

Cabinet

10 October 2017

Capital Investment Fund – 2017/18 Quarter 2 Proposed Allocations

Recommendation

That Cabinet:

- 1) Approve the investment of £2.000 million into the sub-regional Duplex Fund, providing capital grants and loans to businesses across Warwickshire.
- 2) Approve the use of £0.300 million to provide small capital grants to businesses across Warwickshire.
- 3) Following satisfactory completion of all due diligence, authorises the Joint Managing Director for Communities to enter into all contracts necessary to deliver the two projects on terms and conditions acceptable to the Joint Managing Director for Resources.

1. Purpose of the Report

- 1.1. As part of the 2017/18 budget Council approved the creation of the Capital Investment Fund to provide an approach to funding capital schemes in support of the delivery of OOP 2020. The Fund currently has £45.935 million resources remaining to be allocated over the next three years.
- 1.2. As part of operationalising this capital strategy Members approved a four stage approval process for projects seeking funding from the Capital Investment Fund (CIF) that would be run on a quarterly basis:
 - Stage 1: A service specific internal approval process, the conclusion of which is a bid to an Evaluation Panel submitted by the relevant Head of Service.
 - Stage 2: The CIF Evaluation Panel provide a technical evaluation and commentary on the proposal that results in a recommendation to Corporate Board.

- **Stage 3:** Corporate Board review the evaluation and support/reject the proposal going forward to Members.
- **Stage 4:** For those schemes Corporate Board support, Cabinet/Council approve/reject the allocation. If approved the scheme is added to the authority's capital programme.

1.3. This report forms Stage 4 of the process for the second quarter of 2017/18, with two bids being brought forward for approval, requesting a maximum allocation of £2.300 million. The table below lists the bids and the appendix that contains a summary of the Evaluation Panel's assessment for Corporate Board that has been attached to aid Member's decision-making.

Bid Title	CIF Funding Request £m	Evaluation Score	Appendix
Duplex Fund	2.000	77.5%	A
Small capital grants for businesses	0.300	67%	B
Total	2.300		

1.4. A comparison the four schemes approved in Quarter 1 had evaluation scores of between 59.5% and 74%.

1.5. The remainder of this report outlines a description of each of the schemes and the impact on the CIF of the recommendations from Corporate Board.

2. Description of the Schemes

2.1. Duplex Fund

A £2.000 million allocation from the CIF to provide a programme of loan and grant funding to small and medium sized Warwickshire businesses. The project aims to address identified failures in the access to finance for businesses looking to grow. It will supplement broadly equivalent funding already approved by Coventry City Council (CCC) and CWLEP for the Duplex Fund.

2.2. Small Capital Grants Scheme

A £0.300 million small capital grants programme for small businesses with growth plans where loans and other sources of finance are not appropriate. This funding would be for 2018/19 only after which the outcomes of the programme (and its predecessor funded from the previous Capital Growth

Fund) will be undertaken to assess its success before further allocations are made.

3. Impact on the Capital Investment Fund

3.1. There is currently £45.935 million in the CIF available for allocation over the next three years. Table 2 shows how the recommended allocations impact on the total amount available, whilst retaining a minimum of £7.5 million for allocation in any future year.

3.2. There are no unfunded running costs or liabilities for the County Council as a result of investing in these projects. Once the projects are complete the revenue cost of servicing the borrowing will be approximately £184,000 a year. Provision for this cost forms part of 2017-20 medium term financial plan.

	2017/18	2018/19	2019/20	Future Years	Total
	£m	£m	£m	£m	£m
Funding Available in April 2017	41.252	7.455	7.500	-	56.207
<u>Less Quarter 1 CIF allocations:</u>					
• A444 Corridor Improvements Phase 2	-0.420	-3.850	-	-	-4.270
• A3400 Birmingham Road, Stratford	-0.150	-0.350	-3.000	-	-3.500
• Fire Headquarters	-1.441	-0.841	-0.120	-	-2.402
• WRFS Water Training	-0.150	-0.350	-	-	-0.500
<u>Less Quarter 1 CIF allocations</u>					
• Duplex Fund	-	-0.480	-0.600	-0.920	-2.000
• Small Capital Grants Programme	-	-0.300	-	-	-0.300
Reallocation of funding between years	-10.856	6.216	3.720	0.920	0.000
Remaining Fund Balance	28.235	7.500	7.500	-	43.235

4. Background Papers

None

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This report was circulated to the following members prior to publication:

Local Members: N/A

Other Members: Councillors Butlin, Timms, Singh Birdi, O'Rourke, Boad

Evaluation of the Duplex Fund

1. Proposal

- 1.1. A £2.000 million allocation from the Capital Investment Fund to provide a programme of loans and grant funding to Warwickshire businesses.
- 1.2. The project aims to address identified failures in the access to finance Warwickshire businesses. The £2 million from the Council that will supplement funding already approved by Coventry City Council (CCC) and CWLEP to provide a combination of loan and grant funding to small and medium sized businesses looking to invest and grow. The County Council will work with CCC and CWLEP and a specialist fund manager to the deliver Duplex Fund. As a revolving fund it is anticipated this will provide an additional £10 million investment over the medium to long term.
- 1.3. The proposal has been submitted to the Capital Investment Fund under the strategic investment/economic growth category.

2. Evaluation Summary

- 2.1. The evaluation score for the scheme is 77.5%. The breakdown across the four categories is shown in Table 1.

Category	Score (out of 5)	Weight	Weighted Score (out of 100)
Alignment with the organisations strategic objectives	3.5	15%	10.5
Financial viability	4	30%	24
Strategic Investment/Economic benefit	4	45%	36
Political, social and environmental impact	3.5	10%	7
Total			77.5

- 2.2. On the basis of the information provided in the business case, the allocation of £2.000 million from the Capital Investment Fund requested is recommended for approval.

- 2.3. The project will be delivered across Warwickshire. It will be managed by the Economy, Business and Skills Team in the Transport and Economy Business Unit (who currently manage or manage and deliver a number of 'access to finance' projects for businesses) and delivered in partnership with CWLEP, Coventry City Council and a specialist Financial Conduct Authority regulated fund manager.

3. Alignment with the Organisation's Strategic Objectives *(score 3.5 out of 5)*

- 3.1. The bid is consistent with and supports the OOP 2020 priority of "the economy is vibrant and supported by the right infrastructure".
- 3.2. The proposal fits well with partner strategies and elements and specifically involves Coventry City Council and CWLEP. Supporting enterprise and innovation is also one of the five key objectives in the recently launched Midlands Engine Strategy. The Midlands Engine plans include a £250 million Investment Fund. This fund will cover all aspects of our local project and is funded by the European Investment Bank, ERDF and the British Business Bank. This means there is a risk of duplication/overlap, although the Midlands Engine Fund is not expected to meet demand in Warwickshire and therefore approving this project will supplement this fund.
- 3.3. The benefits of the investment in terms of jobs created are long term (10+ years). It is for this reason that the proposal scored 3.5 out of 5 for alignment with the organisation's strategic objectives.

4. Financial Viability *(score 4 out of 5)*

- 4.1. External funding of £1.150 million has been secured for the project with a further £1.545 million estimated, bringing a total of £2.695 million to be leveraged as a result of the investment. (£23.3 million) is expected to be leveraged through the proposal, although only £1.5 million of this, so far, is secured. 35% of total anticipated spend (54% of WCC spend) is forecast to be incurred within the OOP 2020 plan period. There remains a risk that the level of match funding anticipated will not materialise and therefore the delivery of the expected benefits reduced.
- 4.2. The overall programme is based on an analysis of the current access to finance market undertaken by Tim Powell Business Consultancy to build an

understanding of gaps in support and consideration of the role the Council could play and a recent West Midlands assessment of the unmet demand for SME finance in Coventry and Warwickshire by DCLG and the European Investment Bank.

- 4.3. The scheme requires a degree of specialist external expertise to ensure informed decisions are made. All investment advice is required to be Financial Conduct Authority (FCA) regulated and this service would need to be commissioned by the Fund partners.
- 4.4. The potential financial returns from the date of investment are long-term, up to 15 years for the Duplex Fund, although there will be revenue interest earned in the intervening period on any loans made that will be reinvested.
- 4.5. The scheme has been designed to meet particular needs and gaps in provision. Whilst this is accepted, the proposal is similar to a range of other schemes, funded by other public/private bodies, that are aiming to deliver similar aims and care will be needed to ensure the scheme does not duplicate or overlap with other initiatives.
- 4.6. It is for the reasons outlined above that the Panel scored 4 out of 5 for financial viability.

5. Strategic Investment/Economic Growth ***(score 4 out of 5)***

- 5.1. The business case and supplementary information provided, demonstrates strong evidence of the economic benefits in terms of job creation and GVA growth. This is set out below:
 - Number of Business Suppliers supported - 182
 - Number of jobs created/ safeguarded - 653
 - Cost per job (total) - £7,200
 - Cost per job (WCC) - £3,100
 - Net increase in Gross Value Added - £39.2 million
 - Return on investment for WCC (per £1 million invested) - £19.60
- 5.2. The benefits of the Duplex Fund in terms of the return on investment, the number of businesses supported and the number of jobs created is higher than that for similar loans/grants programmes run in previous years.
- 5.3. There will be an element of project failure. However, the programme recognises this and tests deliverability as part of the scheme-by-scheme

appraisal process. The appraisal process considers issues such as any need for planning permission, the availability of other funding, the experience of the project team, the timescales and project risks.

- 5.4. It is these reservations that led to the scheme scoring 4 out of 5 for economic benefits.

6. Political, Social, Environmental and Organisational Impact *(score 3.5 out of 5)*

- 6.1. Overall the political, social, environmental and organisational impact of the project was relatively neutral:
- The investment in economic growth that will provide political/reputational benefits, although given the nature of the scheme these would be relatively long term.
 - It is a good example of successful partnership working at the sub-regional level.
 - There would be minimal organisational impact as work will be undertaken in conjunction with Coventry City Council, CWLEP and specialist fund managers.

Evaluation of the Warwickshire Business Small Capital Grant Programme

1. Proposal

- 1.1. A £0.300 million allocation from the Capital Investment Fund as the first year of a programme potentially increasing to £1.000 million by 2020/21 to provide a programme grant funding to Warwickshire businesses.
- 1.2. The project aims to address identified failures in the private access to Warwickshire businesses. The programme will target small businesses with growth plans where loans and other sources of finance are not appropriate.
- 1.3. The proposal has been submitted to the Capital Investment Fund under the strategic investment/economic growth category.

2. Evaluation Summary

- 2.1. The evaluation score for the scheme is 67%. The breakdown across the four categories is shown in Table 1.

Category	Score (out of 5)	Weight	Weighted Score (out of 100)
Alignment with the organisations strategic objectives	3.5	15%	10.5
Financial viability	3.5	30%	18
Strategic Investment/Economic benefit	3.5	45%	31.5
Political, social and environmental impact	3.5	10%	7
Total			67

- 2.2. On the basis of the information provided in the business case, an allocation of £0.300 million from the Capital Investment Fund is recommended for approval.
- 2.3. The project will be delivered across Warwickshire. It will be managed by the Economy, Business and Skills Team in the Transport and Economy Business Unit (who currently manage or manage and deliver a number of 'access to finance' projects for businesses).

3. Alignment with the Organisation's Strategic Objectives *(score 3.5 out of 5)*

- 3.1. The bid is consistent with and supports the OOP 2020 priority of "the economy is vibrant and supported by the right infrastructure".
- 3.2. The proposal fits well with partner strategies and the investment in the Duplex Fund for which approval is also being sought. Supporting enterprise and innovation is also one of the five key objectives in the recently launched Midlands Engine Strategy, although over such a wide region, the individual businesses supported by this scheme are likely to have minimal opportunity to access the larger investment funds set up under this umbrella such as the £250 million Investment Fund funded by the European Investment Bank, ERDF and the British Business Bank.
- 3.3. The benefits of the investment in terms of jobs created are long term (10+ years). It is for this reason that the proposal scored 3.5 out of 5 for alignment with the organisation's strategic objectives.

4. Financial Viability *(score 3.5 out of 5)*

- 4.1. External funding of £0.400 million is expected to be leveraged as a result of the investment, although to date none of this is secured and this remains a risk. All of the anticipated spend is forecast to be incurred within the OOP 2020 plan period.
- 4.2. The overall programme is based on an analysis of the current access to finance market undertaken by Tim Powell Business Consultancy to build an understanding of gaps in support and consideration of the role the Council could play and a recent West Midlands assessment of the unmet demand for SME finance in Coventry and Warwickshire by DCLG and the European Investment Bank.
- 4.3. The scheme has been designed to meet particular needs and gaps in provision. Individual businesses will be eligible for consideration for support depending on their circumstances including their size, availability of their own funding and the size of the proposed investment (i.e. the funding required). There remains a need to ensure the scheme does not duplicate or overlap with other initiatives.

- 4.4. The funding for the business grants schemes is a continuation of an existing programme which provides confidence in the viability of the proposal. It will always be possible to turn off funding if circumstances change thereby, indicating the programme is sustainable as it creates no long term commitment. However, the risk that the longer any fixed term programme of funding is available the greater the likelihood that an expectation that the funding will be available permanently is created, will remain.
- 4.5. It is for the reasons outlined above that the Panel scored 3.5 out of 5 for financial viability.

5. Strategic Investment/Economic Growth (score 3.5 out of 5)

- 5.1. The business case and supplementary information provided, demonstrates strong evidence of the economic benefits in terms of job creation and GVA growth. This is set out below:
- Number of Business Suppliers supported - 40
 - Number of jobs created/ safeguarded - 50
 - Cost per job (total) - £50,000
 - Cost per job (WCC) - £20,000
 - Net increase in Gross Value Added - £9.4 million
 - Return on investment for WCC (per £1 million invested) - £9.40
- 5.2. Whilst the cost per job is higher than the Duplex Fund, partly due to the former's revolving nature the estimated return on investment is higher than that for similar loans/grants programmes run in previous years. To date the small capital grants programme has allocated £921,000 to 40 businesses which has created 30 jobs (and is forecast to create over 125). This demonstrates that the realisation of the benefits is broadly in line with the initial expectations and is also consistent with the forecast numbers of jobs to be created and estimated returns on investment included in this bid. Therefore the evidence would suggest that the benefits being forecast are deliverable.
- 5.3. There will be an element of project failure. However, the programme recognises this and tests deliverability as part of the scheme-by-scheme appraisal process. The appraisal process considers issues such as any need for planning permission, the availability of other funding, the experience of the project team, the timescales and project risks. Grants are also paid in arrears and if circumstances change funding can be withdrawn and allocated to other projects.

- 5.4. It is proposed that the initial allocation is for one year only and that a review, to ensure benefits continue to be delivered at the same level, is undertaken before a decision is taken on whether to continue the programme into future years.
- 5.5. It is these reservations that led to the scheme scoring 3.5 out of 5 for economic benefits.

6. Political, Social, Environmental and Organisational Impact (score 3.5 out of 5)

- 6.1. Overall the political, social, environmental and organisational impact of the project was relatively neutral:
- The investment in economic growth that will provide political/reputational benefits, although given the nature of the scheme these would be relatively long term.
 - There would be minimal organisational impact as the funding will support the continuation of an existing programme of work into 2018/19.