • The impact will depend on the scale, type and employment density of the projects supported • This is the element most likely to generate an income that can be recycled to support the Business Investment Growth and Local Community Funds

Source: SQW

1. Introduction

The economic effects of the pandemic and wider uncertainties

1.1 The health crisis surrounding COVID19 has turned into an unprecedented economic shock. The forecasts are stark. There will be a global recession; and the UK is expected to fare worse than elsewhere (predominantly because of its sectoral structure). According to the *OECD Economic Outlook* for June 2020, under a "single-hit scenario", with no second peak, GDP could shrink by 11.5% in the UK, 11.4% in France, and 6.6% in Germany[4]. Similarly, the Bank of England's Monetary Policy Report (published 7th May 2020) estimates that UK GDP could fall by 14% in 2020 as a whole[5]. This is expected to affect substantial parts of Warwickshire's economy – retail and town centres, leisure/culture/tourism and the automotive sector in particular.

1.2 In thinking about the future, there are major risks and uncertainties. The UK government has intervened to mitigate the worst economic effects of COVID19 (e.g. through the Coronavirus Job Retention Scheme, the Self-employment Income Support Scheme, and various loan schemes for businesses). Whilst its interventions may have cushioned the immediate crisis, it is not yet clear to what extent redundancies have been *prevented* or simply *delayed*. Every situation is different; businesses' ability to survive will reflect both internal (e.g. the strength of balance sheets as lockdown started) and external factors (e.g. whether business activity is possible with prolonged social distancing).

1.3 There are also two further, more overarching, risks:

- First, the **possibility of a second peak during the autumn/winter is real**. Another period of lock-down would be very difficult: businesses would need to navigate it with already-depleted reserves; new dimensions of supply chain disruption could emerge; and public attitudes could harden.
- Amidst all of this, there is also the process of **EU transition** and the possibility that trade agreements are unsorted by the end of the year. And as noted recently by the CBI, "*the devastating impact of COVID19 and the fight for business survival has diverted management attention away from any Brexit contingency planning".*

1.4 Against this backdrop, Warwickshire has been a relatively successful economy over recent years, certainly when considered in its regional context. However, for the first time in a generation, it is now likely to see significant levels of unemployment and potentially the loss of perhaps 30,000 jobs. These are, literally, unprecedented times.

[4] http://www.oecd.org/economic-outlook
[5] The illustrative scenario is conditioned on social distancing measures and government support schemes remaining as they are until early June, before being gradually unwound by the end of Q3

Warwickshire County Council's proposals for an Investment Fund

1.5 Warwickshire County Council is in a relatively strong financial position. As part of the budget report in February 2020 a review of reserves was requested to consider whether there was potential to utilise some of these to invest in the policy objectives of the Council. This review will be taken into account in setting the Council's post pandemic five-year medium-term financial strategy with potential proposals for a Warwickshire Recovery and Investment Fund. The Cabinet meeting in June 2020 requested that work be undertaken investigating whether a fund should be set up by the Council, and potentially partners, given the economic downturn and extreme challenges business and residents would face caused primarily by the pandemic.

1.6 Given the unfolding pandemic – and also the uncertainties linked to Brexit – the Council took the view that rapid progress ought to be made with regard to the Fund. This included exploring high level outline business case arguments with a clear statement of rationale and the underlying theory of change, and some indication of the scale of impacts that might be achieved.

Purpose of this study

1.7 Against this backdrop, SQW was commissioned by Warwickshire County Council in June 2020 to consider two main issues:

- **First, the Council wanted to explore how the economy of Warwickshire might change over the next period given the effects of the pandemic and the process of EU transition**. It recognised that there are layers of uncertainty surrounding both and that any forward look needs to be scenario-based, reflective and qualitative. The purpose of the analysis was really to understand where the biggest risks (upside and downside) might be within Warwickshire, recognising that this should help to define the rationale for intervention (which will be a key element of any business case).
- **Second, the Council wanted to understand the difference it could make by using its financial strength to set up a Fund.** In this context, there was a need to consider the nature and focus of any Fund (e.g. should it be based on loans or grants or equity, and across the many facets of Warwickshire's economy, where might the greatest gains be achieved?). Drawing on experience elsewhere and, where possible, evaluation evidence, there was also a need to consider the scale of likely effects.

Structure of this report

1.8 The report that follows is divided into six substantive chapters:

- **Chapter 2** examines the *nature of the effects that a combination of COVID19/recession and EU transition could potentially have on key sectors within Warwickshire*. It draws on both national analyses and local evidence to explore key risks and vulnerabilities within the local economy

- In the light of this assessment, **Chapter 3** then develops a *quantified scenario for Warwickshire's economic future*. This is based on a spreadsheet-based model (which has been provided separately to Warwickshire County Council)
- In **Chapter 4**, we work through the implications of the quantified scenario for intervention at a local level and – in broad terms – the contribution that an Investment Fund could make
- In **Chapter 5**, we explain the rationale for an Investment Fund in more detail and the range of purposes it might serve
- In the light of this discussion, **Chapter 6** provides *outline proposals for the Investment Fund*
- Finally, in **Chapter 7**, we set out a series of next steps for Warwickshire County Council.

1.9 This study has been completed in a short space of time in early summer 2020. The situation is changing very quickly – within Warwickshire, nationally and globally – and the findings that are set out will need to be kept under review.

2. Warwickshire's key sectors, COVID19 and EU transition

2.1 Early in 2020, Warwickshire County Council developed an economic strategy for Warwickshire[6]. This outlined seven strategic priorities for economic growth in the county, and particular attention was given to four key sectors: automotive technology, advanced manufacturing, digital creative/video game development, and tourism. We think it is important to also consider logistics for the purpose of this exercise. In Warwickshire (as elsewhere), this is seen as double-edged: there is huge demand for land linked to logistics, but employment densities tend to be low and there is some concern about the quality of jobs that are sometimes generated. Nevertheless, it is a sector for which Warwickshire has significant locational assets and which is increasingly important.

2.2 Our analysis in this chapter examines each sector in turn and adopts a common structure. For each sector, we:

- consider its overall scale and make-up, identifying key local players within it
- examine wider issues linked to: skills and the labour market; knowledge assets; land and property assets; and specialist business support (including access to finance)
- review national (and sometimes international) literature and evidence on the scale of effects that are likely through the pandemic and EU transition
- draw some conclusions in terms of the probable nature of the effects that we are likely to see in Warwickshire over the next couple of years.

Automotive technology

Scale and make-up in Warwickshire

2.3 Evidence from Warwickshire County Council's *Economic Strategy* published in March 2020 suggests that Warwickshire is home to the largest concentration of automotive technology activity in the UK, directly employing over 35,000 people in the wider sub-region.[7] Evidence suggests that employment in the sector has grown relatively quickly over recent years; for example, in 2014-15, employment grew by 19.1% in Warwickshire compared to 9.9% nationally.[8]

2.4 Taken together, across Warwickshire and neighbouring Coventry, there are over 30 car and off-highway vehicle brands with R&D and manufacturing centres for leading names such as

[6] Warwickshire County Council (2020) Economic Growth Strategy 2020-25
[7] Warwickshire County Council (2020) Economic Growth Strategy 2020-25
[8] Warwickshire County Council: The strength of Warwickshire's Manufacturing of Motor Vehicle Sector (May 2017)

BMW, Jaguar Land Rover (JLR), Aston Martin Lagonda, London Electric Vehicle Company, Tata Motors and Dennis Eagle.[9]

2.5 There has been significant private sector investment in the automotive sector in Warwickshire (and nearby areas) in recent years. In March 2015, JLR announced the expansion of the company's engineering and design centre at Whitley, Coventry. This involves a doubling of the footprint at this site and allows for JLR's development of ultra-low emission technologies. In September 2015, it also announced significant investment into R&D facilities at Gaydon (near Stratford-upon-Avon) to further consolidate and expand its activities there. Following this, in January 2016 JLR announced its proposed £500m expansion plans for Whitley South, including the co-location of top level JLR suppliers alongside a business park and hotel development. JLR is also a partner in the National Automotive Innovation Centre (see below).[10]

2.6 Uniquely in the UK, it is possible – through the local supply chain – to design, engineer, test, manufacture and market vehicles all in one location.[11] In 2015, it is estimated that 3,000 people were employed in the manufacture of parts and accessories for motor vehicles in Warwickshire.[12]

Wider dimensions of the automotive technology sector in Warwickshire

2.7 Alongside these high-profile businesses – many of which have established their R&D activities locally – and their supply chains, Warwickshire has seen substantial investment in **related knowledge-intensive activity**. This has built on long-established strengths, notably the depth of excellence at the University of Warwick and, particularly, through Warwick Manufacturing Group. It has created a local ecosystem that is very distinctive. Key elements of it include the following:

- The *National Automotive Innovation Centre (NAIC),* located at the University of Warwick, is a public/private initiative that brings together academics, students and industry to create and develop novel technologies to reduce dependency on fossil fuels and to reduce CO2 emissions. Some £150 million is being invested in the NAIC and its research activities through a long-term commitment between Jaguar Land Rover, Tata Motors European Technical Centre, WMG and the University, along with an expanding network of supplier companies. The UK government (through Higher Education Funding Council England) also provided £15 million of funding to support the capital project.[13]
- In November 2017, it was announced that the consortium of Coventry City Council, Coventry and Warwickshire Local Enterprise Partnership, and WMG, at the University of

[9] Warwickshire County Council (2017) Electric Vehicle Charging Infrastructure Strategy 2017-2026
[10] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[11] Warwickshire County Council (2020) Economic Growth Strategy 2020-25
[12] Warwickshire County Council: The strength of Warwickshire's Manufacturing of Motor Vehicle Sector (May 2017)
[13] https://warwick.ac.uk/services/estates/developments/naic/

Warwick, had been awarded £80 million to establish a new national facility for battery manufacturing development. The *UK Battery Industrialisation Centre (UKBIC)* is part of the UK Government's Faraday Battery Challenge. It will enable the development of the next generation of battery systems across battery chemistry, electrodes, cell, module and pack levels. It will provide opportunities for partnership between industry and academia, delivering on the Government's Industrial Strategy.[14]

- Warwickshire is a location for testbeds for autonomous vehicles such as the *"Midlands Future Mobility"* project which is trialling connected vehicle technology, infrastructure and services in real-life conditions on roads in Coventry and Warwickshire.[15]

2.8 In part as a result of the levels of investment, **specialist property schemes** have also emerged. One example is *Ansty Technology Park*. This was chosen by Geely as the new £320m UK home for its London Taxi business, including HQ, R&D and manufacturing facilities to produce up to 38,000 TX5 taxis and commercial vehicles, and take the workforce from 100 to 1000. The new vehicle plant opened in March 2017 and is the first purpose-built factory to produce hybrid vehicles in the UK.

2.9 Nearby (in Hinckley and Bosworth, although still of local relevance), *MIRA Technology Park* is a transport-focused R&D enterprise zone. The Technology Park opened in 2010. It has a significant number of high value test facilities, including test tracks and 40 laboratories all on the same site, with a large expert team of 350 researchers. The owner, Horiba MIRA, has an option to buy 42 acres in North Warwickshire, opposite the existing research site to create a "Southern Manufacturing Sector", to accommodate manufacturing operations that require proximity to the research function.[16]

2.10 Over recent years, the pool of **specialist labour and skills** in the local area has deepened considerably. The University of Warwick is a major and well-established part of this. Looking ahead, the MIRA Technology Institute will teach 2,000 students per year. Located on the MIRA Technology Park, there are three university partners and one College partner delivering degrees, apprenticeships, and degree apprenticeships. The Institute will also provide short courses for people in mid-career.[17]

National analyses of COVID19 and wider impacts

2.11 The Society of Motor Manufacturers and Traders (SMMT) published a report early in 2020 which suggested that the automotive sector exports more goods than any other sector and supports some 168,000 high-skilled and high-paid manufacturing jobs across the UK. However, COVID19 is identified as posing many risks to the automotive technology sector.

[14] https://www.ukbic.co.uk/about/
[15] Warwickshire County Council (2020) Economic Growth Strategy 2020-25
[16] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[17] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)

The sector is facing a sharp drop in demand and investment. It is also struggling with an abrupt and widespread slowdown of economic activity, as workers are told to stay at home, supply chains grind to a halt and factories close.[18] Companies in the sector may be forced to divert capital to support continuing operations, reducing R&D funding for advanced technology initiatives and other discretionary projects. Strategic decisions to exit unprofitable global markets and vehicle segments may be accelerated, significantly decreasing manufacturing capacity.[19]

2.12 A survey from SMMT conducted in 2020 revealed that up to one in six jobs are at risk of redundancy. More than 6,000 UK automotive job cuts were announced in June 2020 as result of global lockdowns, closed markets and shuttered plants. Furthermore, whilst showrooms have gradually re-opened and production lines restarted, productivity is declining as a result of reduced demand and the consequences of social distancing within car plants.[20]

2.13 SMMT reports that the pending jobs crisis from COVID19 is compounded by the prospect of a 'bare bones' or no-deal Brexit. In the UK, the impact of the pandemic on manufacturing is expected to cut annual car and light commercial vehicle production volumes by a third to 920,000 units this year. With an ambitious, tariff-free FTA in place, full recovery is expected to take up to five years, with output reaching pre-crisis levels of 1.35 million units by 2025.[21] However, a 'no deal' scenario would severely damage these prospects and could see volumes falling below 850,000 by 2025 – the lowest level since 1953. This would mean a £40 billion cut in revenues, on top of the £33.5 billion cost of COVID19 production losses over the period.[22] Conversely, certainty that a full, zero-tariff deal will be in place by the end of the transition period would give businesses on both sides the chance to prepare, and help drive investment into the new skills, facilities and technologies that will be integral to delivering a zero-carbon future for the UK.[23]

Conclusions

2.14 Evidence from various sources suggest there is a genuine cluster of automotive businesses and R&D assets in Warwickshire. In recent years, the area appears to have benefitted from private and public sector investment. This has steered the cluster into R&D and innovation. Warwickshire (with Coventry) is well placed with respect to the development of low carbon vehicles; connected and autonomous vehicles and future transportation systems; digital technology (including gaming, augmented reality and virtual reality); and smart & connected factories/automation.

---

[18] International Labour Organisation: COVID19 and the automotive industry (May 2020)
[19] Deloitte: Understanding COVID19's impact on the automotive sector (March 2020)
[20] SMMT: UK Auto calls for restart support as COVID19 crisis threatens one in six jobs (June 2020)
[21] SMMT UK Automotive Trade in a post-Covid World report – Independent outlook by Auto Analysis – 1.35 million units under a best case 'model boost' scenario
[22] SMMT UK Automotive Trade in a post-Covid World report – Auto Analysis calculations
[23] SMMT: UK Auto calls for restart support as COVID19 crisis threatens one in six jobs (June 2020)

2.15 COVID19 is clearly having a major impact, and the automotive sector in general has been one of the worst affected. However, a review of the literature suggests that bigger effects over the longer term are likely to result from (a) longer term trends towards greener technologies, with a high emphasis on battery-powered cars and away from fossil fuels; and (b) the as yet unknown nature of the EU Transition. For Warwickshire, the immediate effects of COVID19 need to be addressed within this longer-term context.

2.16 From the evidence we have been able to review, the inferences for Warwickshire are quite complex:

- In the medium term, there ought to continue to be an opportunity for Warwickshire (and the West Midlands) to be a centre of excellence in relation to the future of mobility, although it must be recognised that this transition will be one for the whole supply chain, not just the prime contractors. A key question for Warwickshire County Council (and CWLEP) is the extent to which the wider supply chain is equipped to respond.
- Leading names such as BMW, Jaguar Land Rover (JLR), London Electric Vehicle Company, and Tata Motors are R&D focused. However, national evidence suggests that investment in R&D will fall as a result of COVID19 which may well present a short-medium term threat. The 'shape' of the impact may be different from that in areas where the focus is exclusively manufacturing (i.e. the effects will materialise as decisions about R&D priorities are made, and these will need to take some account of the process of Brexit).
- Prior to the pandemic, a lack of appropriate employment land and premises had been identified as a concern. In 2019, it was estimated that although B2 / B8 floorspace availability had increased across the LEP area (with the exception of Nuneaton & Bedworth), overall the existing supply provided for about 2.25 years at the then-current rate of demand.[24] Given the new circumstances, this timescale will have been extended, but there is likely still to be an issue in the medium term
- In the automotive sector, the automation of activities/occupations had started to take effect prior to the pandemic (with artificial intelligence and robotics able to effectively replicate many tasks).[25] It seems probable that this process will accelerate. A labour market response – through the retraining of existing staff and new/different opportunities for younger people – will therefore be important.

[24] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[25] Warwickshire Careers Strategy (2019/20 - 2024/25) Consultation Draft

Advanced manufacturing

Scale and make-up in Warwickshire

2.17 While there are various similarities between automotive technologies and advanced manufacturing, for the purpose of this analysis, advanced manufacturing refers principally to 'other' forms of manufacturing, most especially aerospace, but also rail technology. Warwickshire (with Coventry) is home to many world leading companies such as Rolls Royce, Lisi Aerospace, Ricardo, Meggitt, Nasmyth, Arrowsmith, JJ Churchill and Powerkut.[26]

2.18 Data from Warwickshire County Council suggest the region is home to over one-quarter of the UK aerospace industry with over 45,000 full-time-equivalent jobs. In total, around 300 specialist companies contribute to global aerospace through the region's supply chain.[27]

Wider dimensions of the advanced manufacturing sector in Warwickshire

2.19 Linked in part to the narrative surrounding automotive technology, Coventry & Warwickshire has access to a world-class **research and development, and innovation infrastructure** for advanced manufacturing. Well established elements include Coventry University, the University of Warwick, the Manufacturing Technology Centre (MTC) and Horiba-MIRA. [28] In addition, Coventry and Warwickshire LEP has used Local Growth funding to support the R&D in advanced manufacturing sector. Investments include:

- £7 million to develop the National Transport Design Centre (NTDC) at Coventry University Technology Park. Opened May 2017, the NTDC is a state-of-the-art facility, operating within the University's Centre for Future Transport and Cities. The Centre is designed to explore new areas of transport design research and find new ways to use existing equipment, as well as creating new technologies.
- £1 million to create a new centre to deliver R&D activities developing new steel products that will service key sectors such as automotive, aerospace, rail, defence and energy. This project will operate in close collaboration with WMG's Academy for Young Engineers. Activities will develop products to supply flagship businesses across a range of key economic sectors.
- £1.3 million to support the construction of a new 1,672 m2 centre as an extension to the Engineering Centre at the Trident College. The Centre provides training opportunities for Manufacturing, Mechanical, Electrical/ Electronic, Automotive and Product Creation

[26] https://www.warwickshire.gov.uk/setting-moving-business-warwickshire/advanced-manufacturing-aerospace/2
[27] https://www.warwickshire.gov.uk/setting-moving-business-warwickshire/advanced-manufacturing-aerospace/2
[28] Coventry and Warwickshire LEP (2016) Updated Strategic Economic Plan

sectors. The Centre opened in December 2016 and has already supported 2077 apprentices.[29]

2.20 In relation to **specialist land and property,** Ansty Technology Park is at the forefront of innovation and job creation in the area. The site initially attracted the Manufacturing Technology Centre, an R&D centre for aerospace engineering. This expanded after 2010 to include the High Temperature Research Centre and an Advanced Engineering Centre for Rolls Royce. Most recently, the Advanced Manufacturing Training Centre, a new skills centre for advanced manufacturing, was sponsored by Lloyds Bank for 10 years, covering its operational costs. Fanuc, the Japanese robot manufacturer, announced in 2016 that it will be moving its European HQ to Ansty. AVL, the Austrian powertrain supplier and major JLR tier 1 supplier, has also identified a site at Ansty.[30]

2.21 In 2018, Aviva Investors' Lime Property fund bought a £73.4m "super site" pre-let to aerospace engineering group Meggitt. The site provides a 490,000 sq ft development, at Prospero, Ansty (within Rugby Borough), let to Meggitt on a 30-year lease. The industrial park will be purpose-built for aerospace thermal management technology.[31]

2.22 Nearby, MIRA Technology Park is seeking to become the leading auto engineering campus in Europe. It is already home to R&D facilities for Bentley, Bosch, Ashok Leyland (India), Changan (China), Haldex (Sweden), Lockheed Martin and Lightning Hybrids (US) and Toyota and Sanoh (Japan).[32]

2.23 Based near Stratford-upon-Avon, the Quinton Rail Technology Centre (QRTC) is an important asset in regard to rail technology and innovation in Warwickshire. The site is recognised as one of four Testing Centres of Excellence (the others are owned by Network Rail and Transport for London).[33] The QRTC connects to the national network via the Worcester to London line and features engineering workshops, 20km of secure storage, 2.4km rail test track and a cluster of rail specialists. The facilities are used for impact testing, product approval, product development, trade events and training.[34] The site also hosts Europe's largest outdoor railway show, Rail Live, which showcases products and services for the rail sector.[35]

[29] https://www.cwlep.com/project/trident-centre-leamington-spa#:~:text=Officially%20opened%20on%20Friday%2011,automotive%20and%20product%20creation%20sectors.
[30] Warwickshire County Council (2017) Rugby Economic Overview
[31] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[32] Warwickshire County Council 2017 Nuneaton Economic Overview
[33] https://www.businessinnovationmag.co.uk/qrtc-is-the-only-privately-owned-and-independent-rail-testing-and-trialling-site-in-the-uk/
[34] Warwickshire County Council https://www.warwickshire.gov.uk/business-support/rail-innovation-coventry-warwickshire/2
[35] https://www.businessinnovationmag.co.uk/qrtc-is-the-only-privately-owned-and-independent-rail-testing-and-trialling-site-in-the-uk/

2.24 As the evidence above suggests, the area has witnessed growth in the demand for employment land, particularly in advanced manufacturing. Stakeholders consulted in 2018 as part of the Coventry & Warwickshire Sub-Regional Employment Market Signals Study were of the view that manufacturing is limited by the lack of appropriate employment land and premises, and there was a consensus that there is a repatriation of advanced manufacturing activity in the area (as a result of higher transport costs and quality control issues) generating strong demand for suitable land and premises. There is a need to address the low stock and immediate pipeline of employment land, particularly in Coventry and Nuneaton & Bedworth, where job densities are low.[36]

2.25 From the evidence we have been able to review, it is difficult to draw conclusions in relation to **skills and labour market** issues. However as with automotive technology, the depth of relevant skills is a feature of the local area – albeit there will be a need to update and refresh these as broader processes (e.g. automation) work through.

National analyses of COVID19 and wider impacts

2.26 The impact of the COVID19 outbreak on the UK manufacturing sector is expected to be fairly mixed. Businesses that make essential products (e.g. food, drink, and pharmaceuticals) have seen strong demand throughout the outbreak.[37] However, non-essential manufacturing is expected to fall. For example, aviation companies are experiencing disruption in production and slowing demand. As a result, customers are deferring delivery of new aircraft. Demand for spare parts is also down since less maintenance is currently required.[38]

2.27 COVID19 has demonstrated the double-edged sword that global supply chains can represent for manufacturers. While they can enable just-in-time production, they can also be highly intricate, leaving little room for resilience in the face of critical disruptions such as those caused by COVID19.[39]

2.28 In addition, the advanced manufacturing sector – like automotive – will be shaped by the arrangements that are agreed in relation to EU Transition.

Conclusions

2.29 Looking ahead, there is a mix of opportunities and threats for Warwickshire's advanced manufacturing sector

- Warwickshire's advanced manufacturing businesses are at the "knowledge-intensive" end of the spectrum and might therefore perform a little better than the UK average.

[36] Coventry and Warwickshire LEP (2016) Updated Strategic Economic Plan
[37] The University of Edinburgh Careers Service: Thriving? Surviving? COVID19 impact on industry sectors (April 2020)
[38] Deloitte: COVID19's impact on the aerospace and defence sector (April 2020)
[39] Marsh: COVID19: The Impact on the Manufacturing Industry (May 2020)

However, Warwickshire's companies are likely to experience loss in revenue due to dampened demand and disruption to supply chains.

- It is possible that parts of the sector might have found (or could find) new opportunities as they have pivoted in response to the COVID19 crisis; in practice, businesses within the supply chain might be expected to be more agile than the primes, which are facing major structural challenges
- As with automotive, the lack of appropriate employment land and premises has been identified as a concern – although the crisis has reduced the immediate pressure
- Automation of activities and occupations is likely to be particularly acute in advanced manufacturing. The number of routine jobs in the sector may well decline – suggesting a need for upskilling (to work in more knowledge intensive jobs in the sector) or re-skilling (to work in other sectors)
- COVID19 has imposed tighter restrictions on working conditions in relation to social distancing, working from home etc. This may speed up the rate at which companies are investing in automation processes. Automation combined with a slump in demand for products suggest that unemployment seems more possible.
- There are various interdependencies between automotive technologies and advanced manufacturing that are likely to strengthen the cluster. For example, it is possible that both sectors share a similar supply chain particularly in relation to sourcing raw materials and parts. National evidence suggests that COVID19 has forced businesses to nationalise their supply chain, as a result, there may be an opportunity for businesses in Warwickshire to absorb new demand.

Digital creative/video game development

Scale and make-up in Warwickshire

2.30 Warwickshire is home to one of the UK's strongest clusters of video games companies. Data from Warwickshire County Council's Economic Strategy published in 2020 suggest that "Silicon Spa" – the area in and around Leamington Spa – has over 80 studios and 8,000 people employed in 'computer programming, consultancy and related activities', and many more in the wider, thriving digital creative sector.[40] The cluster is home to established names such as Codemasters, Exient, SEGA Hardlight, Full Fat and Freestyle Games.[41]

[40] Warwickshire County Council (2020) Economic Growth Strategy 2020-25
[41] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)

Wider dimensions of the digital creative/video game development sector in Warwickshire

2.31 While there appears to be a genuine cluster of video games companies in Warwickshire, it is thought that the scale of the sector is frequently not recognised. It is important that continued investment takes place to enable new studios to set up and retain the area's competitive advantage in this sector by growing this cluster.[42] The West Midlands is well placed to take advantage of the global growth in creative content, techniques and technologies. The West Midlands Local Industrial Strategy commits to maximising the opportunities arising from the Department of International Trade's High Potential Opportunities scheme within the gaming sector in Leamington Spa.[43]

2.32 Stakeholder and business consultations conducted as part of a report to the Arts and Humanities Research Council[44] in 2018 identified two key sub-clusters within the Leamington Spa Travel to Work Area (TTWA) – one being a digital and gaming cluster around Royal Leamington Spa, Warwick and Southam; and the other being a cultural and performing arts cluster around Stratford-upon-Avon. The gaming cluster was seen as being quite technology-focused, whereas the cluster around Stratford was seen to be much broader encompassing theatre, performing and visual arts, museums and galleries, music, advertising and film. Consultees also thought that the University of Warwick and Coventry University had important roles within the digital and creative industries in Leamington Spa TTWA. Both universities are part of the TechCentral network, which brings together firms in, or interested in, the technology sector in Coventry and Warwickshire and both are involved in research and development work related to the creative industries. Furthermore, both universities act as key sources of skilled people for the sector.

2.33 Specific to the area is "Creative Warwickshire", a programme which aims to support businesses in the digital and creative sectors through individual mentoring, masterclasses and networking.[45] Evidence from the Creative Industries Clusters Programme Innovation and Economic Development report suggest that while networks within the creative clusters are organic and informal, Warwickshire County Council (WCC) has been working to formalise them.

2.34 CWLEP's Updated Strategic Economic Plan states that the gaming industry is a relatively new industry and as a result public funding for the sector is still poorly understood, coordinated and designed and 'this inhibits further investment, growth and exports in one of the UK's fastest growing export sectors.'[46] A report written jointly by BOP Consulting, Ukie and CWLEP, talks about the structural barriers to investment in the gaming industry and these include

[42] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[43] West Midlands Combined Authority (May 2019) West Midlands Local Industrial Strategy
[44] Belmana and SQW (June 2018) Arts and Humanities Research Council, Creative Industries Clusters Programme, Work Package 5 (WP5): Innovation and economic development
[45] Warwickshire County Council (2017) Warwick Economic Overview
[46] CWLEP, 'Updated Strategic Economic Plan', August 2016

'exaggerated perception of risk, based on inadequate data', 'dependence on heavy handed methods to protect IP', 'project-based funding limiting scope for development of secondary markets' and the lack of connectivity to investors for businesses outside of London.[47]

2.35 Evidence from the Creative Industries Clusters Programme Innovation and Economic Development report found that the wider innovation ecosystem in and around the Leamington Spa allows for collaboration between the digital and gaming sector and other sectors. For example, many advanced manufacturing companies – such as JLR – make use of AR and VR, in applications which allow them to develop and test new power trains, new control technologies, safety features and whole new products without having to cast a single metal object.[48]

2.36 The CSW Broadband project has been important for providing essential infrastructure to support the digital creative/video game development sector. Superfast broadband coverage in Warwickshire has improved with the assistance of the CSW Broadband project, and commercial rollout. However, several locations are still to be upgraded.

National analyses of COVID19 and wider impacts

2.37 The effects of COVID19 are having a significant impact on the technology sector, affecting raw materials supply, disrupting the electronics value chain, and causing an inflationary risk on products.[49] Multiple gaming companies have announced delays and interruptions to production as a result of COVID19. Furthermore, many conferences and meet ups have also been cancelled due to the outbreak of virus.[50] These events are important for generating new ideas and innovation.

2.38 However, there is also evidence to suggest that the video game industry has seen an increase in demand since the outbreak of the pandemic. The restrictions put in place to limit the spread of COVID19 forced people to stay at home and search for new forms of entertainment. As a result, user engagement with video games has increased. This is supported by data published by Statista[51] which report that from March 16 to March 22like-for-like game sales increased by 44 percent.

---

[47] BOP Consulting, Ukie & CWLEP, 'Games Industry in Coventry and Warwickshire: A Blueprint for Growth', February 2017, pg.17. cited in Belmana and SQW (June 2018) Arts and Humanities Research Council, Creative Industries Clusters Programme, Work Package 5 (WP5): Innovation and economic development

[48] BOP Consulting, Ukie, CWLEP, 'Games Industry in Coventry and Warwickshire: A Blueprint for Growth', February 2017, pg.24 cited in Belmana and SQW (June 2018) Arts and Humanities Research Council, Creative Industries Clusters Programme, Work Package 5 (WP5): Innovation and economic development

[49] Deloitte: Understanding COVID19's impact on the technology sector (March 2020)

[50] Digital Trends: Coronavirus: The ongoing ripple effect throughout the gaming industry (March 2020)

[51] https://www.statista.com/statistics/1109977/video-game-sales-covid/

2.39 Furthermore, the gaming industry might be less effected by the tighter restrictions on working conditions as businesses are more able to adapt to home working.

Conclusions

2.40 Local evidence suggests that there a significant concentration of video game companies in Warwickshire, particularly around Leamington Spa. The sector is supported by the University of Warwick and Coventry University both in terms of their research and development work related to the creative industries but also the role they have ensuring there is a stream of skilled people entering the labour market. There appears to be a healthy ecosystem of networks supporting those working in or interested in the creative industries. It is thought that the scale of the sector is not recognised nationally and internationally. One reason for this might be that it has been historically difficult to distinguish the video game development subsector from digital more generally. There also appears to be issues in relation to access to finance, namely that existing routes to funding are not suitable for businesses operating in the digital creative/video game development sector. The opportunities and risks faced by the sector post-COVID19 are summarised below.

- The "slightly alternative" ethos that is found – and the high incidence of free-lancers – may well mean that the sector is more resilient locally than it is nationally
- It is likely the sector has seen an increase in home working as a result of COVID19.
- Evidence suggests that there is a need to promote the sector more successfully to attract investment. This has been committed through the Department of International Trade's High Potential Opportunities scheme.
- According to Microsoft, in the next two decades, 90% of jobs will require some form of digital skills, and without further action to significantly increase understanding of programming, the skills gap is likely to continue to increase significantly. This issue is likely to be particularly acute in and around Leamington Spa.[52]

Tourism

Scale and make-up in Warwickshire

2.41 There were nearly 16,806,000 visits to Warwickshire in 2018 – up by 6% since 2009 – and the average spend per visit has increased by 82% over the same period. Tourism is worth over £1 billion to the local economy and it employs over 20,000 people – approximately 6% of all employment in Warwickshire.[53]

[52] Warwickshire Careers Strategy (2019/20 - 2024/25) Consultation Draft
[53] Warwickshire County Council (2020) Economic Growth Strategy 2020-25

2.42 Data from Coventry and Warwickshire LEP's Updated Strategic Economic Plan published in 2016, report that 40,000 people are employed in culture and tourism across the LEP area. The total business turnover generated in Warwickshire as a result of tourism is estimated to be just under £1 billion, supporting 17,228 jobs.[54]

Wider dimensions of the tourism sector in Warwickshire

2.43 Tourism is one of the key drivers of economic growth to the South Warwickshire economy and surrounding areas. Coventry city centre contains a number of high-profile and internationally renowned visitor attractions such as the Cathedral, Transport Museum and Herbert Art Gallery & Museum while Nuneaton is the birthplace of the writer George Eliot and Rugby (where the sport of Rugby Football originated) also both offer stronger tourism potential than is currently being fulfilled.

2.44 Warwickshire is well-placed to take advantage of major forthcoming cultural events in neighbouring cities - Coventry City of Culture 2021 and Birmingham Commonwealth Games 2022.[55] Warwickshire County Council has invested £1 million into the former and has a place on the board of the Coventry City of Culture Trust, an independent charity set up to manage the process.[56]

National analyses of COVID19 and wider impacts

2.45 Since mid-March, COVID19 has triggered a near-total shutdown in international tourism to/from the UK. VisitBritain's central scenario for inbound tourism to the UK in 2020, as of June 3rd, is for a decline of 59% in visits to 16.8m and 63% in spend to £10.6bn. The pre-COVID forecast was for 25.3m visits and £19.7bn spend.[57]

2.46 The model assumes international travel will resume from July although will be initially at a low level. Tourism numbers are forecast to gradually rise throughout the remainder of 2020 although are still very likely to be well below normal levels by the end of the year.[58]

2.47 VisitBritain has forecast a central scenario for England of £39.2bn in domestic tourism spending in 2020, down 48% compared to 2019 (when spending by domestic tourists in England was £75.9bn). This comprises £10.0bn from overnight tourism, down from £19.5bn in 2019, and £29.1bn from day trips, down from £56.5bn in 2019.[59]

---

[54] A Destination Management Plan For Shakespeare's England Region 2015 – 2025
[55] Warwickshire County Council (January 2020) Heritage & Culture Strategy 2020—2025
[56] Warwickshire County Council (January 2020) Heritage & Culture Strategy 2020—2025
[57] VisitBritain's 2020 tourism forecasts (last updated June 3rd 2020)
[58] VisitBritain's 2020 tourism forecasts (last updated June 3rd 2020)
[59] VisitBritain's 2020 tourism forecasts (last updated June 3rd 2020)

2.48 This represents a decline of 48% for both overnight and leisure day trips, although the pattern of the recovery will be different. While some categories of day trips have started to recover first, others will be very limited for some months to come.[60]

Conclusions

2.49 Tourism is an important sector for Warwickshire, particularly in the south of the county and in rural areas. Warwickshire is a popular location for day visits and overnight trips, though the latter appear to be less popular. National evidence from VisitBritain suggest that that the UK tourism sector will be significantly impacted by COVID19. While tourism numbers are rising following the easing of lockdown restrictions, the lengthy lockdown from March to July has meant that may hospitality businesses and their supply chain have faced months without generating revenue, thus depleting any reserves they may have had. Warwickshire may benefit from increased levels of domestic tourism as travel abroad becomes less readily available. As a result, the sector may play a key role in reinvigorating the local economy once the crisis is over. However, there is still some uncertainty over a second peak and the threat of local lockdowns. It is likely that businesses operating in the tourism sector will need help navigating this period of uncertainty.

2.50 The following opportunities and threats have been identified for the tourism sector:

- There are some concerns regarding low skill, low paid nature of employment in the tourist industry.
- It is possible that Brexit may cause recruitment issues as many hospitality businesses are reliant on European employees, particularly seasonal employees.
- The sector is likely to benefit from automation. However, evidence suggests that automation is likely to disproportionately affect those in low paid customer service roles. It is vital that these people are reskilled and supported to move into new careers.
- Evidence suggests that day trips are more popular than overnight trips. Warwickshire County Council are committed to encouraging more overnight stays.
- Domestic tourism will be much faster to recover than international or business travel. North Warwickshire is popular for business travel so is more likely to be affected by the interruption to business travel.

Logistics

Scale and make-up in Warwickshire

[60] VisitBritain's 2020 tourism forecasts (last updated June 3rd 2020)

2.51 Warwickshire is well located on the strategic transport network, making the county very accessible. The area benefits from the "Golden Triangle" motorway network (M6/M1/M42), A5 corridor and London's "Magic Circle"; where local businesses and residents can reach the City of London within an hour via rail. Furthermore, linkages to the ports, and the ability to access northern Europe make this an attractive location for logistics businesses.[61]

2.52 Logistics is a significant sector in the sub-region, as shown in the prevalence of transport and storage in the county of Warwickshire and the more northerly districts of North Warwickshire, Nuneaton and Bedworth, and Rugby.[62]

Wider dimensions of the logistics sector in Warwickshire

2.53 Nationally demand in the industrial and distribution sector has been strong with increasing demand and reducing supply, which has inevitably led to increasing rental levels. Overall take-up of B2 / B8 space across the Coventry and Warwickshire LEP area has averaged approximately 5 million sq ft over the last 3 years. The Coventry and Warwickshire Gateway site is identified as the priority employment site for the delivery of the LEP's economic plan. When fully developed, the site has the potential to accommodate around 10,000 jobs by 2030 and 408,000 sq m of B1, B2 and B8 floorspace.[63]

2.54 There is a somewhat negative perception of the quality of jobs in the logistics sector. Qualifications in the sector tend to be low and is reflected in the number of workers employed in level 1 jobs. The sector is at the forefront of automation, low skilled employees in the logistics sector are more likely to be impacted by automation. Of the 25,000 people who are employed in this sector in Warwickshire, 17,000 are in jobs that have a very high probability of being automated. Automation could lead to future employment issues.[64]

National analyses of COVID19 and wider impacts

2.55 Online retail is likely to drive a number of different needs over the next 10+ years in the logistics sector. The significant growth in home delivery for superstores and multimodal logistics (train, rail and air) means that there is currently even more demand for local delivery hubs, and this will inevitably mean that well connected places will continue to be an important resource for businesses and the future economy. Furthermore, changes in 'last-mile' logistics will place increased demand for smaller, localised distribution centres either on the periphery of towns and cities or located within urban areas.[65] Evidence suggests that COVID19 has

---

[61] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[62] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[63] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)
[64] Warwickshire County Council (2017) North Warwickshire Economic Overview Summary
[65] BBP Regeneration (July 2019) Coventry & Warwickshire Sub-Regional Employment Market Signals Study (Based on Data Summer / Autumn 2018)

encouraged customers to move to online shopping more quickly. Online sales accounted for 18% of all retail sales in 2018 and that is projected to increase to 28% by 2024.[66]

2.56 It is thought that "just in case" logistics will replace "just in time" as a greater level of contingency becomes the new norm in logistics planning. This will lead to increased demand in larger warehouses as inventory in warehouses increased. Furthermore, a number of businesses have expressed the need to bring some element of their manufacturing back "onshore", thus accelerating the decline of the global supply chain. This would have the added benefit of having goods travelling less air miles, reducing their carbon footprint and improving sustainability goals whilst boosting demand for the sector.[67]

2.57 Government restrictions such as social distancing and working from home may result in businesses increasing automation to build in resilience. This also has the benefit of speeding up supply (driven by consumers) and allowing larger distribution centres to be used more intensively.[68]

Conclusions

2.58 Warwickshire benefits from its proximity to the strategic transport network, it is easily accessible by road and rail, it has linkages to ports, and the ability to access northern Europe. As a result, Warwickshire is an attractive location for logistics businesses. Logistics was not identified as a priority sector in Warwickshire County Council's Economic Strategy. The reason for this is that the Council has concerns about the low employment densities and quality of jobs linked to the sector. This might explain the lack of local evidence relating to the labour market; knowledge assets; and specialist business support. The opportunities and threats arising from COVID19 are summarised below.

- Opportunity to move to greener technologies in logistics and test new business models in relation to last mile delivery.
- There are concerns about the low value of this sector, the continued need to reduce costs and increase productivity has meant the introduction of technology and higher skills, albeit that employment density can be relatively low.
- COVID19 has sped up the adoption of automation due to the costs associated with ensuring employee safety in relation to COVID19. This may result in unemployment as workers are replaced by robots.
- COVID19 has accelerated the move towards online retail which provides opportunities across the sector. It may also change the nature of employment space required by logistics businesses.

---

[66] Knight Frank cited in Montagu Evans: Impact of COVID19 on Industrial and Logistics (April 2020)
[67] Montagu Evans: Impact of COVID19 on Industrial and Logistics (April 2020)
[68] Montagu Evans: Impact of COVID19 on Industrial and Logistics (April 2020)

- Supply chains might be problematic - international logistics have been severely compromised due to COVID19. There might be opportunities arising from businesses looking to nationalise their supply chain.
- Brexit is likely to have several impacts on the Logistics sector. The additional administration needed for customs clearance will increase the need for office accommodation associated with logistics sites. Slower customs clearances mean that businesses which currently operate on a just-in-time basis, with European suppliers, will need additional warehousing and storage space as they will need to stockpile some supplies. In the short-term at least, the view has been expressed that Brexit is dampening investment in the Automotive sector in Coventry and Warwickshire, because of the uncertainty about future trade between the UK and Europe.

3. Economic projections for Warwickshire

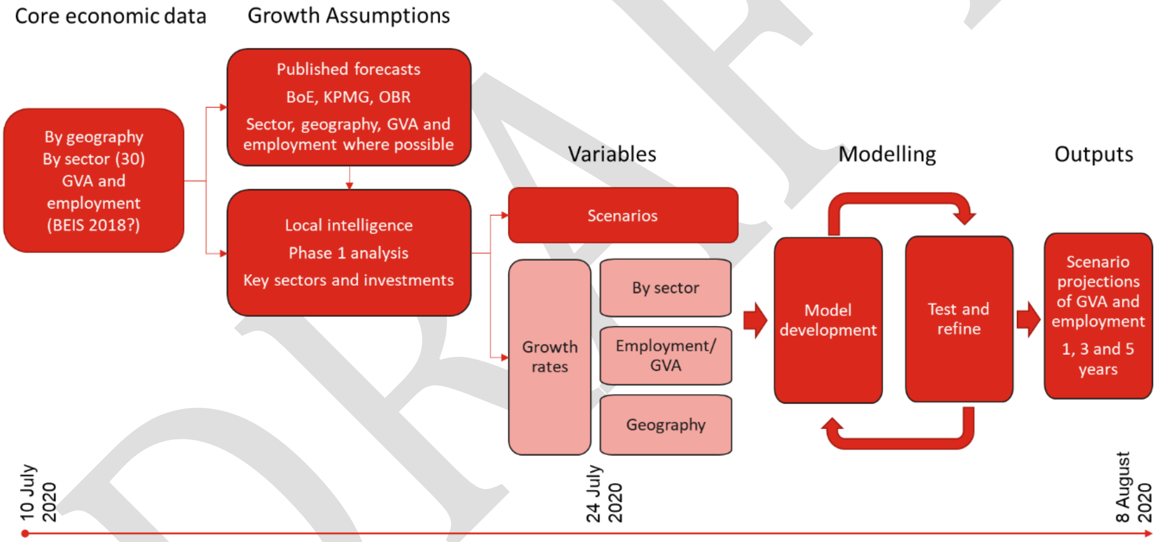
3.1 This section provides an up to date assessment of the Warwickshire economy based on a model that applies national economic forecasts to Warwickshire data. It allows a set of projections to be built up, by sector and across the County. While the approach has limitations, the aim is to provide more clarity on the scale of the coronavirus pandemic and the associated restrictions and analysis of the sectors that are likely to be most affected.

3.2 A separate spreadsheet model has been provided to WCC, which can be updated as new information becomes available.

Developing the model

3.3 Figure 3-1 shows the process of developing the projections.

Figure 3-1: Developing economic projections



Source: SQW

Core economic data

3.4 The model has been built using WCC's economic data drawn from earlier estimates produced by Cambridge Econometrics (CE). This provides employment and GVA data from 2010 to 2019. It gives a long-term trend and sets a baseline for the new model. The CE data is disaggregated into 44 sectors.

Growth assumptions

3.5 To develop estimates of how each of the sectors in the economy is likely to be affected, we have reviewed a wide range of economic forecasts and the most recent monthly GDP data from the Office of National Statistics (ONS).

3.6 The forecasts reviewed include the HM Treasury (which is an average of 21 forecasts, all of which were received between July 1st and July 13th 2020), Office for Budget Responsibility (OBR), Bank of England, KPMG and Greater London Economics. These forecasts were mainly limited to 2020 and 2021 (although the OBR forecast goes out to 2024). Links to each are referenced in the footnotes.

Table 3-1: Range of UK economic forecasts May – July 2020

Sources	Date	2020	2021	2022	2023	2024
Bank of England MPR[69]	Aug-20	-9.5%	9.0%	3.5%	1.9%	
HM Treasury average of forecasts[70]	Jul-20	-9.1%	6.6%			
KPMG[71]	May-20	-7.2%	2.8%			
Greater London Authority[72]	Jun-20	-16.8%	17.2%	4.5%		
OBR[73]	Jul-20	-12.4%	8.7%	4.5%	2.1%	1.9%
SQW Warwickshire based on KPMG sectors		-10.0%	5.6%	3.5%	1.9%	1.9%

Source: various shown in footnote

3.7 For the purposes of developing the model, the KPMG analysis gives the best analysis by sector which can be applied to the 44 sectors used in the CE model. It is important to note that the KPMG forecasts show a smaller decline (-7.2% in 2020) and weaker recovery (2.8% in 2021) than the others. Subsequent economic data suggests that this estimate may prove to be more accurate. The Bank of England now forecasts GDP falling 9.5% cent over the year, compared with the 14% contraction the central bank had projected in May, but it now expects the recovery to take longer.

3.8 The KPMG analysis also provides some assessment by geography indicating a larger impact on the West Midlands (-9.1% in 2020) and faster recovery (4.3% in 2021). In practice, applying the KPMG forecasts, by sector gives a slightly greater fall (-8.6% for UK and 10.0% for Warwickshire) in 2020, which is close to the central Bank of England projection in August.

3.9 Figure 3-2 shows the impact on GVA in 2020 by sector used in the model. This is based on the KPMG sector estimates. In one case we have refined these to reflect the local conditions. For example, the fall in GVA forecast for the motor vehicle manufacture in Warwickshire has been tempered to reflect the higher proportion of R&D in the sector locally.

---

[69] Bank of England - https://www.bankofengland.co.uk/-/media/boe/files/monetary-policy-report/2020/may/monetary-policy-report-may-2020

[70] Treasury - https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/900759/Forecomp_July_2020.pdf

[71] KPMG - https://assets.kpmg/content/dam/kpmg/uk/pdf/2020/06/uk-economic-outlook-june.pdf

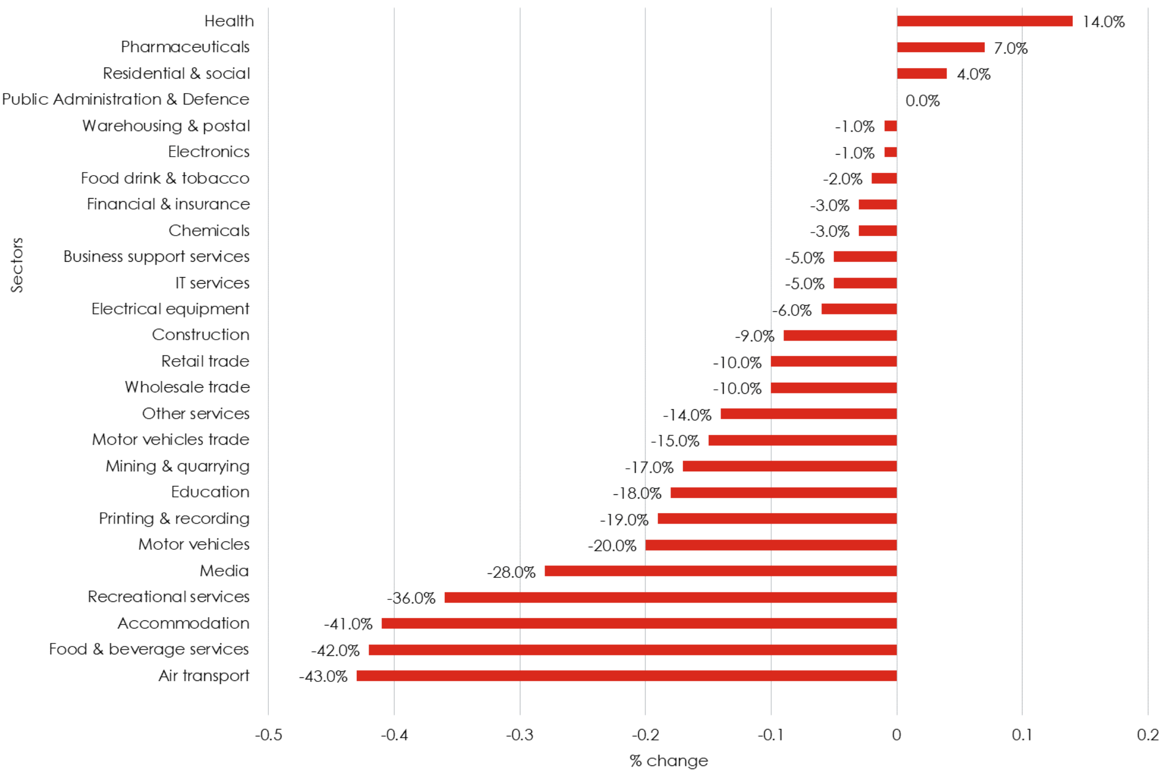
[72] GLA - https://www.london.gov.uk/sites/default/files/leo-spring-2020.pdf

[73] OBR -https://cdn.obr.uk/OBR_FSR_July_2020.pdf

3.10 These estimates broadly show the biggest short-term effects in sectors such as air transport, food & beverage services, accommodation and recreational services. Sectors that have grown through the pandemic are health, pharmaceuticals, and residential and social care. While there is no change in public administration activity.

3.11 Many of these sectors are expected to bounce back fairly quickly, although in most cases it will take longer. Food & beverage services and accommodation for example have been heavily affected by social distancing measures aimed at containing the pandemic. The fact that much of this expenditure is discretionary means that households facing harder times cut back on some areas of spending. More remote working also means that the long-term prospects for hospitality-related spending could continue to be affected.

Figure 3-2: % change in GVA in 2020 by sector



Source: SQW adapted from KPMG Hard Times report June 2020 (motor vehicle manufacture has been adjusted to reflect local intelligence)

Modelling employment

3.12 Modelling employment is more difficult. There are no sector/regional equivalents for unemployment. Estimates from the UK models show that the pattern does not follow GVA (because of reduced hours and furlough). As GVA falls, unemployment may not rise at the same rate because workers are furloughed or work reduced hours. Table 3-2 shows the forecasts for the UK unemployment rate made by the Bank of England, Treasury, KPMG and the OBR. The Bank of England unemployment forecast, made in August, dropped from 8% to 7.5% and for 6.6% for 2021 (quarter three).

Table 3-2: UK unemployment rate forecasts

Unemployment		2020	2021	2022	2023	2024
Bank of England MPR (Q3)	Aug-20	7.5%	6.6%	4.7%	4.0	4.0
Treasury average of forecasts	Jul-20	8.0%	6.5%	-	-	-
KPMG	May-20	8.6%	11.0%	-	-	-
OBR	Jul-20	8.8%	10.1%	6.9%	5.9%	5.3%
SQW Warwickshire based on KPMG sectors	Aug-20	8.9%	6.6%	4.7%	4.0	4.0

Source: Various as shown in footnotes

3.13 To provide employment estimates we have used the Bank of England forecasts and inflated them to reflect the disproportionately higher impact on GVA for Warwickshire. GVA is around 20% in Warwickshire because of the industrial structure.

3.14 This reduction in employment is allocated across industries in line with the fall and recovery in GVA (from the KPMG analysis). Sectors where the fall in GVA is greatest lose most jobs initially, but as the GVA returns in 2021, employment will grow. From 2022 onwards, unemployment returns to follow the Bank of England unemployment rate. In other words, the model uses the pattern of change in GVA to determine the rise in unemployment in each sector.

Results

3.15 Table 3-3 sets out the main results from the model. It forecasts a fall of just over 10% in Warwickshire's GVA in 2020. This compares with a UK figure of 8.4%. The economy grows by 5.6% in 2021, faster than the UK economy, and then follows the UK growth forecasts in subsequent years.

3.16 Unemployment follows a similar pattern. It rises to almost 9.0%, higher than the UK figure, but bounces back faster in 2021 before falling back to 4.5% in 2022. It means the loss of 19,500 additional jobs by the end of 2020, with these gradually returning over the subsequent years.

3.17 These figures assume the ending of the furlough support which is helping maintain employment until the end of October. Any further measures could mean that unemployment does not reach these levels.

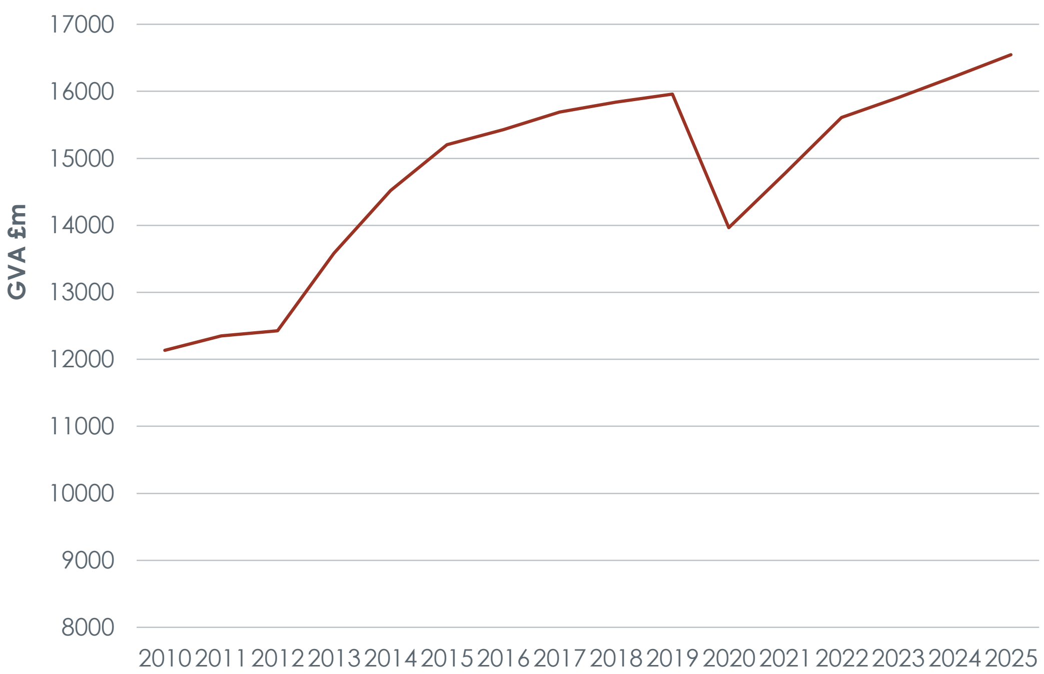
Table 3-3: Overall GVA and employment results

	2020	2021	2022	2023	2024	2025
Warwickshire GVA	-10.0%	5.6%	3.5%	1.9%	1.9%	1.9%
UK GVA	-8.4%	4.5%	3.5%	1.9%	1.9%	1.9%
UK unemployment	7.5%	6.5%	4.5%	4.0%	3.0%	3.0%
Warwickshire unemployment	8.9%	8.0%	4.5%	4.0%	3.0%	3.0%
Warwickshire change in jobs	-19,507	+6,852	+5,658	+2,085	-	+2,978
Number unemployed Warwickshire	26,507	19,655	13,997	11,912	11,912	8,934

Source: SQW model – note that there were 7,000 people unemployed in 2019 which is added to the change in jobs

3.18 Figure 3-3 puts the GVA numbers into perspective. It shows GVA in 2020 falling back to around the level it was in 2013, ending what has been a fairly rapid rise since the last recession. GVA then climbs back up to pre-pandemic levels in 2023.

Figure 3-3: Forecast level of GVA in Warwickshire 2011 - 2025



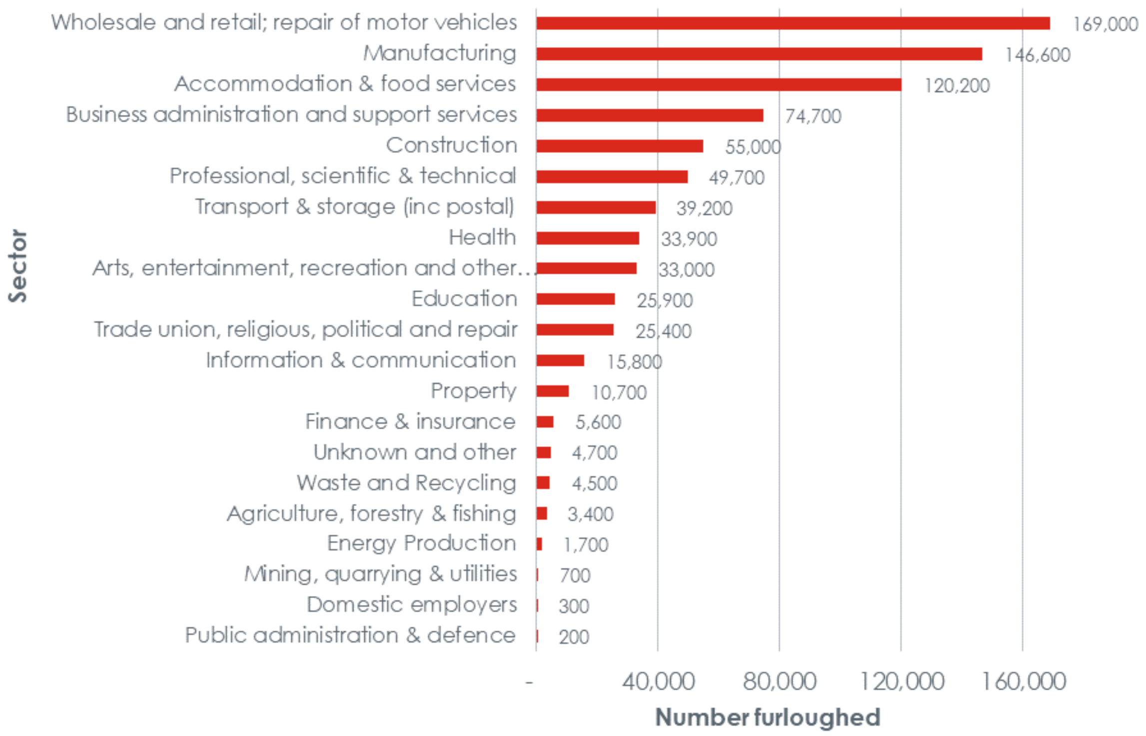
Source: SQW model

Unemployment

Furloughed workers

3.19 In July, HMRC provided data on the number, sector and region of furloughed workers. Table 3-4 shows the number of workers furloughed in the West Midlands. The number of manufacturing employees that have been furloughed is particularly striking and is greater than in accommodation and food services. These figures represent 32% of the total eligible employees in the region. In Warwickshire there were 84,000 furloughed employees at the end of June 2020, 30% of the total eligible employees.

Table 3-4: Number of furloughed workers in the West Midlands by sector June 2020



Source: HMRC Coronavirus Job Retention Scheme data to 30 June 2020

Sector impacts

3.20 The model also provides estimates of the number of jobs that could be lost in each sector. At this level of detail these figures should be considered as highly indicative but, in general terms, reflect the original KPMG estimates of the effect on each sector. These figures also depend on the furloughing scheme, and other employment support activity that may be put in place.

3.21 Food and beverage services has the highest number of job losses, reflecting the overall scale of employment in 2019, and accommodation and retail are also heavily impacted. Motor vehicle manufacture is also affected severely to the end of 2020, with a fall of 13% in employment. The other sectors with large jobs losses are education, construction and business services, but this is partly because of the size of these sectors. Recreational services and arts are also expected to see a higher proportion of job losses.

3.22 The nature of the sectors that are most affected are that they need employees to be at work and cannot be done remotely. With the exception of motor vehicle manufacture, these are sectors that tend to employ large numbers of younger people, have lower levels of productivity (GVA per head) and are often lower paid.

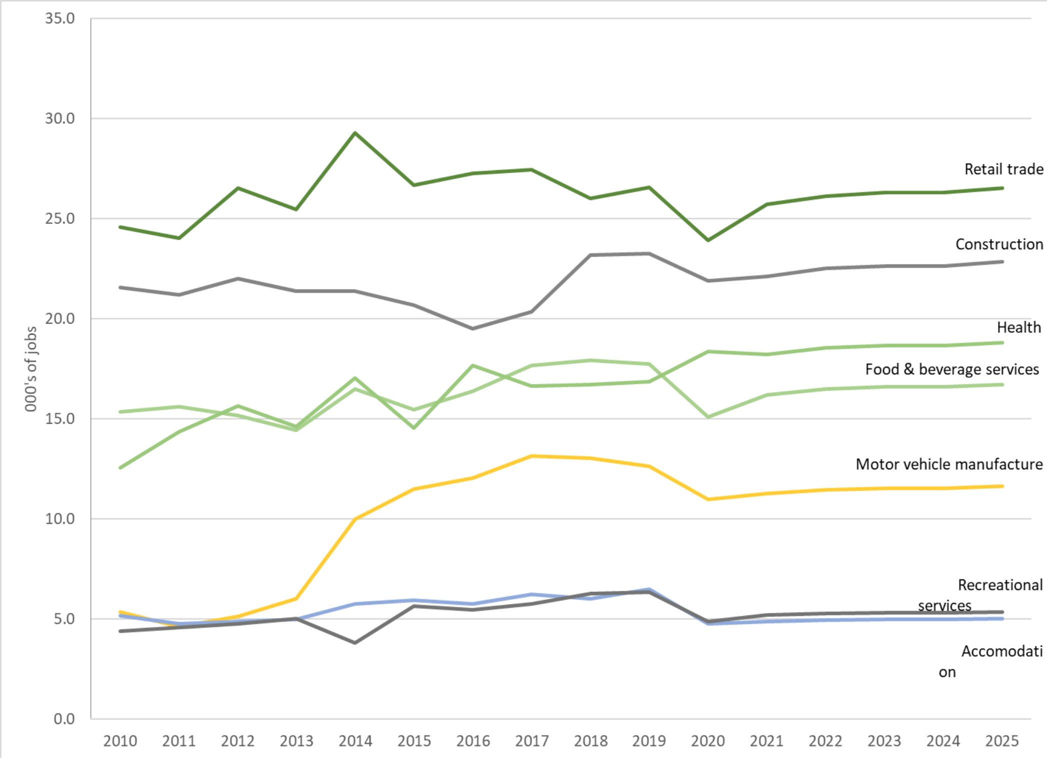
Table 3-5: Sectoral profile of job losses in Warwickshire

Sector	Jobs lost through 2020	2019 jobs	Job losses as a % of 2019 employment
Arts	552	3,156	17%
Other professional services	622	6,860	9%
Business support services	965	29,809	3%
Other services	1,059	11,676	9%
Motor vehicles trade	1,086	11,182	10%
Wholesale trade	1,089	16,807	6%
Education	1,229	24,581	5%
Construction	1,356	23,267	6%
Recreational services	1,480	6,349	23%
Motor vehicle manufacture	1,635	12,620	13%
Accommodation	1,724	6,494	27%
Retail trade	2,658	26,580	10%
Food & beverage services	2,663	17,750	15%

Source: SQW model

3.23 To provide context Figure 3-4 shows employment in these sectors since 2010. By the end of 2020, retail will employ the same number of people in 2013, while motor vehicle manufacture would still be more than double its level at the beginning of the decade. The most severe impact is on food and beverage services which are not expected to return to their 2019 level for some time.

Figure 3-4: Employment by sector



Source: SQW model

Change in employment by geography

3.24 Stratford on Avon is expected to face the biggest number of job losses, many related to the manufacturing but also from the tourism and hospitality sectors. Warwick is also projected to lose around 5,000 jobs, but this is more a factor of its size, rather than its industrial structure.

Table 3-6: Projected change in the number of jobs across the County (additional to 2019 levels of unemployment)

	2019 (CE data)	2020	2021	2022	2023	2025
North Warwickshire	54,006	-3,122	1,083	871	321	458
Nuneaton and Bedworth	57,778	-3,147	1,121	934	344	492
Rugby	51,730	-2,406	967	843	311	444
Stratford-on-Avon	86,981	-5,827	1,808	1,390	512	732
Warwick	99,828	-5,005	1,873	1,620	597	853
Warwickshire	350,324	**-19,507**	**6,852**	**5,658**	**2,085**	**2,978**

Source: SQW model

Financial years

3.25 The analysis so far uses calendar year estimates for GVA and employment. This is the basis on which the KPMG sector estimates have been made. Converting these into financial year (April - March) is not straightforward as much of the economic growth could take place towards the end of 2021.

3.26 To provide a very rough indication of these figures in financial years, we have subtracted the first quarter of the 2020 figure (which is assumed to be approximately the same as a quarter of 2019) and added a quarter of the 2021 figure to 2020/21. This has the effect of increasing the severity of the impact because it excludes the pre-Covid, quarter one of 2020 and replaces it with a quarter of 2021, which is still in recovery.

3.27 The pattern for employment has been calculated slightly differently, with jobs losses increasing to the end of 2020, and then improving slightly in 2021. This means the change in employment in the financial year 2020/21 is not as great as by the end of 2020.

Table 3-7: Projected change in the number of jobs across the County (additional to 2019 levels of unemployment)[74]

Calendar years	2020	2021	2022	2023	2024
Warwickshire GVA (change on previous year)	-10.0%	5.6%	3.5%	1.9%	1.9%
Warwickshire change in jobs	-19,507	6,852	5,658	2,085	2,978
Financial years	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
Warwickshire GVA (change on previous financial year)	-11.3%	8.0%	3.1%	1.9%	1.9%
Warwickshire change in jobs	-17,794	6,553	4,765	1,564	745

Source: SQW model

Conclusions

3.28 The model is an extrapolation from the national forecasts but reflects the industry structure in Warwickshire and has been cross checked with local intelligence from the WCC steering group that have provided additional guidance. The main conclusions are:

- Overall, the model suggests that there could be an increase in the number of unemployed people from 7,000 before the pandemic, to around 26,500. An additional 19,500 people out of work.

[74] The financial years are made up of three quarters of the figure in the first year (e.g. 2020) and the first quarter of the following year (e.g. 2021). In 2020/21 this increases the fall in GVA (because it includes the worst three quarters of 2020). Jobs losses increase to the end of 2020, and then improve slightly in 2021, meaning the number of jobs lost is less than at the end of the calendar year.

- Like the rest of the UK, it highlights the challenges facing sectors that rely on in-person service delivery, such as retail, hospitality, leisure and recreation
- The model shows that perhaps a third of the additional 19,500 jobs lost in 2020 could be in food and beverage services, retail and accommodation
- These sectors employ a large proportion of younger people, on lower wages and lower productivity, and the effects will be spread across all County. It points to some clear priorities for a recovery plan.
- Alongside this, the number of jobs lost in manufacturing is also likely to be high. The model suggests there could be almost 1,700 job losses in automotive manufacturing.
- The results are particularly sensitive to the impacts on the automotive manufacturing sector and its supply chain. A significant drop in activity in this sector in 2020 is one of the reasons that GVA and employment in Warwickshire is expected to be hit harder than in the UK as a whole.

4. Implications for intervention

4.1 The evidence and analysis in Chapters 2 and 3 is important in relation to the process of economic recovery and the role that different types of intervention could in practice play in accelerating it. Warwickshire County Council has long considered the possibility of an Investment Fund – but there are many other ways of intervening in a local economy. This short chapter takes the main conclusions from Chapter 3 and it considers them in terms of possible intervention mechanisms. In so doing, it forms a 'bridge' to a consideration of the Investment Fund in Chapters 5 and 6.

Table 4-1: Intervening in response to the pandemic

Major findings	Implications for intervention levers	Implications for the Investment Fund
Scale: The number of unemployed people in Warwickshire could rise from 7,000 to 26,500	The scale of the problem is without recent precedent in Warwickshire – and of course, every other part of the UK is facing similar issues. The main responses will need to be national ones. Growth stimuli of many different forms are being advanced (e.g. through Getting Building Fund, major infrastructure investment, reductions in VAT, etc.). There will also be a need to match people with jobs – and/or to equip them for employment once growth returns. Programmes like Kickstart are significant nationally, but there is also a need for intervention aimed at older workers.	The Investment Fund will not be able to 'solve' this problem, given its scale and complexity. However, it can help by attaching some emphasis to generating jobs of two forms: • entry level opportunities (which are very important in relating to social and economic inclusion) • jobs which typically command higher salaries and demand more skills and experience. It is important to recognise that previously, Warwickshire has not had a 'jobs problem'. In the current environment, it is going to be important to generate jobs however, and the Investment Fund could be part of the solution.
'In-person sectors': A third of the additional 19,500 jobs lost in 2020 could be in food and beverage services, retail and accommodation	In 'normal' times, these sectors are challenging insofar as barriers to entry are low and it is frequently difficult for policy makers to be convinced that intervention is possible without substantial displacement (and other forms of non-additionality). However, the impacts arising from COVID19 are compounding a process of restructuring which was already well underway and it was biting particularly in town centres and on high streets. The	The Investment Fund could be steered towards the socio-economic elements of town centre regeneration and revival across Warwickshire, recognising that this would benefit some businesses linked to tourism and retail but also that the bigger prize is the vibrancy of both place and community. Within this context, interventions in the property market could play a key role (e.g. in terms of re-using

Major findings	Implications for intervention levers	Implications for the Investment Fund
	sectoral and the spatial have become thoroughly intertwined, and it may be that the latter should have precedence going forward, particularly at a local level. Nationally, programmes like Future High Streets and the Towns Fund were already underway before the pandemic, although the need to steer these to economic outcomes has become clearer. Locally, the full range of levers needs to be brought to bear, including in relation to planning policy, business rates, etc.	redundant retail and/or office space in town centres in a manner which addresses some of the identified challenges).
Automotive: There could be almost 1,700 job losses in automotive manufacturing	The automotive sector is very important nationally. The evidence suggests that in addition to COVID19, it is being challenged by the transition to cleaner technologies/electric power *and* the uncertainties linked to the process of Brexit: the nature of trade agreements will have a substantial bearing on the sector's prospects in Warwickshire and elsewhere. It is also important to recognise that Warwickshire's big players in this sector are global businesses. They will be influenced more by global political-economic considerations than by developments within the county.	Warwickshire has substantial knowledge-based assets in the automotive sphere and the Investment Fund ought to be attuned to these. It could, in addition, seek to invest in those parts of the sector that are transitioning towards greener solutions and more intelligent mobility. There would appear to be particular imperatives and opportunities in relation to SMEs in the supply chain.
Vulnerable people: Younger people and those on lower wages are bearing the brunt of the pandemic's economic effects	This pattern has been observed in every recession. Nationally, government is putting in place measures to cushion the effects for the 'class of 2020', but in simple terms, there are not enough jobs for this year's new graduates/school leavers. It will be important that training is provided to equip young people for employment when the jobs eventually emerge. Through apprenticeships and other channels, it will also be important that employers are actively engaged.	As above, this would suggest that the Investment Fund is structured to reflect on social as well as narrowly economic outcomes, particularly over the next 12-18 months.

Source: SQW

5. Rationale for – and purposes of – the Warwickshire Recovery and Investment Fund

5.1 Warwickshire County Council has been thinking about an Investment Fund for some time – and was seeking to accelerate its plans in the current context. As part of the Brief for this study we were asked to consider how an Investment Fund might be used, given the findings in Chapters 2-4.

5.2 At this stage our review is based on the perspective of the economic analysis and the sectors and themes where access to finance is likely to be extremely important over the next few years. It is intended as a starter rather than a detailed template for a Fund. As the ideas are refined, there are important areas that will require further research.

There is currently no assessment of the potential demand for the proposed Fund, or elements within it. This is a busy landscape, particularly with the addition of the range of national recovery funds. More work will need to be done in consultation with partners to identify the gaps and likely demand.

Overview

5.3 The development of a Warwickshire Recovery Investment Fund is part of its Place Shaping Programme. It aims to support recovery efforts and Warwickshire's longer-term 'place' ambitions in the County. The Place Shaping Programme is guided by a number of strategic drivers. These are:

- Economic recovery
- Rural growth and town centres
- Sustainability and sustainable transport
- Housing
- Area Regeneration
- Commercial and investment
- Regeneration and income generation
- Digital and 5G
- Health and well-being.

5.4 The Warwickshire Recovery Investment Fund (WRIF) will aim to attract public and private investment into the County, including investment funding. The primary purpose of the WRIF is to assist the Council to deliver on its policy objectives and potentially generate a return and reinvest any investment income to continue to support place shaping priorities.

5.5 We understand that the fund could comprise funding from some, or all, the following sources:

- Warwickshire County Council;
- District and Borough Councils
- Government, Non-Departmental and other Public Bodies
- Private Sector Investment through banks and institutions
- Other public-sector funding sources such as PWLB and the Municipal Bonds Agency and pension funds; and
- Other private sector investors.

5.6 The WRIF will offer loans/equity/convertible loan notes or other combinations, possibly including grants, and WCC will have to consider how this could be delivered. Discussions with WCC have indicated that the WRIF would combine a financial a return with support for the Warwickshire economy.

Rationale for WRIF

The analysis suggests that the economy will suffer a substantial fall in GVA and employment in 2020 as a result of the coronavirus and lockdown of the economy. GVA will contract by around 10% this year compared with 2019 and unemployment could rise to almost 9.0%

5.7 Unemployment of 9.0% represents 27,000 people, an increase of 20,000 on the figure at the end of 2019. The sectors that face the biggest declines are in food and drink services, accommodation and in motor vehicle manufacture. In Warwickshire, the significant drop in activity in the automotive sector in 2020 is one of the reasons that GVA and employment is expected to be hit harder than in the UK as a whole.

5.8 The fall in GVA is expected to be more severe for employment, where the impact is softened through the Jobs Retention Scheme. Even so, unemployment will rise to the end of the year, before recovering in 2021. It is not expected to fall to its pre-virus levels for several years.

The impact of the pandemic will be felt across the economy, but particularly by SMEs which have more limited resources, among younger people, and within local communities

5.9 In terms of businesses, SMEs are more likely to face liquidity problems, as they generally have limited financial resources to call on. Aside from the risk that many of these businesses may not survive[75], their response is usually to minimise costs and retrench rather than find new

[75] For example, Cowling et al (2020) look at levels of precautionary cash reserves in UK SMEs and suggest that there are potentially 120,000 UK businesses (mostly micro firms with less than 10 employees) at immediate risk of a liquidity crisis if they cannot generate a revenue stream for a few months.

revenue generating activities. A lack of finance limits the scope for SMEs to broaden markets or seek opportunities. Uncertainty can lead to a lack of action. Following from this, we would expect there to be a large under-investment in growth-related activities such as innovation, investment in capital and international activities. In turn this will slow recovery and limit the jobs that can be created in the economy keeping unemployment higher for longer.

5.10 Alongside this, the rise in unemployment and fall in household incomes will have major social impacts. These effects will be unevenly distributed across geographies, socio-economic groups and ages. A recovery plan will have to consider how its actions can generate inclusive growth.

The impact of the pandemic and the recession has reduced revenues and held back investment. Recovery will require substantial investment in growing businesses, in creating employment and in supporting communities

5.11 While the coronavirus has had a huge immediate impact, it also accelerates other trends that were already underway (digitalization, automation, de-carbonization) and, separately there are challenges around the imminent effects of Brexit. Businesses are facing pressure to invest in adopting new processes and new technologies and to de-carbonise production and develop products that are environmentally more sustainable. Brexit will also require investment in identifying and developing new international partners both as customers and suppliers. Without this investment many SMEs may find it harder to grow and create new jobs. This is happening at a time when businesses face falling income and, in some cases, growing debts.

5.12 In a social context, there will need to be investment in the structures and support to deal with a much higher level of unemployment. This will, in turn, put pressure on a range of other services, voluntary activities and on communities. There can be considerable lasting economic and social damage caused if individuals remain unemployed for significant periods of time and can drop out of the labour market.

However, at a time when investment is needed more than ever, the financial environment is extremely uncertain

5.13 Research suggests access to bank finance becomes more problematic for SMEs during crisis episodes[76]. This is a combination of reduced supply of lending by banks and reduced demand from SMEs who face chronic uncertainty. Managing finances is likely to become hugely important for small companies.

5.14 The barriers to finance change at different stages of business development. The UK government has provided access to a range of new fund that aim to provide a bridge to recovery and there are many other potential sources even within the West Midlands. The Midlands Engine Investment Fund has made £280 million of start-up, debt and equity funding available.

[76] such as the GFC (Cowling et al, 2012; Lee et al, 2015; Demirgüç-Kunt et al, 2020)

Given the supply, it will be important to understand demand for different forms of finance. A WRIF can raise funds and make investments that can help support businesses in key growth sectors that create jobs underpin social enterprise and unlock employment land

5.15 The WRIF would aim to provide access to finance for businesses and for social investment, but also provide a return that itself can be reinvested over time. The Fund should therefore focus on investment in sound, growing businesses, including social businesses. As the economy changes, some sectors will contract and while others will expand. The recovery fund will only work if it is enabling the growing sectors to create new jobs.

The main principles in setting out the WRIF are that it should:

- be developed from analysis of economy and strategic sectors
- support new and growing business with sound prospects
- support local recovery
- support new, small and medium sized businesses
- support key sectors and growth rather than weaker sectors
- support the creation of new jobs
- target higher productivity activities and skills
- support environmentally and/or economically sustainable businesses
- support social enterprises and local solutions
- deliver both short and medium-term options
- offer potential for return on investment
- target full recovery of investments.

Using the analysis to design the WRIF

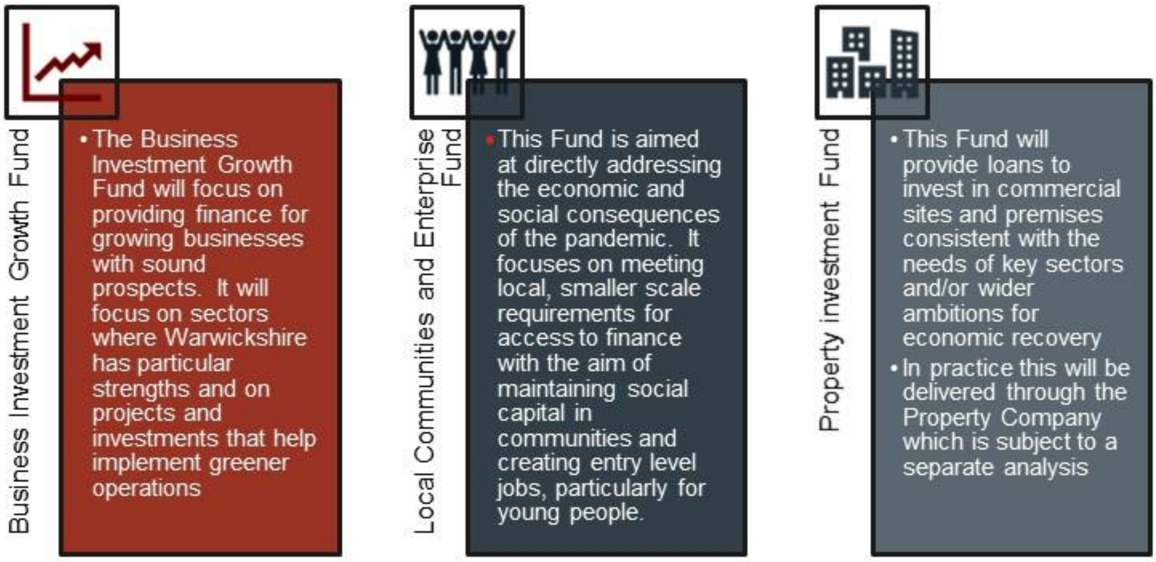
5.16 The analysis in the previous chapters identifies the challenges in specific sectors and more widely in the economy. For businesses, these are focused on finances and employment, and likely to be greater for SMEs. There is also the harm that the loss of employment will have on individuals and on the social fabric of communities. The climate of high uncertainty means that despite good longer-term outlook these businesses will find it harder to access finance. There are similar issues for social enterprises and charities that face reduced incomes but growing demand for services. The WRIF can provide the funds to unlock economic potential and help to mitigate some of the effects of the recession.

5.17 The findings from the analysis and from our discussions with the WCC steering group is that the WRIF should encompass three main themes.

- Business growth
- Communities and social capital
- Property.

5.18 Of these the communities and social capital would be designed to directly address the local challenges of the pandemic, while the business growth and property funds will help underpin medium and longer-term recovery. The objectives of each of these Funds are shown in Figure 5-1.

Figure 5-1: WRIF themes and objectives



Source: SQW

5.19 The remainder of this section looks in more detail at what these themes would cover.

The WRIF and business growth sectors

Automotive sector

5.20 The automotive sector is hugely important for the County employing 35,000 in the wider sub-region. It faces a combination of challenges arising from its transition to electric vehicles, uncertainty around Brexit, exacerbated by the impacts of the coronavirus pandemic. It also offers the prospect of significant growth, or at least maintaining pre-pandemic levels of employment.

5.21 The large manufacturers have invested heavily in electric vehicles and their future will depend on the new technologies and on the scale of demand. However, there are also huge effects for the large supply chain in Warwickshire. Brexit will further complicate supply chains. There is still a great deal of uncertainty over how the UK's exit will impact on rules of origin. These are the criteria needed to determine how much of a product is sourced from which countries. This is important because it affects the duties and restrictions that apply to them and means manufacturers may reassess supply chains.

5.22 While prime businesses are likely to have access to finance, these SME suppliers may find it more difficult to access the loans they need to invest and make necessary changes. Beauhurst for example reports that they found more established businesses to be "at risk" than early stage ones[77]. Coronavirus has already had a big impact on cashflows and these businesses will be in a weak position at a time when they need to invest to meet changing demands or find new markets.

As a key sector with potential for growth the WRIF can help ensure that these SMEs have access to the amount and type of finance that they need. Access to employment land for the sector was also highlighted in the earlier analysis and could be addressed through the inclusion of a property fund.

Advanced manufacturing

5.23 Alongside private businesses, Coventry & Warwickshire has access to world-class Research & Development and Innovation Infrastructure. The analysis also found a need to address the low stock and immediate pipeline of employment land, particularly in Coventry and Nuneaton & Bedworth, where job densities are low.

5.24 Like the automotive sector, this is a sector that faces important changes (the acceleration of automation, digitalisation and decarbonisation. Warwickshire's advanced manufacturing businesses are at the "knowledge-intensive" end of the spectrum and might therefore perform a little better than the UK average. There are also new opportunities as they have pivoted in response to the COVID19 crisis. Automation of activities and occupations is also key in advanced manufacturing and if Warwickshire is slow to retain existing employees to adapt to a rapidly changing labour market, then unemployment is likely to rise.

5.25 However, Warwickshire's companies are likely to experience loss in revenue due to dampened demand and disruption to supply chains caused by the pandemic. As a result, there will be fewer resources available for the investment that is necessary to respond to these challenges. As with automotive, the lack of appropriate employment land and premises has also been identified as a concern.

---

[77] Beauhurst (2020) COVID19 Business Impact Report https://www.beauhurst.com/wp-content/uploads/2020/04/COVID19-Business-Impact.pdf?utm_medium=email&_hsmi=86488754&_hsenc=p2ANqtz-_oBtiNjjzpSMYWSkttkZWQS_oSEQM-7HSPaAAc0ca9u_C4Z_yJKUIMJjB_CIqvIW-w1VcSA6-HQfer5lRuM6PWAnClhA&utm_content=86488754&utm_source=hs_automation

SMEs in particular will find it harder to raise investment funds. With a strong asset base in advanced manufacturing, it is important that the finance is available to facilitate the growth of the sector and the prospect of creating new employment opportunities.

Digital and games sector

5.26 The digital and games sector is developing as a key part of the Warwickshire economy and its growth is a focus of the economic strategy. The nature of the sector means that it has the potential to create exciting new start-ups and is populated with many early stage businesses seeking investment. Early stage businesses generally suffer from difficulties in accessing seed funding from existing sources. They are characterised by high levels competition and risk, while the relatively small amounts of funding at this stage make it less appealing for investors.

5.27 With little track record and often no revenue to repay a loan, these businesses are more suited to equity deals. The level of investment in equity in the Midlands is much lower than in London and the South East[78]. This is both a result of weaker supply (fewer investors) and demand (fewer companies aware of, or interested in, using equity to raise funds).

5.28 The challenges of raising equity funding have increased as a result of the pandemic, which has made it harder for investors and businesses to do deals[79]. The uncertain environment has also initially, led to investors supporting their existing portfolios, rather than adding to them.

This is a sector where the WRIF could invest, linking with other support is provides. However, restricting investments to Warwickshire would limit the number of opportunities and make it more difficult to generate a positive return. One approach would be to use the property fund to invest in an incubator, for early stage businesses, providing business support but also taking equity in lieu of rent. This provides the basis for a pipeline of further investments if they are successful.

Logistics

5.29 Warwickshire has a natural advantage through its location and access to the "Golden Triangle" motorway network (M6/M1/M42). As a growing sector, the take-up of B2/B8 space across the Coventry and Warwickshire LEP area has averaged approximately five million sq ft over the last three years, and the Coventry and Warwickshire Gateway site is identified as the priority employment site for the delivery of the LEP's economic plan. The site has the potential to accommodate around 10,000 jobs by 2030 and 408,000 sqm of B1, B2 and B8 floorspace.

---

[78] British Business Bank (2020) Small Business Finance Markets 2019/20
[79] Beauhurst data 2020 shows the number of deals falling in Q1 2020. https://www.beauhurst.com/blog/effect-of-coronavirus-uk-investment-q1-2020/

5.30 As the economy recovers this is a sector that offers strong growth potential. There are opportunities to move to greener technologies and new business models. Although there are concerns about the low value of the sector, continued introduction of technology and higher skills will improve productivity. COVID19 has sped up the need to adopt automation and there is scope for further investment. Accelerated use of online retail also increase the growth potential.

It will be important that SME's within the sector are able to introduce new technology and business models to compete with the larger companies. This will require new investment and access to finance which the WRIF could provide.

The WRIF, Local Communities and Enterprise

Tourism

5.31 Tourism employs over 20,000 people (6% of the workforce) in Warwickshire. It is well-placed to take advantage of major forthcoming cultural events in neighbouring cities - Coventry City of Culture 2021 and Birmingham Commonwealth Games 2022.

5.32 Although the sector has lost many international visitors, there are hopes that domestic tourism may become more popular. However, employment in the sector is often low skilled and low paid. Many hospitality businesses rely on European employees, particularly seasonal employees.

5.33 Tourism is an important part of local and rural economies offering employment where there are fewer alternatives. Helping to maintain what are often also local services (restaurants, bars, tourist attractions, culture and leisure facilities) is critical to supporting communities.

The sector encompasses both large corporate firms and small lifestyle businesses. The case for providing investment support for this sector is strongest around the social role they play rather than investment for growth. Our suggestion is that the WRIF would focus on investments to promote local tourism and cultural assets, and social capital.

Start-ups and young people

5.34 As the economy recovers, many of the services and facilities will return, perhaps in a different form. There will be many opportunities for start-ups to be born from the pandemic and they will require funding. Without revenues or a track record these businesses will find it hard to access traditional sources. The WRIF could play a role through loans or convertible loan notes, to help these businesses get started.

Arts and culture

5.35 The Arts and culture sector has been one of the most severely affected by the pandemic and faced huge financial problems without the revenue from audiences and visitors. The government has made funds available, but these may not be sufficient. Arts and cultural venues are vital social capital assets and they will require further support through the pandemic. They are unlikely to provide a financial return for many years, but could be offered flexible, revenue-based funding.

Social enterprises

5.36 One of the ways of investing in local social and economic development would be through existing social enterprises, that already deliver combinations of social and economic impacts. Impact investing is now very popular, even among some of the larger investors that are keen to see their investments make a difference.

5.37 One approach would be to work with an existing social investor, or to leverage existing funds to finance enterprises that will be delivering social outcomes. The extent to which these investments can generate a return will vary. Other relevant issues are:

- Receiving funding can exclude social enterprises from some charitable sources and benefiting from charitable status.
- Management and financial systems may be weak. We would also suggest that an initial grant is provided to bring in resources to ensure sound management and financial systems, before any loans are made.
- It may be possible to offer funding for specific purposes that social enterprises could respond to.

Property Fund analysis

5.38 The case for the investment in a Property Fund is made as part of separate work that considers the development of Warwickshire Property Company. It will help unlock new development and generate employment, while also providing a financial return. The Property Fund is key to the WRIF in that is the element most likely to generate the income that can be recycled in the business growth and community enterprise funds.

5.39 There are two elements that relate directly to these other Funds:

- Property investment in new business incubator/accelerator space could be used as a mechanism for delivering business support and securing equity a number of exciting, early stage companies. This could be an interesting model that would allow the Council to actively support new businesses but also have the prospect of a return in later years.
- Property investment that is related to improving high streets and revitalising town centres. The coronavirus has accelerated the need to reimagine town centres. New

investment will be required to offset the reduced footfall and retail and restaurant closures that are happening.

6. Outline proposals for the Warwickshire Recovery Investment Fund

6.1 This chapter takes the findings from the previous section and develops them into a more detailed proposal. It focuses on the three themes identified previously, looks at some examples elsewhere and provides guidance based on consultations with representatives from investment companies and others.

Figure 6-1: WRIF themes

Business Investment Growth Fund

Table 6-1: Business Investment Growth Fund

Heading	Comment
Objective	The Business Investment Growth Fund will focus on providing finance for growing businesses with sound prospects. It will focus on sectors where Warwickshire has strengths and on projects and investments that help implement greener operations.
Beneficiaries	Examples: • The automotive manufacturing supply chain and supporting its transition towards electric vehicles • Advanced manufacturing • Logistics • Investment in early stage technology businesses (specifically the digital and games sectors)
Funding	Suitable finance would be discussed with the business, but could provide loans, trade funding, revenue funding, equity, convertible loan notes or other. An option would be to include a small grant to allow the business to get financial management support

Heading	Comment
	Part of the Fund could be delivered through support through an early stage business incubator. This would be a property investment but rather than pay rent, the Council would fund business support and take equity.
Delivery	This would be delivered through a professional fund management company governed by a set of agreed criteria and overseen by a Strategic Oversight Board that would include the Council and an independent advisor.
Return	The aim would be to maintain the fund as evergreen. The risk profile would balance higher risk equity with shorter term loans. Limiting the investments to Warwickshire will make it more difficult to generate opportunities, but there is evidence from the firms delivering other funds that this could be possible.
Co-investment	Ideally investments would be made alongside private sector partners, but the scope to do this will depend on discussions with the delivery partners. In the areas where there is likely to be a gap, in early stage finance, partners are likely to be business angels.
Scale	Consultees suggested a minimum of £15 million
Impact on recovery	This element of the fund focuses on growth, rather than addressing the short-term effects of the pandemic. It will safeguard and create higher paid and more productive jobs. • SQW's evaluation of the British Business Banks' Midland's Engine Investment Fund[80] found that the level of investment at the time £14.3 million had supported 196 jobs at an early stage, just less than £73,000 per job. • The early evaluation of the Northern Powerhouse Investment Fund[81] found 300 jobs created from £14.2 million or £47,000 per job. • An evaluation of the JEREMIE Funds[82] estimated that the capital investment per net additional job will be around £50,000. • FSE estimate that a £15 million support 20-25 companies per year with at least 12 jobs to be safeguarded or created per company in the short to medium term. This would be a total of 240 – 300 jobs. Most of those jobs will be expected to be high value based on current experience. A broad estimate of £50,000 per additional job would be reasonable for a business growth fund. On this basis a £15 million Fund would support 300 new jobs.
Examples	• The **Midlands Engine Investment Fund** provides a range of debt and equity finance through partner organisations and there is early evidence of performance in the SQW evaluation • **Innovation Loans** is an Innovate UK Programme which provides loans for small, companies that are close to commercialisation, but without the track record to access traditional finance • **FSE run three regional Business Growth Funds** offering debt & equity finance from £50,000 - £300,000:

[80] SQW, Midlands Engine Investment Fund -Early Assessment Report (2020) https://www.meif.co.uk/wp-content/uploads/2020/05/MEIF-Final-Report-310320-Clean.pdf
[81] SQW, Northern Powerhouse Investment Fund -Early Assessment Report (2019) https://www.british-business-bank.co.uk/wp-content/uploads/2019/07/NPIF-early-assessment-report-FINAL_24-July-2019.pdf
[82] Regeneris, Mid-Term Review of the English JEREMIE Funds (2013)

Heading	Comment
	➢ **Thames Value and Berkshire Business Growth Fund** ➢ **Enterprise M3 Funding Escalator** ➢ **The Coast to Capital Funding Escalator** • **The Greater London Investment Fund** operates as a £100 million fund. MMC Ventures manage the equity sub-fund, and The FSE Group manage the two loan sub-funds • **Greater Manchester Core Business Investment Fund -** £27 million fund for larger loans to existing businesses. Loans below £500k are provided through the GM Loan Fund, managed by Maven Capital Partners. The aim is not to take high levels of risk.

Table 6-2: Local Communities and Enterprise Fund

Heading	Comment
Objective	• This Fund is aimed at directly addressing the economic and social consequence of the pandemic • It focuses on meeting local, smaller scale requirements for access to finance with the aim of maintaining social capital in communities and creating entry level jobs, particularly for young people. • The Fund will invest in and support key local businesses, including social enterprises, that are important to the area. It will also provide investment for start-ups. • The Fund will have a strand that is directed towards investment in smaller town centres
Beneficiaries	There would be no sector focus, instead funding would be available to • Small local businesses that support social capital • Start ups • Social enterprises • Possibly issue call to support businesses or projects that will improve high streets and town centres
Funding	• Suitable finance would be discussed, but could provide loans, revenue funding, equity, convertible loan notes or possibly grants. • The Fund will provide (much smaller) loans, however, we also suggest that there is some initial grant funding which would be used to ensure the business is finance-ready.
Delivery	• This could be delivered by the Council, although it would be useful to work with partners where co-investment can be secured. There are a number of partners that could co-invest on some elements of this proposal. Specifically, around social enterprise support. • We suggest discussing the options with potential partners to identify which elements could be delivered through a contractor. Again, the investments would be overseen by a Strategic Oversight Board including the Council and an independent advisor.
Return	The aim of this Fund is more explicitly social rather than financial. Part of the return should be considered as maintaining some of the County's key social capital assets, local businesses and arts and cultural facilities. It includes the value of the outputs generated through investment in social enterprise. The return is also through supporting additional employment.

Heading	Comment
	The aim would be to maintain the fund through loan repayments, although the investments will be smaller than the growing business fund and the risks will be higher.
Co-investment	• There is scope to work with partners in making social investments and we suggest that the Council holds discussions with a number of the organisations that are already investing in these types of projects. • Some of these partners will lead delivery, co-ordinating investment and assessing applications. Others will be willing to provide finance alongside the Council Fund for projects that meet their own criteria. **Examples include:** Links: • Arts & Culture Impact Fund • Big Issue Invest • Fair by Design Fund • Resonance • Bridges Fund Management • Esmee Fairbairn Social Investment • UnLtd
Scale	£1 million - £10 million (typically these funds are less than £10 million)
Impact on recovery	This element of the fund focuses on addressing the short-term effects of the pandemic, rather than economic growth. It will contribute to recovery through strengthening social assets, communities and providing entry level jobs. It will also look for investments that can improve high streets and town centres. In the short-term there will be little displacement in projects that create jobs. Typically, the investment cost per job for these investments will be lower than for the Business Investment Growth Fund. An estimate of £30,000 investment per job would mean a £3 million Fund would support 100 jobs.
Examples	• **The Resonance West Midlands Social Investment Tax Relief Fund** invests in social enterprises in specific city regions around the country. Aims to raise £5m (currently £1.5 million) • **Resonance Bristol SITR Fund** raised £2.8m of its £5m target raise, has made its first eight investments • **Social Investment Business:** ➢ **The Liverpool City Region Impact Fund (LCRIF)** offers loans to charities and social enterprises. The £2m fund is financed in equal part by Social Investment Business and the European Regional Development Fund

Heading	Comment
	➢ **First Steps Enterprise Fund** provides mixed loan and grant packages of over £30,000 for community organisations (charities and social enterprises) to help them grow and become more sustainable ➢ **The Key Fund** provide blended loans and grants up to £150k. Unsecured lending for new and early stage enterprises who are seeking finance to support growth. They also offer the **Community Business Fund and the Northern Cultural Regeneration Fund** • CAF Venturesome Funds offer Development Fund loans from £25,000 to £400,000+ to build the capacity of high-impact social organisations. • A Social Enterprise Assist fund works with businesses, the community and the public sector to help early stage social enterprises with interest free loans up to £30,000.

Table 6-3: Property Investment Fund

Heading	Comment
Objective	This Fund will provide loans to invest in commercial sites and premises consistent with the needs of key sectors and/or wider ambitions for economic recovery. Details relate to the proposals for a Warwickshire Property Company
Beneficiaries	Examples: • Developers and contractors of house building • Developers of employment land • Developers of office space • Developers of operational business buildings
Funding	Suitable finance would be discussed with the business, but is likely to be in the form of loans
Delivery	This would be delivered through the Warwickshire Property Company. This is currently being set up and details of the structure and objectives will be set out in the relevant documentation
Return	The aim would be to generate a return through the loans. Details of the risk profile and potential investments will be considered by the Property Company.
Co-investment	Ideally investments would be made alongside private sector partners, but the scope to do this will depend on discussions with partners.
Scale	This will depend on the range of projects identified by the Property Company
Impact on recovery	This element of the fund focuses on unlocking employment land that will enable business growth. This is likely to be a medium-term measure, supporting growing business, rather than addressing the short-term effects of the pandemic. The impact will depend on the projects supported but estimates of the employment impact can be derived from their scale, type and employment density data.
Examples	The case for the Property Company is made in a separate report.

7. Next steps

Investment Funds

7.1 This report uses the economic analysis to set out the investment areas that the WRIF should consider. These are organised under three broad headings:

- Business Investment Growth Fund
- Local Communities and Enterprise
- Property investment Fund

7.2 The report sets out the logic for supporting these and ensuring that the businesses and social enterprises have access to finance they require to make investments and grow. In taking these forward, the next steps would be as follows.

Test demand

7.3 There is a need to test demand for these Funds and identify more specifically the type of funding required. In the current landscape, there are many sources of finance, at historically low rates, but we are also likely to see businesses and social enterprises fall through the cracks because they lack a track record, or security. Clearly demand for finance will depend on the terms that are offered, and WCC should refine the concept and discuss with potential partners whether there is evidence of demand in the market.

Discussions with potential Fund managers

7.4 As part of this exercise we have had an initial discussion with a number of potential partners at a general level. If the WRIF concept is to be developed, we recommend more detailed discussions with the following:

- **FSE Group**: their escalator model offers an Expansion Loan Scheme, Trade Finance Loan Scheme and Equity Growth Fund. Existing schemes provide loans and investments up to £300k for the first transaction. To achieve critical mass, they recommend that the Funding Escalator is at least £15m. They also recommend research on the specific market gaps and demand in the region concerned to determine the product and size of the fund. They would aim for individual loan and investment losses, together with all set up and operating costs, to be covered by the income and capital returns generated by the respective funds. The existing funding escalators managed by FSE either have achieved or are being managed with the objective of becoming evergreen.
- **Midven** currently deliver the late stage debt for the Midlands Engine Investment Fund. They have a good understanding of the market in Warwickshire. It would be useful to discuss where the gaps are and how they might be able to invest all or part of a Fund.

- **The British Business Bank** manage three Regional Investment Funds including the Midlands Engine (MEIF). It is a potential partner and has a good overview of demand and the gaps that the WRIF could address.
- **Minerva Business Angel Network and University of Warwick Science Park** are both important potential partners in supporting early stage finance. They can provide advice on local demand and on proposals to support new incubator/accelerator models that the Council could include as part of the Business Growth Fund.
- **Resonance** currently invest in a West Midlands Social Investment Tax Relief Fund for social enterprises and could provide ideas around investment of the Communities Enterprise Fund

Refine the concept and compare options

7.5 The discussions will enable WCC to provide more robust estimates around the demand, the potential scale, the potential offer and delivery costs. Ideally there will be a number of options which can be compared in terms of their financial return and wider social impact.

SQW

Contact

For more information:

Christine Doel
Director, SQW
T: +44 (0)1223 209 400
E: cdoel@sqw.co.uk

Reuben House
Covent Garden
Cambridge
CB1 2HT

www.sqw.co.uk

About us

SQW Group

SQW and Oxford Innovation are part of SQW Group.
www.sqwgroup.com

SQW

SQW is a leading provider of research, analysis and advice on sustainable economic and social development for public, private and voluntary sector organisations across the UK and internationally. Core services include appraisal, economic impact assessment, and evaluation; demand assessment, feasibility and business planning; economic, social and environmental research and analysis; organisation and partnership development; policy development, strategy, and action planning. In 2019, BBP Regeneration became part of SQW, bringing to the business a RICS-accredited land and property team.
www.sqw.co.uk

Oxford Innovation

Oxford Innovation is a leading operator of business and innovation centres that provide office and laboratory space to companies throughout the UK. The company also provides innovation services to entrepreneurs, including business planning advice, coaching and mentoring. Oxford Innovation also manages investment networks that link investors with entrepreneurs seeking funding from £20,000 to £2m.
www.oxin.co.uk