Resources and Fire & Rescue Overview and Scrutiny Committee

Date: Thursday 27 May 2021
Time: 9.30 am
Venue: Shire Hall, Warwick

Membership

Councillors to be appointed at the Council Meeting on 25 May 2021.

Items on the agenda: -

1. General

(1) Apologies

(2) Disclosures of Pecuniary and Non-Pecuniary Interests

Members are required to register their disclosable pecuniary interests within 28 days of their election of appointment to the Council. Any changes to matters registered or new matters that require to be registered must be notified to the Monitoring Officer as soon as practicable after they arise.

A member attending a meeting where a matter arises in which they have a disclosable pecuniary interest must (unless they have a dispensation):

- Declare the interest if they have not already registered it
- Not participate in any discussion or vote
- Leave the meeting room until the matter has been dealt with
- Give written notice of any unregistered interest to the Monitoring Officer within 28 days of the meeting.

Non-pecuniary interests relevant to the agenda should be declared at the commencement of the meeting.

The public reports referred to are available on the Warwickshire web https://democracy.warwickshire.gov.uk/uuCoverPage.aspx?bcr=1

Monica Fogarty
Chief Executive
Warwickshire County Council
Shire Hall, Warwick

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Public Speaking

Any member of the public who is resident or working in Warwickshire, or who is in receipt of services from the Council, may speak at the meeting for up to three minutes on any matter within the remit of the Committee. This can be in the form of a statement or a question. If you wish to speak please notify Democratic Services in writing at least two working days before the meeting. You should give your name and address and the subject upon which you wish to speak. Full details of the public speaking scheme are set out in the Council's Standing Orders.

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Resources and Fire & Rescue Overview and Scrutiny Committee

Tuesday 9 March 2021

Minutes

Attendance

Committee Members
Councillor Adrian Warwick (Chair)
Councillor Parminder Singh Birdi
Councillor Sarah Boad
Councillor John Cooke
Councillor Judy Falp
Councillor Peter Gilbert
Councillor Andy Jenns
Councillor Maggie O'Rourke
Councillor David Reilly
Councillor Alan Webb

Other County Councillors
Councillor Peter Butlin, Deputy Leader and Portfolio Holder for Finance and Property
Councillor Andy Crump, Portfolio Holder for Fire & Rescue and Community Safety
Councillor Kam Kaur, Portfolio Holder for Customer and Transformation

Officers
Kieran Amos, Chief Fire Officer
Emma Andrews, Development and Operations Manager, Heritage & Culture
Jagdeep Birring, Technical Specialist, Production Systems
Barnaby Briggs, Assistant Chief Fire Officer
Ben Brook, Assistant Chief Fire Officer
John Cole, Trainee Democratic Services Officer
Craig Cusack, Assistant Director, Enabling Services
Andrew Felton, Assistant Director, Finance
John Findlay, Service Manager, Business & Customer Support
Stephanie Gardner, Service Manager, Customer Contact – Connect
Ayub Khan, Service Manager, Universal Services
Richard Lewis, Collections and Development Manager
Ade Mallaban, IRMP Manager
Rob Powell, Strategic Director, Resources
Steve Smith, Assistant Director, Commissioning Support Unit
Nichola Vine, Strategy and Commissioning Manager, Legal & Democratic

1. General

(1) Apologies

Apologies were received from Councillor O'Rourke (who was unable to attend for the initial part of the meeting) and Kushal Birla (Assistant Director, Business & Customer Services).

(2) Members' Disclosures of Pecuniary and Non-Pecuniary Interests

Councillor Boad declared that she was a member of Leamington Spa Town Council, which had responded to the Integrated Risk Management Plan (IRMP) consultation.

(3) Chair's Announcements

None.

(4) Minutes of Previous Meeting

Resolved:

That the minutes of the meeting held on 16 December 2020 be approved as a correct record.

There were no matters arising.

2. Public Question Time

No public questions were received or presented at the meeting.

3. Questions to Portfolio Holders relevant to the Overview and Scrutiny Committee

In response to Councillor Boad, Councillor Kaur advised that a relaunch of the strategy to promote the Library Service’s offer to young families would be scheduled once a date for the reopening of services had been confirmed.

Ayub Khan (Service Manager, Universal Services) reported that the Bookstart scheme had continued to operate effectively and had been supported by registrars during the period of the Pandemic.

4. Work Programme

Resolved:

That the Committee agrees the updated Work Programme, as set out in the report, and notes the scheduled future meeting dates.

5. Update on Heritage and Culture Strategy

Ayub Khan (Service Manager, Universal Services) introduced the report, stating that the Heritage and Culture Strategy had been launched prior to the outbreak of coronavirus in 2020. The Strategy had made considerable progress despite the limitations imposed by the Pandemic.

Ayub Khan reported that efforts had been made to signpost organisations to funding opportunities, including the Culture Recovery Fund. He stated that the Heritage and Culture sector had been severely impacted by COVID-19 with widespread loss of revenue.

Emma Andrews (Development and Operations Manager, Heritage & Culture) reported that a sector-wide survey had been undertaken to gauge the impact of the Pandemic. There was an awareness that medium-sized organisations had needed to furlough staff, and that a reduction in the availability of volunteers had detrimentally affected smaller organisations. The survey sought a view on how support could be most effectively orientated.

Emma Andrews stated that the findings of the survey suggested that funding was not a primary concern; many organisations had acted promptly to access government funding. It was considered that marketing and peer-to-peer support were required to attract people back to cultural events once the risk of transmission of the virus had subsided. For instance, people might be reluctant to return to an enclosed space, such as a theatre.

Ayub Khan advised that the report outlined priorities for post-pandemic recovery which were linked to the Authority's COVID-19 Recovery Plan. Work in partnership with Coventry City of Culture 2021 and Birmingham Commonwealth Games was on-going to ensure that the opportunities to capitalise on these high-profile events would not be overlooked.

Councillor Falp stated that marketing constituted a key challenge; intervention would be required to encourage people to return to spaces such as theatres. She advocated that specialist support for marketing be provided.

In response to Councillor Boad, Ayub Khan advised that work with schools and young people had not been overlooked. With support from the Royal Shakespeare Company, the Warwickshire Education Partnership would enable children to access cultural activities.

Councillor Jenns stated that a high proportion of volunteers were of retirement age and may be reluctant to return to the organisations they had previously supported. He highlighted the importance of the Strategy and the measures outlined to support valuable assets within the County.

Councillor Gilbert stated that he was confident that the Heritage and Culture sector would make a strong recovery. He emphasised that consistent messaging would reinforce a confident outlook. He commented that there was a need for theatres to work together, rather than compete for audiences, and to ensure that their initial productions were of high quality in order to attract visitors.

Resolved:

That the Committee:

a) Notes the contents of the Progress Report;
b) Supports the direction of travel as set out in the report;
c) Supports the proposals outlined for provision of specialist marketing advice to organisations to promote a strong post-pandemic recovery; and
d) Supports proposals for engagement with schools and young people to provide opportunities for engagement in cultural activities emerging from the Pandemic.

6. Update on Scrutiny Review

Nichola Vine (Strategy and Commissioning Manager, Legal & Democratic) introduced the report, stating that an independent review had been commissioned to examine the Authority's approach to scrutiny and to consider opportunities to improve upon current arrangements.

Nichola Vine advised that the independent report produced by Dr Jane Martin provided some positive feedback, particularly in relation to members' commitment to continuous improvement, and the work undertaken by Democratic Services. The report outlined several opportunities for improvement culminating in a series of recommendations. The Committee's view was sought in respect of the report and future arrangements for scrutiny.

Nichola Vine stated that a relaunch of the scrutiny function had been proposed with a stronger alignment with corporate objectives and a focus on collegiate, constructive and challenging discussion. This could be accomplished by a restructuring of committees to foster improved scrutiny of corporate themes and objectives; or to align committees more closely with change portfolio themes.

Nichola Vine advised that the report highlighted the opportunities presented by virtual meeting technology, including improved scope to engage with members of the public and external partners.

Nichola Vine highlighted the potential for the timetable for meetings to be reviewed to ensure that scrutiny committees could be held at the optimum time to facilitate input into decision-making. The report also highlighted the value of dynamic task and finish groups, drawing upon the experience of the COVID-19 Recovery Member Working Groups held in July 2020.

Nichola Vine advised that an opinion on the recommendations of the report was being sought from each scrutiny committee, as well as from members on an individual basis, to identify a plan to be presented to councillors following the May 2021 election.

The Chair emphasised the importance of the report. He highlighted the role of scrutiny to act as a 'critical friend' - to examine issues and work alongside members of the executive to identify scope for improvements to be made.

Councillor O'Rourke highlighted the advantages of select committees for effective scrutiny. This arrangement provided scope to interact directly with service users and stakeholders to examine areas where the Authority had performed well and areas where improvements could be sought.

Councillor Falp welcomed the report, stating that, at other authorities, it was not uncommon for scrutiny committees to be chaired by members from across party groups. She advocated that WCC adopt a similar arrangement. She suggested that a focus on joint working between committees would confer benefits.

The Chair highlighted the recommendation for a 'chair of chairs' with oversight of scrutiny across the organisation; this would facilitate improved cross-panel cooperation.

Councillor Boad commented that portfolio holders, group leaders and chairs of scrutiny committees had been interviewed by Dr Martin. However, with two exceptions, members of scrutiny committees had been overlooked. This constituted a missed opportunity.

Councillor Boad advocated that the chairs of overview and scrutiny committees be drawn from parties outside of the majority group. She highlighted the opportunities presented by Microsoft Teams to facilitate a broader range of scrutiny activities, enabling a focus on specific issues. She underlined the importance of performance data to inform scrutiny.

Councillor Reilly stated that, despite the shortcomings of the consultation, the report had arrived at a constructive critical framework. He commented that existing arrangements were constrained by the absence of a clear performance framework, stating that effective scrutiny depended upon clearly defined parameters of individual responsibility.

Councillor Gilbert indicated his agreement that chairs of scrutiny committees be drawn from outside of the majority group. He underlined the importance of scrutiny which adhered to the principle of acting as a 'critical friend' whilst prioritising rigorousness and objectivity. He suggested that an independent chair would meet the criteria for objectivity to hold the executive to account.

Councillor Jenns indicated his agreement that chairs be drawn from outside of the majority group. He stated that the report was well-timed; an opportunity was present to examine the efficacy of scrutiny arrangements. He expressed his support for the introduction of an overall chair of scrutiny committees, and wider utilisation of virtual meeting technology.

The Chair stated that an emphasis on the substance of the issues under consideration, rather than party politics, had served to benefit the work of the Resources and Fire & Rescue OSC. He stated that effective scrutiny sought the best outcome for residents; a fair and inclusive approach was a means to accomplish this.

Councillor Webb commented that, when scrutiny committees were introduced, members were encouraged to examine the relevant issues carefully to reach a combined understanding. He emphasised the importance of constructive conversation in an informal setting to achieve effective outcomes.

Councillor Gilbert highlighted the limitations of remotely-held committee meetings, stating that an improved standard of governance could be achieved by meeting in-person.

The Chair sought the views of the Committee to frame a resolution. There was a consensus that the Review would have benefitted from a broader consultation with members. The prospect of holding dynamic task and finish groups was welcomed by the Committee. There was support for the utilisation of digital technology to enable a wider range of scrutiny activities. However, it was felt that committee meetings should be held at Shire Hall once it was safe to do so.

The Chair stated that the prospect of independent chairs warranted attention and that the Authority stood to benefit from the introduction of external expertise.

Resolved:

That the Committee:

a) Notes the findings of the Independent Review into Overview and Scrutiny;
b) Recognises the opportunities presented by the utilisation of digital technology, whilst acknowledging the importance of committee meetings being held at Shire Hall;
c) Recognises the potential benefits of engagement with external experts, stakeholders, and service users;
d) Recognises the potential advantages of independent chairpersonship of overview and scrutiny committees.
e) Supports the introduction of an overall chair of overview and scrutiny;
f) Notes that a wider consultation with members during preparation of the report would have conferred advantages.

7. HMICFRS COVID-19 Inspection Report

Ben Brook (Assistant Chief Fire Officer) introduced the report, stating that between 28 September 2020 and 9 October 2020, Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) undertook an inspection of the response of Warwickshire Fire and Rescue Service (WFRS) to COVID-19.

Ben Brook stated that it was clear that HMICFRS recognised the quality of the Service's response to the Pandemic. In the report, HMICFRS acknowledged the breadth of services delivered by WFRS including expansion of the Hospital to Home scheme which had helped to relieve pressure on the NHS during a critical period.

Ben Brook reported that HMICFRS had praised the ability and willingness of WFRS to maintain its delivery of statutory functions whilst supporting the community with a wide range of activities during a demanding period.

Ben Brook acknowledged the effectiveness of the combined response to COVID-19 from across WCC as well as Warwickshire Police, Public Health England, and the NHS. He stated that the report had identified four areas of future focus which had been acted upon promptly to ensure that communities would receive the best possible provision of services.

Members praised the outcome of the inspection and findings of the report.

In response to Councillor Boad, Kieran Amos (Chief Fire Officer) advised that the Resources and Fire & Rescue OSC provided an effective forum to enable members, as representatives of the Fire and Rescue Authority, to examine relevant issues. He added that the development of an Integrated Risk Management Plan (IRMP) Assurance Panel would enable a specific focus on delivery of the IRMP.

Kieran Amos advised that WFRS had taken a leading role in raising the potential issue of whether furloughed on-call firefighters would continue to qualify for payments from their primary employer. This had been responded to promptly by the National Fire Chiefs Council, enabling on-call firefighters to continue to play a part. This advice had helped other fire and rescue services and was noted by HMICFRS in their report.

Councillor Crump highlighted the impressive contribution WFRS had made to provide support to communities during the Pandemic. He offered his congratulations to Henley-in-Arden Fire Station which had maintained around-the-clock uninterrupted availability for two years consecutively. This was a substantial accomplishment.

Resolved:

That the Committee:

a) Notes the summary findings of Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) COVID-19 Specific Inspection of Warwickshire Fire and Rescue Service (WFRS);
b) Commends WFRS for the positive outcome of the inspection; and
c) Expresses its thanks to WFRS for its continued delivery of high-quality services to the communities of Warwickshire.

8. Draft Integrated Risk Management Plan (IRMP) 2020-25: Post-Consultation Report

Ben Brook (Assistant Chief Fire Officer) introduced the report, stating that Warwickshire Fire and Rescue Service (WFRS) had a statutory duty to prepare an Integrated Risk Management Plan (IRMP) which is regularly reviewed and consulted upon.

Ben Brook reported that, on behalf of the Fire and Rescue Authority, WFRS had prepared an IRMP based upon detailed risk analysis. The Committee's view was sought on the five proposals outlined within the recommendation of the report.

Ben Brook advised that the report provided details of the outcome of the public consultation on the five proposals. He stated that a diverse range of views had been received with majority support for the five proposals. The proposals would form the basis of an action plan for the next 12 months. He praised the contribution of Ade Mallaban (IRMP Manager) and his team for their hard work and commitment to the project.

Councillor Boad highlighted Proposal 1 ('ensure our workforce and ethos reflect the diverse communities we serve') which received the highest proportion (22%) of responses in disagreement. She expressed concern that these figures could suggest intolerance, or a failure to comprehend the importance of equality, diversity and inclusion (EDI).

Kieran Amos stated that it was likely that respondents who indicated disagreement to Proposal 1 held the view that WFRS was a tolerant organisation which did not require specific attention to be given to EDI. He commented that this was symptomatic of a broader misconception and justified WFRS's continued emphasis on EDI. He stated that it was crucial to maintain a position where anybody, including prospective employees, felt welcome, protected, and secure.

In response to Councillor Reilly, Kieran Amos advised that the IRMP would enable a clear mandate to seek a reduction in the number of road traffic collisions resulting in injury or death. Work with the Business Intelligence Team had informed an improved understanding of the causes of road traffic collisions, the areas of the highway network that presented the greatest risk, and where intervention should be targeted. He advised that continual improvement in this area was a priority.

Councillor Crump advised that in 2019/20, 34 people had been killed or seriously injured on Warwickshire roads, the majority of whom had been pedestrians, cyclists or motorcyclists. This provided a sense of the risk profile. He stated that speed cameras had proved to be an effective means of reducing road traffic collisions in the West Midlands area, and the Safer Travel to School scheme had shown benefits.

The Chair praised WFRS Officers for their support throughout the municipal year and for the exemplary performance of the Fire and Rescue Service.

Resolved:

That the Committee notes the view expressed by Cabinet on 11 February 2021, and recommends that Council:

a) Note the outcome of the eight-week Draft Integrated Risk Management Plan (IRMP) 2020-2025 consultation process.

b) Approve the IRMP 2020 - 2025 and the proposals therein:

- Proposal 1 - Ensure our workforce and ethos reflect the diverse communities we serve
- Proposal 2 - Assess our capabilities to improve our ways of working in response to any future pandemics
- Proposal 3 - Assess our overall resource capacity to ensure our personnel and physical assets are in the right place and at the right time to deliver our statutory duties
- Proposal 4 - Develop further opportunities to support the wider community health outcomes and help to protect Social Care and the NHS
- Proposal 5 - Implement digital solutions to enhance our service delivery.

c) Authorise the Cabinet to approve the annual action plans to deliver the IRMP.

9. Update on Customer Experience Strategy

John Findlay (Service Manager, Business & Customer Support) introduced the report, stating that the Customer Experience Strategy had been approved in December 2019 leading to development of an Action Plan. He reported that COVID-19 had resulted in significant delays to the delivery of the Plan whilst resources were diverted to provide relief during the Pandemic. He advised that the objectives of the Strategy had not altered, and a revised Action Plan would be developed to progress work in this area.

Councillor Falp praised the quality of on-line resources on offer. However, she stated that intervention was necessary to promote on-line services, such as the facility to report faulty streetlighting.

Councillor O'Rourke commented that the two tiers of local government (borough/district councils and Warwickshire County Council) in operation made it difficult for residents to determine which services were provided by which organisation. She stated that customer service messaging should be communicated in a clear and accessible way.

Councillor Kaur praised the response of the Communications Team to the challenges of coronavirus, including the focus on a strong on-line offer for residents. She stated that there was a need to signpost services in a clear, simple way. This would be priority for the organisation emerging from the Pandemic.

The Chair praised the digital offer to customers during the period of the Pandemic. He expressed his gratitude to the Portfolio Holder and Business & Customer Services Team for the effectiveness of the response to COVID-19.

Resolved:

That the Committee notes the progress on year one of the implementation of the Customer Experience Strategy.

10. Any Urgent Matters

As this was the final meeting of the municipal year, the Chair expressed his thanks to the members of the Committee. He praised the contribution of the Vice-Chair and group spokespersons, the commitment of portfolio holders, and the efforts of officers. On behalf of the Committee, he expressed gratitude to Warwickshire Fire & Rescue Service, and all emergency services, for their hard work during a challenging 12 months.

11. Reports Containing Confidential or Exempt Information

Resolved:

'That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972'.

12. Exempt Minutes

The exempt minutes of the meeting held on 16 December 2020 were received. There was discussion regarding the length of meetings and the advantages of scheduling additional meetings when items of significant importance required detailed scrutiny. This was acknowledged by officers.

Resolved:

That the exempt minutes of the meeting held on 16 December 2020 be approved as a correct record.

The meeting rose at 15:55

……………………………………….
Chair

Resources and Fire & Rescue Overview and Scrutiny Committee
Work Programme 2021/2022 – May 2021

Item / Lead Officer	Report detail	Date of next report
Public Question Time/Questions to the Portfolio Holders / Work Programme	Standing items for every meeting.	* Standing item
Council Plan 2020 – 2025 Performance Report	Council Plan 2020 – 2025 Performance Report	* Standing item
John Findlay	Complaints Strategy Update	14 July 2021
John Findlay	Voluntary and Community Sector Strategy	14 July 2021
Maureen Oakes	Customer Feedback Overview Report	15 September 2021
Warwickshire Fire & Rescue Service	Verbal Update: Impact of the construction phase of HS2 on Warwickshire Fire & Rescue Service	TBC
Warwickshire Fire & Rescue Service	Outcome of the IRMP Consultation	TBC

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Resources and Fire & Rescue Overview and Scrutiny Committee

27 May 2021

Warwickshire Recovery & Investment Fund (WRIF)

Recommendations

That the Committee:

1. Considers the appropriateness and adequacy of the County Council's draft governance, control, monitoring and decision-making arrangements as set out in this report.

2. Makes recommendations to Cabinet in respect of any amendments to the proposed arrangements in the report and/or recommends revised or additional arrangements.

3. Considers and makes recommendations on the WRIF's draft inaugural Business Plan and WRIF Investment Strategy in advance of them being submitted to Cabinet for approval.

Report structure:

1. Introduction
2. The Economic Outlook for Warwickshire
3. WRIF Objectives, Investment Principles and Potential Benefits to Warwickshire
4. Executive Summary of the WRIF Proposal
5. WRIF Governance
6. Legal Considerations
7. Financial Considerations

Attachments:

Appendix 1: Draft WRIF Business Plan
Appendix 2: Draft WRIF Investment Strategy (for Cabinet)
Appendix 3: Revised WCC Investment Strategy (for Council via Cabinet)
Appendix 4: Revised WCC Treasury Management Strategy (for Council via Cabinet)
Appendix 5: Draft WRIF Prospectus
Appendix 6: WRIF Comms Plan

1. Introduction

1. A major component of the Council's Covid-19 Recovery Plan is the establishment of a Warwickshire Recovery & Investment Fund (WRIF) to support new and existing businesses, both within Warwickshire and those aiming to relocate to the county. This proposal utilises the Council's strong financial position to invest in carefully chosen opportunities that, if successful, would maintain and develop the local economy and attract additional private investment. This would be to further the Council's objectives including, but not limited to those on the economy, environment and social value.

2. The purpose of this report is to ask the Committee for its comments and recommendations on the draft WRIF business plan and supporting documentation, including the WRIF Investment Strategy, and the governance arrangements described within. The Committee is invited to note that Cabinet resolved the following when it first considered detailed WRIF proposals (WRIF Business Case) on 11 February 2021:

   That Cabinet:

   - Supports the Business Case to establish the Warwickshire Recovery and Investment Fund

   - Approves in principle the establishment of a Warwickshire Recovery and Investment Fund (WRIF) and authorises the Strategic Director for Resources to finalise the proposals and the fund allocations and to develop the Year 1 Business Plan based on the principles set out [in the February Cabinet report] for further consideration by Cabinet.

   - Supports the proposed WRIF governance arrangements and approves the establishment of a Member Oversight Group and an Officer Investment Panel as more fully described [in the February Cabinet report].

   - Notes that a further report will be brought back to Cabinet to approve the final arrangements, including the 2021-22 Business Plan and to ask Cabinet to consider making the recommendations to Council in respect of the changes considered necessary to the Treasury Management Strategy and the Investment Strategy and to add the WRIF loan facility to the capital programme

3. The material presented as appendices to this report to the Resources and Fire & Rescue Overview & Scrutiny Committee (OSC) includes the draft inaugural WRIF Business Plan and its associated documents mentioned in the final bullet point, above. Comments and recommendations from the OSC will be included in the report to June Cabinet which will accompany the draft WRIF Business Plan and inaugural WRIF Investment Strategy.

4. Recommendations relating to the following will be submitted to Cabinet on 17th June 2021 with the WRIF Business Plan and associated documents:

a) To approve the inaugural Business Plan for the WRIF
b) To approve the WRIF Investment Strategy
c) To approve WRIF Governance
d) To approve the WRIF performance framework
e) To approve funding arrangements for the WRIF
f) To note the amended WCC Treasury Management and WCC Investment Strategies, before submission to full Council on 1st July 2021 for approval

5. In addition to Cabinet approval of the WRIF Business Plan and WRIF Investment Strategy, Cabinet will be asked to consider amendments to the Council's Treasury Management and Investment Strategies. These final two will then need to be submitted to full Council for approval, along with a covering report and recommendations. There will also be a second report to Council to add the facility to finance the WRIF to the capital programme.

6. The Committee is invited to note that the Council has received independent legal advice on the setup of the WRIF and the initial advice on setup was summarised in the 11th February 2021 Cabinet report covering the WRIF Business Case. The advice covered matters such as compliance with the Council's fiduciary duties and the new subsidy control regime. Subsequent advice has covered matters relating to anti-money laundering. This advice is available to members separately but is summarised in section 6 of this report.

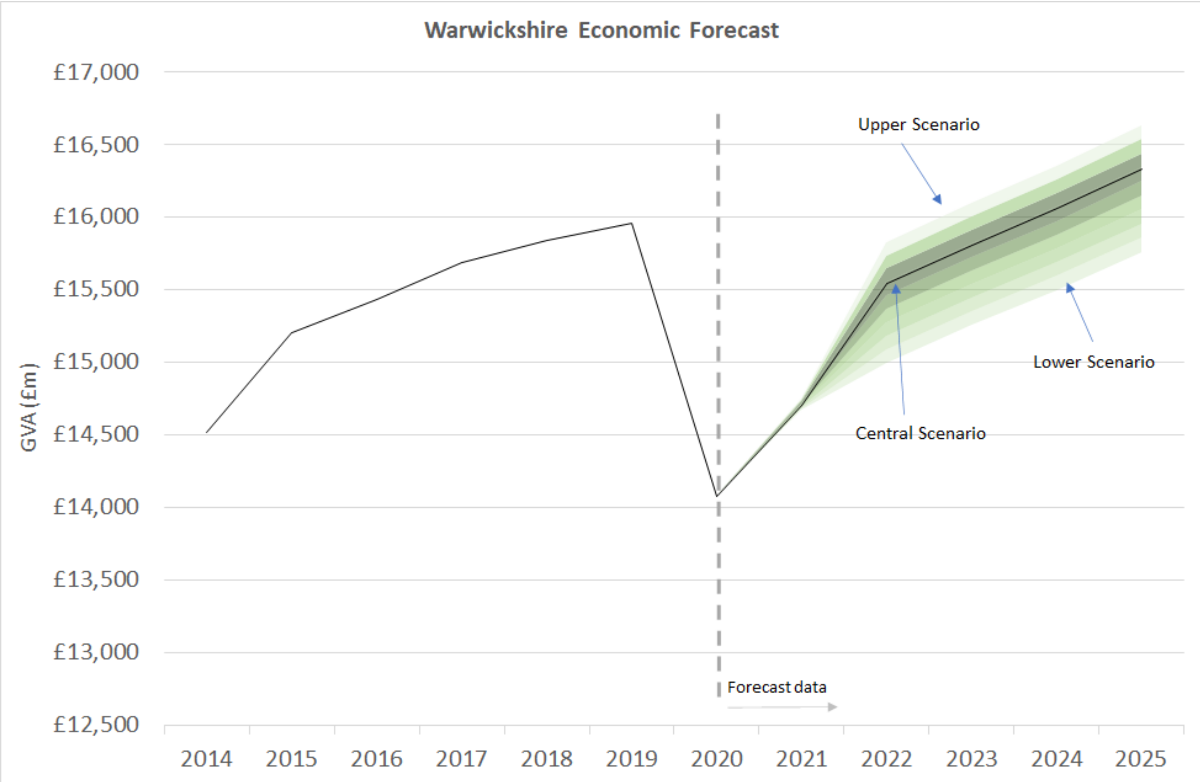
2. The Economic Outlook for Warwickshire

7. As mentioned, the WRIF is a key component of the Council's Covid-19 Recovery Plan. Priority 7 of the Plan is "Invest in regeneration and a sustainable future", which includes as an action, "[to] develop a proposal for a Warwickshire Recovery Investment Fund and progress other capital investment to support the recovery of our local economy".

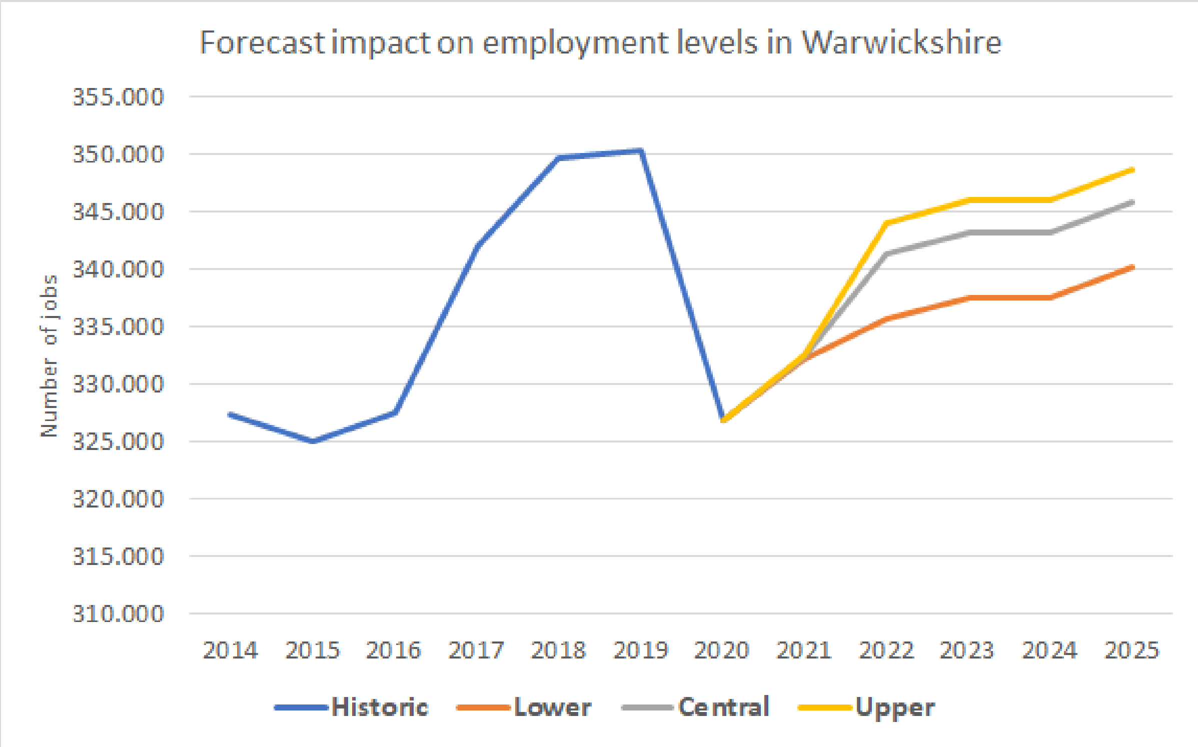
8. The economic case for the WRIF was initially developed by SQW last year, and the forecasting was updated for the February Cabinet report in light of the likely impacts of the second national lockdown. The Council's Economy & Skills team have since reassessed the modelling again, in light of the extension of the various Government support schemes (particularly job furloughing, business rates and tax holidays), and the successful movement along the roadmap out of lockdown and the rollout of vaccinations. Furthermore, we have seen that the second lockdown has not had such a negative impact on the economy as the first, as businesses, employees and consumers have learned to adapt to different ways of working.

9. There is inevitably a significant level of uncertainty around this forecasting work, and a range of potential scenarios that need to be considered. There has been a considerable uptick in business confidence, and the early signs as restrictions are eased are showing strong levels of consumer demand and spending which suggests a potentially relatively quick recovery. However, there remain concerns as to the sustainability of current consumer behaviours, and that as and when Government support measures are withdrawn, businesses will face considerable pressures around cashflow due to limited reserves and lack of both investment and working capital.

10. There is consequently a risk of a further wave of business closures and redundancies towards the end of 2021. As a result, the Council's Economy & Skills Team have reviewed the various different national economic forecasts, likely trajectories for different sectors of the economy, and applied them to Warwickshire's economy. Looking at both the optimistic, higher end scenarios and more pessimistic lower end ones, the team has produced the following fan chart.

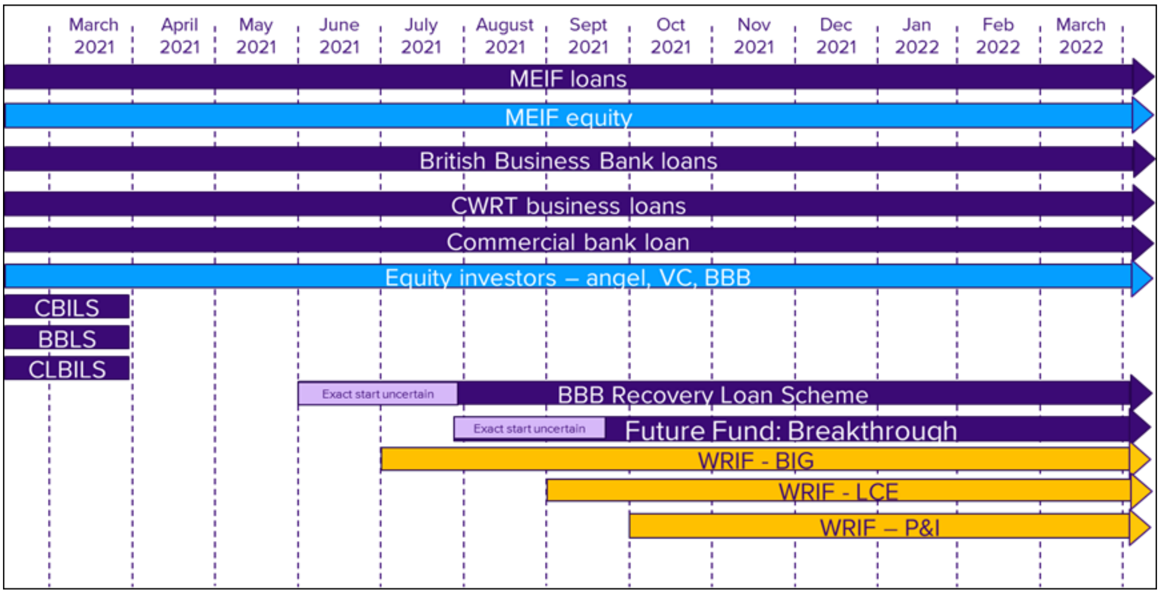


11. In terms of employment levels within the county, the following graph presents modelled forecasts for the numbers of jobs within the county. The Committee is invited to note that although the upper and central forecasts for economic output see a relatively quick return to pre-pandemic levels, employment is forecast to return much more slowly, and in all scenarios does not return to pre-pandemic levels during the forecast period.



12. While the revised forecasts suggest an improved picture and a faster recovery than initially thought, this is clearly not guaranteed, and it is vital that Warwickshire seeks to maximise the opportunities for recovery and future investment that could otherwise occur elsewhere.

13. Economic support programmes delivered by and for central government are included on the following timeline in the draft Business Plan. This demonstrates the timeliness of the introduction of the respective WRIF pillars shortly after the phasing out of the Business Intervention Loan schemes.



Acronyms	
MEIF	Midlands Engine Investment Fund
CWRT	Coventry & Warwickshire Reinvestment

	Trust
VC	Venture Capital
BBB	British Business Bank
CBILS	Coronavirus Business Interruption Loan Scheme
BBLS	Bounce Back Loan Scheme
CLBILS	Coronavirus Large Business Interruption Loan Scheme
WRIF – BIG	Warwickshire Recovery & Investment Fund – Business Investment Growth pillar to 2025/26
WRIF – LCE	WRIF Local Communities & Enterprise pillar to 2025/26
WRIF – P&I	WRIF Property & Infrastructure pillar to 2025/26

14. In summary, the implementation of the WRIF aligns with the Council's objective to promote economic recovery, the economic outlook remains challenging and the introduction of the WRIF coincides with the phasing out of central government support, including the various Business Intervention Loan Schemes.

3. WRIF Objectives, Investment Principles and Potential Benefits to Warwickshire

15. The Business Plan reiterates the objectives, principles and expected benefits of the WRIF. It describes the current state of the fund market and gives suggested targets for the WRIF, in accordance with the objectives of it.

16. The objectives for the WRIF are to:

- Provide access to finance that helps businesses in Warwickshire start, grow and scale up; or helps businesses locate to the county;
- Leverage additional resources or funding for the county through the investment and support of key growth businesses;
- Secure an ongoing financial return, commensurate with risk;
- Make investments that deliver benefits and social value to the residents and communities of Warwickshire in both in the short term (0-12 months) and medium term (1-5 years);
- Fill a gap in access to finance for businesses in Warwickshire;
- Support investments that make a contribution towards meeting net zero carbon goals; and
- Support the delivery of the Council's strategic goals and policy objectives as set out in the Warwickshire Council Plan 2025, COVID 19 Recovery Plan, Economic Strategy, Commercial Strategy and Place Shaping Programme.

17. The main principles of how the WRIF should operate are to:

- Support businesses either based within Warwickshire or looking to locate to the county;
- Create a diversified and balanced portfolio of risk-based investments that protect the public purse, support business and both creates new and protects existing jobs;
- Manage risk and target full recovery of investments;
- Generating permitted financial returns;
- Provide a flexible tool to consider and enable a range of opportunities for supporting business;
- Support business through investments based on agreed investment criteria and priorities that are developed from analysis of the economy and strategic sectors and support key sectors and growth, rather than weaker sectors;
- Support investment opportunities that will deliver against clear criteria that align with WCC outcomes and priority objectives - this is done not to deliver commercial returns/yield but to deliver Council objectives by filling a gap in the market;
- Target priorities by promoting investment in priority sectors, business types and investments that enable development, and provide wider social value benefits across the Warwickshire economy;
- Create an investment profile that grows slowly to avoid excessive risk with clear management and monitoring pathways to avoid creating a cost to the revenue budget/tax payer;
- A consistent and streamlined approach to considering investment opportunities and ensure all investment decisions are made against agreed investment criteria and align with Council priorities and outcomes;
- To amplify and complement the existing investment landscape and other recovery packages; and
- Provide funding within the limits and requirements set out in the council's non-treasury Investment Strategy.

Proposed Benefits

18. It is intended that the WRIF will give a particular focus to investment opportunities that:

- Stimulate job creation of skilled or entry level jobs in the county;
- Can or will leverage additional resources or funding;
- Help meet the net zero carbon targets for the Council and County; and
- Increase social value – where the investment brings benefits to local residents, removes barriers to employment, supports health and well-being, protects and enhances the natural environment, creates better places to live and/or maximises opportunities to strengthen community capacity and resilience.

19. Modelled benefits of WRIF include the following:

Support business and grow the economy; create the conditions for business innovation and investment to support business growth in growing sectors and drive economic growth.	Annual GVA / Value of GVA uplift to the County Number of new start-up businesses / businesses supported Business rates income Council tax income County-wide equitable distribution of funding
Increase the rate of employment; investment stimulates job creation with an increase of skilled or entry level jobs in the County	Number of jobs created/ filled by unemployed Number of jobs safeguarded
Provides employment land and premises; investment addresses the lack of appropriate employment land and premises in the County	Creation of employment land and premises – commercial space completed then occupied Amount of land developed/enabled
Enables Carbon reduction; investment in environmentally and/or economically sustainable businesses that are driving climate change benefits, carbon neutral and low carbon initiatives	An increase in the use of/public support for low and zero carbon technologies Number of responsible investments
Increases Social Value; investment brings benefits to local residents by promoting initiatives that increase skills and capabilities, removes barriers to employment, improves health and wellbeing, protects and enhances the natural environment, creates better places to live and maximises opportunities to strengthen community capacity and resilience.	Poverty premium - how many people's lives have they touched and households helped

WRIF at £140m

Projected outcomes	**Summary**
Jobs created	2,500 - 3,400
Jobs safeguarded	2,700 - 3,900
Annual regional GVA (£m)	110 - 160
Number of Businesses supported	118
Private sector leverage (£m)	78 - 104
Public sector leverage (£m)	26 - 35
Land & development enabled (hectares)	15-23

Business plan targets (2021/22)

- Amount invested: £22m
- Companies supported: 12
- Value of leverage: 0
- GVA uplift: 0
- Jobs created: 0

- Jobs safeguarded: 390
- Amount of land/development enabled: 0

4. Executive Summary of the WRIF Proposal

20. The following table contains key points about the WRIF and is drawn from the relevant parts of the draft Business Plan, WRIF Investment Strategy and other associated documents. The purpose of it is to provide the Committee with an ‘at a glance’ overview of the key points about the WRIF that are being submitted to Cabinet for decision on 17th June. Although the key points are captured in this table, the remainder of this report goes into further detail.

Quantum	<£140m over the five years MTFS period, with funding split across three investment pillars. £130m will fund capital investments that will be funded from a mixture of external and internal borrowing, and £10m will fund revenue investments that can only be funded from internal borrowing.
Potential benefits	Unlock and secure new and additional private sector investment (c. £98m) Create new jobs in the county (c. 2,500+) Generates a figure of £4.6m NPV
Lifecycle / duration	WRIF is a ‘closed fund’, time limited for 5 years, after which there will be no further investments made unless it is decided by the Council that the WRIF remains aligned to the delivery of the Council Plan, there is demand for it to continue and it continues to be affordable for the Council. Funding provided to applicants will occur in the first 5 years, with repayment profiles lasting up to 10 years from the date of the loan being made.
Governance	Cabinet agreed the governance arrangements on 11th February. So after Cabinet considers the Business Plan the next step would be to establish the Investment Panel, chaired by the Strategic Director for Communities; this makes recommendations on investments (for Business Investment Growth and Property & Infrastructure pillars) to Cabinet. Also, the cross-party Member Oversight Group chaired by the Portfolio Holder for Finance will be established and there will be ongoing involvement by Overview & Scrutiny and Audit & Standards Committee. The Member Oversight Group will also play a role in the Warwickshire Property & Development Group (WPDG) governance.
Pillar key features	**Business Investment Growth** (£90m over 5 years): • Focus on providing finance for growing businesses in Warwickshire with sound prospects in sectors where Warwickshire has particular strengths • <£10m per investment, numbering indicatively. 2-5 per annum. **Local Communities & Enterprise** (£10m over 5 years): • Focus on meeting local, smaller scale requirements for access to finance with the aim of maintaining social capital in communities, supporting new local small businesses and creating entry level jobs in priority sectors • <£500k per investment, numbering indicatively. 10-30 or greater per annum (average loan modelled is £100k) **Property & Infrastructure** (£40m over 5 years):

	• To enable development in the County, facilitating new employment, land and commercial premises and which could also include investing in commercial sites and premises • Up to £40m investment, to a maximum 10 year term
Pillar management	**Business Investment Growth** to be managed internally. Investment recommendations are made to Cabinet by an Investment Panel chaired by the Strategic Director for Communities. **Local Communities & Enterprise pillar and Property & Infrastructure pillar** LCE to be managed by external fund manager/s and PIF expected to have an element of external fund management, subject to final arrangements being determined. Where a fund is externally managed, the Council will set investment parameters (the criteria, limits and requirements from the WRIF Investment Strategy) through the procurement process and those could be enshrined in the contract between the Council and the external fund managers. However, in the case of the LCE pillar, day to day investment decisions would be made by the external fund manager in line with the framework and criteria laid down by the Council. PIF investment decisions are expected to follow the same process as the BIG pillar in terms of final decision making.
WRIF targets (2021/22)	Amount invested:£22m Companies supported: 12 Value of leverage: 0 GVA uplift: 0 Jobs created: 0 Jobs safeguarded: 390 Amount of land/development enabled: 0
Dependencies	Facilitation of the investments by the Investment and Treasury Management Strategies Funding allocation to WRIF Appointment of external fund manager/s Resourcing in place
Risks	Risk is summarised immediately below this table

Risk

21. The Council has adopted as part of its Strategic Risk Management Framework a set of descriptors of risk tolerance, these include:

- Averse - Avoidance of risk and uncertainty is a key organisational objective;
- Minimalist - Only prepared to accept the possibility of very limited adverse impacts in all circumstances;
- Cautious - Tolerance for risk taking is limited to those events where there is little chance of any significant downside impact;
- Open - Tolerance for decisions with potential for significant risk, but with appropriate steps to minimise any exposure and deliver benefits; and
- Hungry - Eager to pursue options offering potentially higher rewards despite greater inherent risk.

22. The WRIF Business Plan describes the Council's risk appetite (which may be reviewed and changed over time) in terms of WRIF as 'Open':
'The risk of financial loss from commercial decisions, but where risk is managed to enable participation in new opportunities with significant gains'

23. Whilst there are potentially benefits that can be delivered in the County by the WRIF, there are also risks associated with it. These and mitigating actions that can be taken to address them have been summarised in the table below for the Committee.

Risk	**Potential Management & Mitigations**
Governance Insufficient resource and expertise is committed to the business case process that supports any investment decision and as such investment decisions are poor and increase the likelihood of loss. The Council is slow in making corrective actions where investments are performing below expectations Recent coverage of Local Authorities getting into difficultly when making loans to third party entities has highlighted the need for a robust understanding of the risks, governance arrangements and the need to quickly identify and act on any financial issues. Appropriate training, sufficient understanding of investment and purpose, timing of returns and robust reporting against issues where all identified as key areas to Council wishing to undertake these activities.	The Council must identify sufficiently qualified resource to ensure business cases are robust and any investment decisions properly understood. Reporting should be sufficiently regular and detailed to ensure that issues are identified and addressed in a timely manner. The Council should pay regard to recent Public Interest reports in this area and ensure that lessons learned are embedded in the governance of the WRIF. A key element highlighted in the reports was the need to challenge optimism bias and for appropriate training and skills for officers and also training for members to enable members to adequately scrutinise and challenge the information they receive.
Finance and Funding Risks[1] Interest rates are currently at historically low levels, with some commentators believing that the current market outlook may push these rates lower. As such, debt is currently relatively cheap, although this could be considered the new norm when looking at the current Government Bond Market. There is a risk that the future success of the	The Council has a corporate Treasury Management strategy that allows rises in interest rates to be managed across a range of financial instruments thereby lower the impact of future rate increases.

[1] Financial risks are covered more extensively in paragraph 94 of this report

Risk	Potential Management & Mitigations
programme could be impacted by an interest rate rise. Subsidy Control regulations - Investment decision making will need to be carefully monitored to ensure compliance with changing subsidy control regulations	Regular monitoring of compliance with subsidy control regime as part of due diligence and specific investment business case prior to investment decision making
Debt monitoring and recovery Where an element of a fund is internally managed there is insufficient resource applied to monitor and recover debts once the initial investment has been made.	Sufficient resource must be identified to monitor and report on the performance of the funds. Market Testing has indicated the total costs of the Fund to be in the region of 2% of the total sums invested, which is in line with industry norms.
Default levels exceed Fund estimates Default rates have been estimated based on the financial strength of the counterparties. However, as the Fund is focused on Growth and Recovery losses may exceed those expected and there may be insufficient set aside to cover Fund losses.	The creation of the commercial risk reserve (£7.5m) as part of the 2021/22 MTFS provides additional financial cover in the short term should the level of loan repayment defaults be higher than those expected in the business plan until such time as corrective action to the operational arrangements for the WRIF or the next MTFS refresh can be put in place. The value of the reserve will be assessed each year for prudence and adjustments made accordingly. Where losses exceed expectations, this should be fed back to the Investment Panel and consideration given to a tightening of investment criteria.
Investment Objectives Investment objectives are unclear, not consistently applied or don't adapt to meet changing market conditions or the needs of the Council.	Regular review of the relevance of the investment objectives, including their rationale, is vital in keeping the programme and

Risk	Potential Management & Mitigations
	investment decision making responsive. The investment strategy, against which bids are assessed will be reviewed and reapproved on an annual basis.
Local Government Regulation There is currently heightened scrutiny in the Sector, where authorities are looking to support their financial positions through the use of commercial investments. This increases the risk of changes to Local Government Regulation that may inhibit the ability of the Council to invest in such activities or increase the cost of doing so. Failing to meet the current PWLB rules would have an adverse impact on the Council's ability to borrow for future activities. For instance, regulation around MRP has been adapted to respond to current market activity and borrowing requirements from PWLB have recently changed.	The Council has identified key individuals responsible for the regular review of all legislation and financial requirements. The Council must have the flexibility to alter investments if those changes would adversely impact the ability to borrow/fund statutory services. The WRIF proposals are policy-driven investments and therefore comply with the current regulatory framework.

Market Engagement on the WRIF Proposals

24. Market engagement was undertaken as part of the development of the WRIF proposals. The findings of this exercise indicated support from those consulted for the main aims and objectives of the WRIF and recognition that the different pillars were appropriately aligned to address a number of gaps in the current investment market. The following feedback arose from the market engagement and proposals within the Business Plan have been adapted accordingly:

- There is an ongoing demand for finance, particularly from those businesses that have not accessed existing government support;
- The overall fund and its pillars would benefit from clearer definition of purpose and focus;
- It would be useful to split more clearly into debt and equity offerings, in recognition of the fact that fund management services are different between the two;
- Outcomes relating to each pillar would benefit from a clearer focus, noting that a broader range of measures require more input/cost from a fund management perspective;
- Minimum fund size for external fund management indicates that any equity investment element should be considered for in-house management given the

proposed scale of finance available;

- Limited appetite for finance from social enterprises;
- However, there was an indication that supporting business/investor readiness for these business types in the short term would enable investment and growth in the medium term;
- There remains a gap in finance availability for debt <£500k and £1m-£5m; and
- The next 18 months is a key time for making finance available; as national government schemes stop, the WRIF can help avoid a 'cliff edge' in availability of finance for businesses.

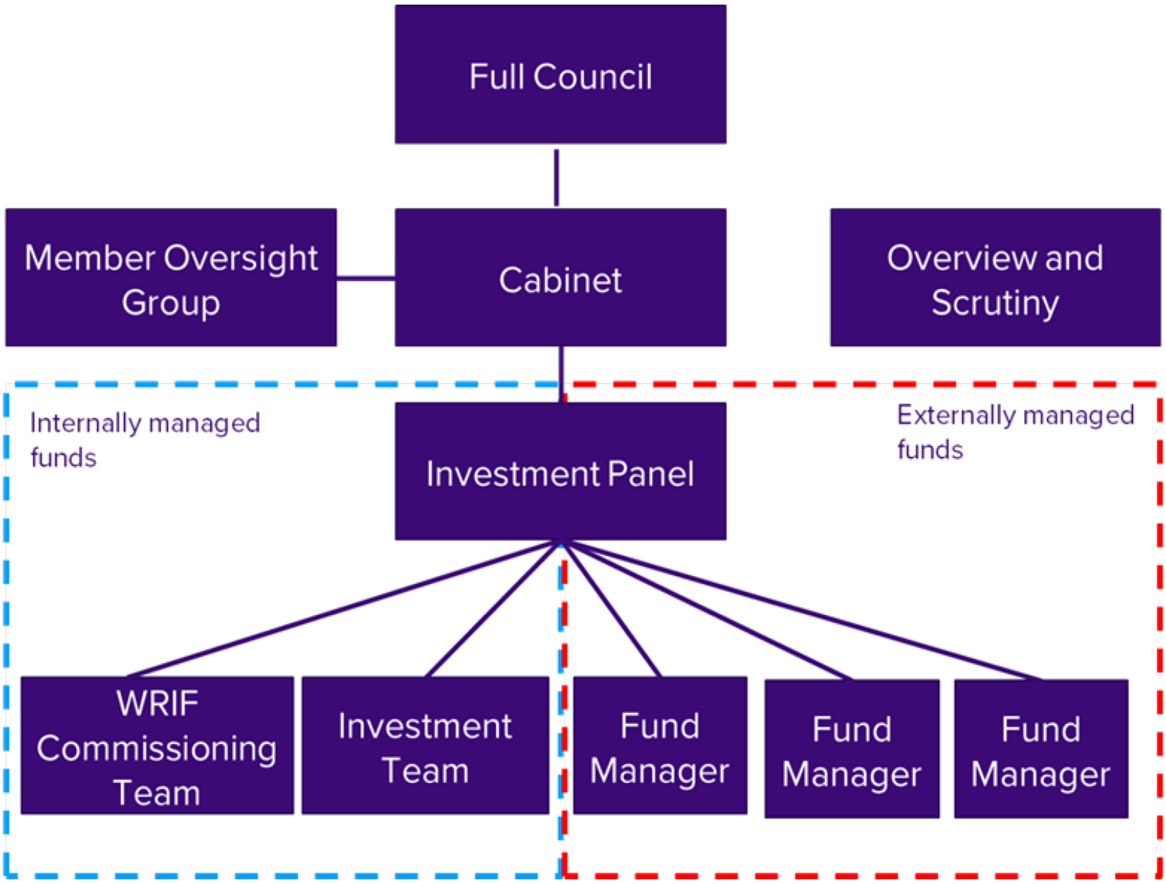
5. WRIF Governance

25. In section 2 of the Business Plan, WRIF delivery is described in terms of a 'mixed economy' in which the Council internally manages some aspects of the fund, with the support of external advisors, and outsources other parts of the fund to be managed by an external Fund Manager(s) or providers:

    - Business Investment Growth pillar will be managed in-house by the Council with support from external advisors.
    - Local Communities & Enterprise pillar will be managed by an external Fund Manager(s).
    - Property & Infrastructure pillar is expected to have an element of external fund management, subject to final arrangements being determined.

26. The external Fund Managers will operate within their brief (as determined by the WRIF Investment Strategy) and, in the case of the Local Communities & Enterprise pillar, will make investment decisions independently of the Council's decision-making bodies (WRIF Investment Panel and Cabinet). In contrast, proposed investments within the internally managed Business Investment Growth and Property & Infrastructure pillars will go to the WRIF Investment Panel for consideration and a subsequent recommendation to Cabinet, which will make the final decision on investments. Beyond proposing updates to the WRIF Investment Strategy to Cabinet and setting external Fund Manager priorities, the role of the WRIF Investment Panel is to develop the overall performance framework and undertake contract management of external Fund Managers.

27. The proposed governance arrangement is illustrated in the following diagram from the Business Plan:



28. The membership of the Investment Panel is proposed as:
    - Strategic Director for Communities (Chair)
    - Strategic Director for Resources (optional)
    - Business & Economy & Growth/Regeneration representation - Assistant Director: Communities / Strategy & Commissioning Manager: Economy & Skills
    - Governance & Policy representation - Assistant Director: Governance & Policy / Strategy & Commissioning Manager: Legal and Democratic
    - Strategy and Commissioning Manager (Property Management)
    - Finance representation - Assistant Director: Finance (Deputy S151) / Strategy & Commissioning Manager: Strategic Finance / Strategy & Commissioning Manager: Treasury, Pension, Audit & Risk
    - External Advisors (to be determined)

29. The Member Oversight Group (MOG) will be dual-purpose, with a remit covering both the Warwickshire Property & Development Group (WPDG) and the WRIF. Terms of reference for the MOG are in draft. The role of all or the relevant bodies within the Council, including those already established, is summarised in the table below:

Group	Role
Full Council	Approval of MTFS, budget, Treasury Management Strategy and Investment Strategy

Group	Role
Cabinet	To approve the annual Business Plan To review previous year's performance To recommend the WRIF budget for subsequent years To agree priorities for external fund managers, provided they are consistent with the Council's Investment Strategy To approve and agree amendments to the WRIF Investment Strategy To approve individual investments (within the BIG and PIF pillars) in line with WRIF Investment Strategy. N.B. individual investments for the LCEF pillar by external fund manager/s will not be approved by Cabinet
Council	To approve WRIF funding To approve the Council's overarching Investment Strategy and Treasury Management Strategy and their controls and protocols that the WRIF must operate within
Overview & Scrutiny Committee	To have oversight and to scrutinise the WRIF arrangements and its performance as determined by the relevant Overview and Scrutiny Committee through the setting of its work programme
Audit & Standards Committee	Ensuring that the Council has robust systems of internal control and making sure that both councillors and officers follow high standards of conduct in the way they conduct the business of the Council
Member Oversight Group	To consider and provide representations on the direction, scope and priorities of the WRIF Investment Strategy To have oversight of the fund's performance on policy and financial grounds, assessing delivery of the annual business plan To develop a greater understanding and build expertise and skills in the analysis of the investment market and investment opportunities
Investment Panel	To recommend the approval of the annual Business Plan to Cabinet To agree proposed updates to the WRIF Investment Strategy and priorities for external Fund Managers and make recommendations to Cabinet To approve which opportunities are to proceed to Investment Business Case stage, following the sift process To make recommendations to Cabinet on individual investments within the BIG and PIF Pillars (individual investments by the external fund manager for the LCE Pillar are not received by Cabinet) following Business Case completion To monitor performance of individual investments and portfolio

Group	Role
	and take corrective action where necessary To monitor progress and performance and take action as necessary, of the WRIF portfolio in terms of performance against targets, balance, diversification and risk exposure To monitor benefits realisation
WRIF Commissioning Team (within Economy & Skills)	To provide subject matter input into the regular review of the WRIF Investment Strategy and ensure it reflects the needs of local businesses, the local economy and the investment market To provide input into the annual Business Plan To develop overall performance framework and undertake contract management of external Fund Managers To source investment opportunities To provide the 'front door' first point of contact for applicants to the WRIF To promote and signpost potential applicants To work with businesses in advance of submitting funding/investment requests To provide and coordinate business support programmes To sift and evaluate opportunities in line with the Investment Strategy To prepare Investment Business Cases for Investment Panel consideration Manage the pool of external advisors called off via a new dynamic purchasing system (DPS) for business support services as required To write reports to the Member Oversight Group on pipeline of investment approvals and those rejected or referred for further support.
WRIF Investment Team (within Finance)	To lead and coordinate the preparation of the annual Business Plan for Investment Panel approval To lead and coordinate preparation of the annual refresh of the Investment Strategy To establish the Investment Panel and have an ongoing role in monitoring governance arrangements to ensure they remain robust To lead on and coordinate the due diligence process to inform individual investment business cases To support the Investment Panel in evaluating opportunities, by undertaking due diligence and providing a report on the overall investment portfolio To monitor progress and performance of investments and portfolio, including on risk (for internally managed investments) To manage the financing of investments (e.g. via internal and external borrowing)

Group	Role
	To oversee and manage accounting requirements Manage the pool of external advisors as required Maintain the WRIF Risk Register and own responsibility for relevant mitigating actions
External Fund Managers	To source investment opportunities To sift and evaluate opportunities in line with the Investment Strategy and contract, including undertaking due diligence To make investments To monitor and regularly report on progress and performance of investments and portfolio To provide open access to information and performance data to WCC

6. Legal Considerations

30. The Council has sought external legal advice in developing the WRIF proposals. This covers Council's powers to set up the fund, relevant considerations prior to investing or offering products through the fund (including the Council's fiduciary duties in respect of public money and appropriate governance), changes to state aid rules post EU transition, and regulatory requirements. The full legal advice is available to members on a confidential basis if required.

Legal Powers (vires)

31. The external advice confirms that the Council has the necessary legal powers to establish the WRIF. These are derived from:

- The General Power of Competence (for lending, funding and other activities);
- Section 12 Local Government Act 2003 (power to invest);
- Local Authorities Land Act 1963 – acquiring, developing land and funding for certain third party developments;
- Section 120 Local Government Act 1972 (acquiring land – particularly for the benefit, improvement or development of its area); and
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 – (treatment of receipts and capital treatment of certain loans).

32. The legal powers will need to be subject to ongoing review over time depending on the size and scale of the WRIF's activities to ensure that governance arrangements are robust, fiduciary duties are considered and that there is compliance with the requirements of any Public Works Loan Board (PWLB) borrowing.

Fiduciary Duties

33. In making decisions about the establishment of the WRIF and approving the funds, the Council must have regard to its fiduciary duties. These can be summarised as the

Council acting as trustee over the tax and public sector income (and liabilities) on behalf of its local taxpayers and other residents. The Council in effect holds money but does not own it; rather, it spends money (and incurs liabilities) on behalf of its business rate and council taxpayers.

34. Due to the size of the proposed investments going via the WRIF together with the risk of losses which attach to any investment and the fact that the Council will be funding something different from typical local authority activities, has resulted in careful consideration being given to the Council's fiduciary duties in relation to this project. A summary of this position is set out below:

Considerations	**How addressed**
Clarity of the policy objectives/outcomes which WRIF (or its separate streams) are designed to support/deliver	Section 3 of this report covers the policy objectives / outcomes which the WRIF is designed to deliver. The evidence base for the need for these objectives is contained in the SQW report (August 2020) and the updated economic analysis set out in Section 2 of this report
Options Appraisal – assessment of WRIF versus alternative routes to deliver the policy/objectives. Why are the WRIF proposals best suited to deliver these?	The options appraisal is set out at paragraph 142 of the WRIF Business Case (received by the meeting of Cabinet on 11/2/21) and concludes that WRIF is the most appropriate policy option for the Council to pursue
Financial impact (to the Council) of the proposals and the risks of non-recovery and steps to mitigate/manage such risks. If some of funding is expected to be non-recoverable, this should be identified.	This is set out in detail in Section 6 of the WRIF Business Case (received by the meeting of Cabinet on 11/2/21) and covered at Section 7 of this report. The analysis includes the risks of non-recovery
Benefit of WRIF to target groups (who would benefit under WRIF) fairly balanced against the interests of Warwickshire's taxpayers/residents – i.e. the impact of the money being spent on WRIF (especially if a loss is projected or high level of risk is involved) on the Council's other activities/level of Council Tax.	The direct economic benefits of WRIF are estimated in paragraphs 214 and 215 of the WRIF Business Case (received by the meeting of Cabinet on 11/2/21). These show an annual contribution to the county's gross value-added of £110m – 160m
Fiduciary Duty considerations are not a one-off exercise. They remain relevant throughout the life of the programme. Members and officers need to continue to consider the above points – i.e. act in an efficient 'business like' manner	This will be kept under review throughout the duration of the fund and any future Fund decisions taken

35. The Business Case projects that the Local Communities & Enterprise (LCE) pillar will potentially make a loss given the profile of investments and the industries supported. However, the fact that not all funds, i.e. the LCE pillar within WRIF, are projected to be recovered in full does not, in itself, mean that the Council is failing in its fiduciary duties if it supports the WRIF. It does mean that the Council needs to recognise that there is a potential risk, in particular in relation to LCE pillar, and decision makers need to properly consider the following issues before reaching their decisions:
    - the quantum of loss;
    - whether there were alternative ways to deliver the policy objective considered and whether these involved less risk of loss;
    - whether other aspects of the WRIF programme compensate for the forecast shortfall;
    - whether the proposals are better than a grant (100% loss); and
    - how would the projected loss impact on the wider interests of the Council's taxpayers/residents.

36. As set out in the table above, these fiduciary duties will be relevant to future decisions in relation to the activities of the Fund including:
    - allocation of further Council funding to the WRIF;
    - scoping and approving new products / initiatives;
    - approving individual transactions; and
    - active management and monitoring of the WRIF pillars' performance. These aspects will need to be kept under continual review throughout the Fund's existence and will need to be covered in any future reports to Members.

Subsidy Control, Regulatory Requirements and Governance

37. Prior to Central Government outlining its response to the recent consultation on subsidy control (State Aid's replacement), the position is that broadly speaking the same considerations apply post-Brexit as they did before. The new subsidy control principles are broad and are focused on permitted subsidies being policy-driven, proportionate, necessary, and designed to incentivise policy-conducive economic behaviour. Given that the proposals for WRIF primarily involve the offer of loans at market rates, it is not considered that subsidy control will have a significant impact on the proposals, however this will be kept under review as the detail of the products available is developed and defined.

Anti-Money Laundering

38. Further external legal advice has been received, this time relating to Anti-Money Laundering (**AML**) and related considerations that the Council will need to address as part of the WRIF setup and operations.

39. In summary, whilst WCC is already subject to certain AML requirements, in particular in relation to ensuring that it does not directly or indirectly fund terrorism or deal with the proceeds of crime, the operations proposed under the WRIF, in particular the provision of loans to companies and LLPs and will lead to WCC being subject to further legal requirements.

40. Provision of loans and making of investments is an activity regulated by statute (a **Regulated Activity**). As a result of the Council performing Regulated Activities, and as a matter of good governance, the Council will need to:

i) ensure that the existing AML regime is fit for purpose, in particular:

a) that the Money Laundering Reporting Officer (**MLRO**) is aware of the WRIF and the wider scope of Council operations which may impact upon their role;

b) that the MLRO is aware of their obligations and how to deal with any concerns referred to them, including how to report any concerns to the National Crime Agency;

c) that the AML policy and procedures are reviewed and updated as necessary to reflect the wider scope of the Council's operations;

d) consider whether, in addition to the MLRO, a further compliance officer should be appointed, whether employees involved with the WRIF may need additional checks and whether a review of the AML regime should be scheduled at set intervals;

ii) ensure that suitable risk assessments are undertaken at the outset of each proposed transaction;

iii) ensure that customer due diligence is undertaken and recorded at the outset of each proposed transaction, and that the identity of the proposed customer is verified, together with the ultimate beneficial owner, and considered alongside the purpose and intended nature of the relationship;

iv) ensure that all Council staff with responsibilities in relation to the WRIF receive suitable AML training, including refresher training at suitable time intervals;

v) ensure that proper records of each proposed transaction are kept for at least 5 years; and

vi) depending on the final mix of loans and investments, the relevant security offered, the status of the borrower (i.e. limited company, LLP, sole trader/individual) and the choice of external fund manager, ensure that the correct registration is in place with the Financial Conduct Authority.

7. Financial Considerations

41. The financial nature of the WRIF is that it provides access to funding, on a repayable basis, to businesses in support of the Council's objective to support economic recovery and growth in Warwickshire post the pandemic. It should be noted that these financial implications have been prepared on the basis of the starting presumption that the WRIF should be financially sustainable. This gives rise to the following

financial questions that need to be considered if the decision to proceed with the WRIF and to operationalise the necessary arrangements is made:

- Does the WRIF meet the starting presumption that it will break even;
- Are the risks/sensitivities acceptable and are the rewards (both service and financial) commensurate with the risks;
- Does the Council have the financial capacity to provide the funding required not only when the decision to allocate funding is made but through to when the funding is due to be repaid;
- Does the Council have the skills, knowledge etc. to make the right decisions about the applications for funding made;
- If the level of default is greater than expected, is the Council able to manage the financial implications and what is the potential impact on the delivery of the Council Plan and MTFS; and
- Is the Council able to consolidate the WRIF into its financial planning, monitoring, and accounting requirements and well as risk management to ensure robust decision-making and oversight?

WRIF Interest Rates

42. The Council has commissioned a piece of work from Arlingclose to provide a robust model for calculating interest rates chargeable for loans to companies under the WRIF. The model has regard to the need for the Council to charge normal commercial rates for a given level of investment risk. The model has regard to the risk free rate (UK gilt yield) as a starting point and adjusts for a number of relevant risk factors including but not limited to the following:

    - the duration of a loan;
    - whether there is any security backing a loan;
    - whether a loan is fixed or variable rate;
    - the size of the company and the size of the loan;
    - key measures of the financial and commercial standing of the company;
    - the nature of the repayments, for example maturity or equal instalments; and
    - whether the company can provide actual track-record figures or has to rely on projections.

43. The model will report the expected default rate for a loan to assist the Council in assessing risk and ensuring that the loan rate is commensurate with risk.

Financial Impact of WRIF

44. Overall, the Business Plan demonstrates that, with a notional £140m investment in the WRIF and on the base assumptions, the WRIF would generate a net return of £4.6m. This equates to a net return on investment of 3.3%.

45. This gain is the aggregate of a net return on the BIG of £3.1m, on the P&IF of £2.7m offset by a net loss on the LCE of £1.2m However, the estimated losses with the LCE need to be considered in conjunction with the potential indirect benefits generated by supporting small business and the associated jobs.

46. The net financial return from the potential £140m investment makes it critical that the operational requirements within which the WRIF operates are set at levels which support a positive financial outcome and minimise the risk to the Council's investment, whether this be through investment returns, the level of default risk the Council is prepared to accept or the level of security over loans required. These requirements have been a focus of attention in the development of the business plan, the drafting of the WRIF Investment Strategy and in the development of the operational arrangements for the WRIF.

47. Once these criteria have been set, applications will need to be assessed against them by the Investment Panel as part of recommending which investments are taken forward. If applying the criteria results in insufficient applications coming forward to take up all the WRIF financial capacity this should not be mean the criteria should be relaxed without the potential financial implications for the Authority being taken fully reviewed.

48. Given the modelled levels of return, to ensure the Council meets its fiduciary duty to taxpayers, the outcomes in terms of the service and wider economic benefits to the residents of Warwickshire from the WRIF and individual investments should demonstrably outweigh the potential financial risks at both Fund and individual project level. The spreading of investment over 5 years provides the opportunity to assess risk experience and adjust investment amounts or investment protocols in later years. Financial monitoring and taking appropriate action in the light of experience will be a critical feature of risk management.

49. Sensitivity analysis demonstrates a strong likelihood of a positive return across the total WRIF, but demonstrates that the Local Communities & Enterprise pillar, taken in isolation, provides only a low chance of a positive return (Net Present Value or NPV), as per the below table from the Financial Case.

	Business Investment Growth	Local Communities & Enterprise	Property & Infrastructure
% Chance of Positive NPV	High	Low	High

50. For the Local Communities & Enterprise pillar to break even, there would have to be significant adjustments made to assumed rates of investment return, loan default rate and recovery on default. Therefore a cross subsidy model between the funds will need to operate, in order to support the viability of the Local Communities & Enterprise pillar. It should also be noted that although the probability of a positive return is high for the BGF and PIF, with any investment of this nature there is a risk of loss that cannot be completely eliminated.

51. In isolation, the Local Communities & Enterprise pillar has a low likelihood of a positive NPV, but it has a potentially vital role in delivering positive policy outcomes across the county, including job creation, increasing skills, supporting new businesses and maintenance of some of the County's environment and key social capital assets.

52. Using external expertise to manage the Local Communities & Enterprise pillar will assist in mitigating the risks associated with it. In procuring the expertise we will look for appropriate targets and incentives to form part of the contractual arrangements. In summary, these risks arise from the nature of the target market of the pillar and the types of product it is likely to offer.

53. The overhead and administrative costs of running the WRIF will be recovered through the use of application fees and from the interest paid on any loans. As a result, there is a minimum level of activity that the WRIF will need to undertake to ensure it meets the financial objective of at least breaking even. If solely lending from the BIG fund, the minimum level of activity required to recover the overhead and administration costs of operating the Fund is loans of £77.0m (85% of the total BIG Fund). Any under recovery of the operating costs will be an additional cost that will need to be met from future MTFS allocations.

54. Given the nature of the Fund any returns over and above those repaying the original loans and funding the WRIF running costs will be available to support the ongoing priorities set out in the WRIF investment strategy or to invest in other Council priorities. The options and affordability will form part of the annual MTFS refresh, Treasury Management Strategy and Council Investment Strategy refreshes and then built into the WRIF Investment Strategy.

Financial capacity to support the WRIF

55. There are three potential sources of funding for the £140m investment in the WRIF. These are:

- Borrowing;
- Temporary use of our cash balances; and
- Reserves.

Each of the sources of funding brings different opportunities and constraints. Also, the various types of WRIF investment/activity are only applicable to some of the sources of funding. This section considers each of the potential sources of funding in turn and its applicability to the products the WRIF could offer.

Borrowing

56. Local authorities are legally only allowed to borrow to fund capital expenditure i.e. something that creates an asset of lasting value. It does not matter whether the resulting asset is owned by the County Council or the investee. The potential activities of the WRIF that are defined as capital expenditure are the provision of loan finance for the creation/development of a fixed asset and the purchase of shares/equity investment. The financial model underpinning the WRIF assumes that £130m of the £140m investment will meet the definition of capital expenditure. It is for this reason that a recommendation to Council to add a capital facility to the Capital Programme is needed to make the funding to deliver the WRIF available.

57. The recommendation, subject to Council’s approval, will add the required financing to the Capital Programme, but the ability to draw down funding would be subject to separate decisions as set out in the governance arrangements for the WRIF. The Capital Programme facility will be

reviewed and/or updated via the Budget Resolution in February each year.

58. At the end of March 2021, the Council's level of outstanding debt was £321m with a further £200m of financing forecast to be required over the period of the 2021-26 MTFS as the financing approved for the Council's own Capital Programme (including the Capital Investment Fund) and the investment required to support the delivery of the WPDG business plan. As stated above, the WRIF business plan estimates up to £130m additional capital spend through the WRIF, with £10m to be funded from internal resources. This borrowing would be additional to our current plans.

59. Whilst £130m is the maximum gross exposure to external debt within the WRIF, repayment profiles will mean that peak debt is significantly below this level. The business plan estimates that the maximum peak debt will be £67m in 2025/26. The financial modelling behind the Business Plan has demonstrated a peak funding level of £70.6m over the 5-year investment cycle. The Monte Carlo simulation (a model used to predict the probability of different outcomes) in the financial model has also indicated a high probability that the WRIF will produce a net positive return. The Council is also able to manage risk based on the overall economic and market conditions at the time. If losses start to increase, then the Council has the ability to slow or stop future investments or adjust lending criteria/parameters and invest in more secure counter parties.

60. Any request from WRIF for loan/equity finance will need to be considered in the context of the wider County Council borrowing profile. Our total borrowing profile is driven by the sum of Capital Programme plus WPDG plus the WRIF. Any assessment of affordability and risk from a treasury management/investment perspective will need to consider all of these in the round. It also needs to be recognised that this wider context will change over time and therefore the assessment needs to be "live" at the point the decision is made. From an investment and financial risk perspective the requirement for a decision made on a case-by-case basis supports the active management of our risk exposure and allows decisions to be progressed/delayed as circumstances dictate. For the avoidance of doubt this means that it is possible that a good bid may be rejected if the overall financing position were to be pushed outside of acceptable limits as set out in the Council's Treasury Management Strategy and Investment Strategy.

61. Any borrowing the Council takes out and then provides onwards through the WRIF as a loan/purchase of equity will be taken out on the basis that the financial returns from the investment more than cover both the interest and principal repayments to the Council that arise from taking out the borrowing plus any costs of the WRIF administration and decision-making arrangements.

62. The use of borrowing to fund any WRIF activity means the Council will need to be able to justify to PWLB (and therefore HM Treasury) that the Council is taking out the borrowing primarily for service reasons rather than to generate a commercial return. The Investment Strategy approved by Council in February 2021 and the refresh to be brought to Council in July 2021 make it Council policy to ensure our investment activity does not fall foul of the PWLB lending criteria that could exclude the Council from using this source of borrowing for the entirety of our capital programme for three years. Although there are alternative sources of borrowing, being rejected by PWLB could have implications for the Council's perceived financial standing to other lenders which could, in turn, impact adversely on the lending rates the Council is offered.

63. As a local authority, the Council is required to make sure it acts prudently in setting aside resources to repay the principal of any loans taken out to fund capital expenditure, which is the nature of the loans/equity investment it would be providing through the WRIF. The recent public interest reports on local authority owned companies determined that not setting aside resources because of an assumption that income would be received to repay the loans before they were due was not a prudent approach. Therefore, the County Council will make provision for MRP (the provision for the repayment of principal) in its revenue budget. The repayment of loans made through the WRIF would need to be structured in such a way as to ensure sufficient levels of repayment to offset the costs of financing our PWLB loan/s and hence creating no additional call on the Council's revenue budget.

64. The creation of the commercial risk reserve (£7.5m) as part of the 2021/22 MTFS provides additional financial cover in the short term should the level of loan repayment defaults be higher than those expected in the business plan until such time as corrective action to the operational arrangements for the WRIF can be put in place or the next MTFS refresh.

Temporary use of our cash balances

65. The Council currently has a significant level of cash balances. However, these cash balances are not unencumbered. They represent income we have received/collected in advance of the spend planned for using the reserve taking place e.g. reserves and borrowing deferred as the result of slippage in the capital programme. We are able to ‘lend’ these cash resources through our Investment Strategy provided we are confident that the cash will be returned and is available by the time the future commitments to its use materialise. The challenge is to make efficient use of these cash balances whilst they are held and at the same time protecting the security of them so that they are available when they are needed for their original purpose.

66. Any revenue loans made through the WRIF would need to be financed from this source if there is not to be an immediate cost to the MTFS. The detailed operational arrangements of the WRIF will need to ensure timely repayment of any such loans.

67. The Investment Strategy seeks to manage the overall financial risk to the Authority through the use of our cash balances in this way. It sets an overall maximum limit for such loans that should ensure we do not reach the position of having insufficient available cash to meet our commitments. Current commitments against this limit include the working capital loans to Educaterers and WPDG and the Council’s contribution to the CBILs. There will be an ongoing need to monitor the net level of outstanding debt in its entirety to ensure these limits are not breached and our financial standing impaired. With each new financial year the Treasury Management Strategy and Investment Strategy are renewed and if significant corrective action is required the strategies can be changed.

Reserves

68. The report proposes the use of £240,000 from the Economic Growth and Place Shaping Fund to complete the set-up work on the WRIF, the procurement of the external fund manager/s and the framework for the range of external advisors that may be required to support the due diligence of individual applications. This would leave £7.322m remaining in this Fund to support further initiatives over the period of the MTFS.

69. The report further proposes using £305,000 from the Commercial Risk Reserve to meet the operational shortfall in the first two years of the WRIF's operation. Replenishing this will be the first call on any surplus as the WRIF moves back to a breakeven position.

70. Overall, there is capacity in reserves to fund the short term/set-up costs prior to the WRIF becoming operational and the running costs of the WRIF before they are recoverable from the loans made. However, given the size of the numbers involved, there is insufficient capacity in reserves to fund wider WRIF investments.

Summary

71. The majority of the planned activity of the WRIF will be capital spend for the Authority. The only source of funding available for this activity is to take out additional borrowing (either external or through the temporary use of our cash balances). There is capacity to do this within the draft Treasury Management and Investment Strategies that will go to Council in July. A further report to Council will add the capital spend facility to the Capital Programme once the detailed business plan is agreed. Given that the premise on which the WRIF is being developed is that it is self-financing approving the addition to the capital programme will not undermine the sustainability of the MTFS.

72. Any revenue loans made can be funded from the Authority's surplus cash balances, provided this is within the annual limits set within the Investment Strategy.

73. The appropriate source of finance for each investment will be considered during investment decision making, when the opportunity is being reviewed, by the Investment Panel prior to making investment recommendations to Cabinet (in respect of internally managed funds) and by the external fund manager in other cases. Financing availability will be assessed when applications are considered, therefore it may or may not be the case that a specific kind of financing is associated with a particular capital investment.

Financing the WRIF Running Costs

74. As a local authority we have access to loans at lower rates of interest than can be obtained by commercial enterprises from the wider financial

markets. However, we are prohibited from passing on these lower interest rates in the WRIF investments. Instead our loans will be at market rates that takes into account loan terms and conditions and security so as not to provide unfair competition or to distort financial markets. As part of the development of the WRIF external expert advice has been obtained to enable appropriate interest rates for the different types of investment to be determined that would ensure we remain compliant with competition requirements.

75. It is the interest rate differential between the rate at which we can borrow money and the market rate we will charge on the loans made that will fund the WRIF running costs.

Funding applications decision-making

76. Critical to the financial success of the WRIF is that the decision-making about which funding applications to support is able to identify those that will be deliver the expected benefits and be able to make their repayments in full and on time.

77. This is likely to require a range of skills from those engaged in the process including understanding the market in which the business is operating, determining whether the proposal in application business case is likely to be successful, assessing the underlying financial strength of the company and their ability to make the loan repayments and assessing the ability of the management/leadership of the business to deliver the benefits of the investment proposed.

78. Undertaking this work is outside the current capacity of the organisation and therefore the extra capacity will be needed. The relatively small number of loans being assessed and approved for the internally managed funds also suggests that the range of skilled advisors is likely to be most efficiently and effectively achieved through the use of call-off contracts.

79. The estimated annual running costs of the WRIF included in the financial model are £564,000 a year, with a part year effect in 2021/22. This is comprised of:

- £159,000 for additional internal capacity across Economy and Skills and Finance;

- £25,000 for additional legal costs;
- £210,000 for the externally commissioned fund managers;
- £160,000 for expert advice; and
- £10,000 for ongoing marketing, communications and engagement.

80. This would equate to £2.553m over the period of the MTFS and £2.833m over the life of the WRIF, or 2.02% of the WRIF if the full £140m facility was used. Overall, this is slightly higher than the 2% cost assumed when the business case was considered last year.

81. £0.5m of these costs are expected to be met through application/arrangement fees with the balance of £2.333m being funded through the interest on the loan repayments.

Management of the downside financial risks

82. The base scenarios in the business case indicate that the WRIF proposals can deliver benefits to Warwickshire, and achieve a positive revenue impact on the Council. The more detailed operational arrangements set out in this business plan indicate that this remains the case. As set out above, the timing differences between the revenue costs incurred by the Council and the timing of the loan repayments will need to be funded by the temporary use of the Commercial Risk Reserve. This is not expected to impact on the financial risk profile of the Council's outcome driven commercial activity, given the expected phasing over the medium term of investments in WPDG will be after temporary allocations are due to be repaid.

83. The focus of the governance arrangements will be not only about making the right investment decisions, based on the applications received, but also ensuring the overall financial viability of the WRIF at the point those individual decisions are made. The release of funding only when individual applications are agreed will help in managing the downside financial risk.

84. However, there is always a risk that default rates will be higher than assumed in the modelling, and these will need to be financed. The £7.5m

Commercial Risk Reserve created as part of the 2021/22 MTFS refresh will provide a level of capacity to manage the downside risks across our commercial portfolio. This provides further comfort that the crystallisation of the downside financial risks will not undermine the MTFS.

Impact on the Annual Financial Cycle

MTFS

85. The MTFS sets out how the Council intends to meet its financial commitments and assesses the actions necessary to prepare a balanced budget. The working assumption that the WRIF will be delivered at a net positive revenue benefit to the Authority means there is no requirement to identify budget capacity for the WRIF in the 2021-26 MTFS. If any additional costs above those in the report are needed these would be expected to be covered as a first call on surpluses generated by the WRIF.

86. This financial impact of the WRIF on the MTFS is set out in the table below.

	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Cumulative PWLB interest	0.182	0.790	1.187	1.426	1.580
Interest on cash foregone	0.004	0.013	0.014	0.016	0.017
Provision for defaults	0.033	0.279	0.449	0.427	0.396
Administration costs	0.298	0.564	0.564	0.564	0.564
Arrangement fees	(0.110)	(0.110)	(0.110)	(0.110)	(0.060)
Loan repayments	(0.145)	(1.493)	(2.511)	(3.132)	(3.565)
Impact on MTFS	**0.262**	**0.043**	**(0.407)**	**(0.809)**	**(1.068)**

87. To operationalise the WRIF the financial limits built into the Treasury Management and Investment Strategies will require Council to re-approve amended strategies. This is currently timetabled for July 2021. Generally, these core financial risk management strategies should not be viewed as being flexible to accommodate whatever policy proposals are brought forward for consideration. The independence of these strategies from specific policy/political priorities is an important control. Amending the strategies in-year is necessary on this occasion because the project was still in development when the strategies for 2021/22 were agreed in February 2021. It is expected that any future amendments will be incorporated in the refreshed strategies approved as part of the budget in February each year as part of being able to continue to demonstrate our financial plans are robust, prudent and sustainable.

88. At this point in time the £140m figure for investment in the WRIF over five years is considered to be the upper limit of what is affordable and reasonable to invest. Within this overall £140m figure for WRIF, a cap of £90m has been allocated for the Business Investment Growth pillar which has the lowest risk and strongest return, with a much lower £10m cap set for the higher risk Local Communities and Enterprise Pillar to minimise the risk of 'losses' on that pillar and ensure the overall WRIF makes a positive return, is affordable and takes account of the Council's fiduciary duties. There is a £40m cap for Property and Infrastructure Investment Fund.

Financial Monitoring and Accounting

89. The approach proposed in the Business Plan aims to match the costs of the WRIF with a revenue return that should offset their impact. This will need to be carefully monitored on an on-going basis to ensure this is the case. If not, these costs will need to be financed from other County Council resources and pro-active decisions made about future lending activity where lessons are learned, in particular it will be critical that the authority does not "double down" on an investment or type of investment that experience demonstrates is not achieving its objectives; this ability to make timely and robust decisions where action is needed is a key lesson learned from other local authority public interest reports.

90. In particular, if there is any indication from the regular financial monitoring that any business funded through the WRIF will not be in a position to meet its loan repayments the Council will need to consider how to make good any loss. The Council will need to consider whether the Commercial Risk Reserve is sufficient to mitigate this risk on an annual basis.

91. Given the potential impact of the WRIF on the MTFS financial monitoring of the overall performance of the WRIF will be a key element of the financial oversight and scrutiny. This scrutiny and oversight should ideally be independent from the decision-making about which applications to recommend for approval. These separate roles and responsibilities from reporting to the Investment Panel and the Member Oversight Group are clearly set out in the WRIF governance arrangements. In particular the Strategic Director for Resources (and S.151 Officer) has deliberately been excluded from the individual investment decision making process to enable him to retain oversight of the overall performance of the WRIF and take remediation steps as considered necessary from an independent stand-point.

92. All the allocations made through WRIF will show as assets (for equity) or long-term debtors (for loans) on the Authority's balance sheet. Separately to the consideration of monitoring information, at the end of each financial year the Council will be required to commission a valuation of both the Council's loan book and equity

investment made through the WRIF. This is part of the provision for the cost of expert advice included in the assessment of the WRIF running costs. If there is any indication, as a result of these valuations, that the businesses funded through the WRIF will not be in a position to meet their loan repayments and/or the financial strength of the company indicates a reduction in the value of the Council's shareholding this will mean the Council has to impair the assets on its balance sheet and, depending on the nature of the reduction in value, may be required to make good any reduction in value. This has the potential to impact directly and immediately on the Council's revenue spending capacity.

93. The final reason why the robustness of the monitoring arrangements is important for the Council's overall finances is the potential VAT impact. Income from loans and investments is accounted for as 'exempt income' for VAT purposes which generally means that no VAT can be recovered on costs of generating this exempt income. The Council (like all local authorities) has a special arrangement with HMRC where VAT incurred on the costs of generating such exempt income can be reclaimed from HMRC but this is limited to an annual amount. Costs for services relating to the WRIF such as external advisors, will be included in this calculation and therefore this position will require close monitoring to ensure the Council does not breach the limit.

Risk and Risk Management

94. The following table summarises the key risks and proposed mitigations involved in setting up and operating the WRIF.

Risk	Mitigation
Fiduciary duties (PWLB, Prudential Code)	• Annual Cabinet review and decision making • Legal and specialist Treasury Management advice supports creation of Fund • Engagement with external auditors • Member Oversight Group and role of other member bodies (eg Audit and Standards Committee/OSC)
Compliance with Subsidy Control regulations	• Regular monitoring to ensure compliance as part of due diligence and investment business case prior to investment decision making

Default/loss, bad debts, interest rates	• Securitisation of loans and use of specific points enabling WCC to recover its investments • Investment Panel, chaired by the Strategic Director for Communities, due diligence to inform investment recommendations • Diversified and balanced portfolio of investments to mitigate risk • External advice to support sound running of WRIF, including to manage impact of changes in interest rates • Provision of business support to ensure strong, investment-ready proposals come forward
Impact on MTFS	• Ability to start small and build the fund up slowly with ongoing review of impact on MTFS of external/internal borrowing • Prudent accounting by including default assumptions in the business case and plan • Annual review and annual business plan approval by Cabinet, effectively an annual ‘continue/stop’ decision • Creation of £7.5m commercial reserve to cover any losses from WRIF, WPDC and other commercial activity
Reputational	• Policy-driven objectives underpin WRIF, with clear strategic priorities to drive investment decisions • Annual review and approval of business plan • Clear performance framework and benefits to track impact of WRIF • Member Oversight Group meets quarterly to review performance and operation of the WRIF • Annual Cabinet review/continue decision point
Skills and capability	• Likely mix of internal/external provision to run the WRIF • Appointment of specialist staff in Finance and Communities teams

Regulatory	• Where any products are likely to require FCA registration (most probably products within the LCEF) external fund management will be sourced

Background Papers

None

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The report was circulated to the following members prior to publication:
Local Member(s): none

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WARWICKSHIRE COUNTY COUNCIL

WARWICKSHIRE RECOVERY & INVESTMENT FUND

Business Operational Plan 2021 - 2026

MAY 2021

CONTENTS

Foreword

Introductory section from the key Director / Member, including:

- Context for why WRIF is to be established and what it is seeking to achieve
- Explanation of what the business plan does

1. Purpose and Mission

INTRODUCTION

1.1 The purpose of this Business Plan is to set out a statement of the objectives for the Warwickshire Recovery & Investment Fund ("WRIF" or "the Fund") and the plans for achieving them over the 5-year period 2021 – 2026.

1.2 The Business Plan will provide an overview of the key activities of the WRIF over the medium term, covering the set up and then ongoing operation of the Fund. It covers in more detail the planned activities during 2021/2022, together with the work plan of the Investment Panel and officers for the 5-year Business Plan period 2021 – 2026. It also includes the draft financial position over the five years up to 2025/2026.

1.3 The Business Plan is to be reviewed and updated annually and subsequent years will include a report on the past year achievements and performance that will inform future levels of investment and risk appetite for the WRIF in future years.

1.4 The current expectation is the Business Investment Growth pillar will be internally managed and the Local Communities and Enterprise and Property and Infrastructure pillars will be externally managed.

BACKGROUND CONTEXT

1.5 Warwickshire County Council's ('the Council') Council Plan and other key strategic documents place a focus on supporting Warwickshire's economy to ensure it remains vibrant and is supported by the right jobs, training, skills and infrastructure.

1.6 The COVID-19 Pandemic has had profound impacts, globally, nationally and locally, for public health, the economy, society and the environment, highlighting and compounding existing known challenges. Like the rest of the UK, these impacts are being directly experienced in Warwickshire where GVA (Gross Value Added - the contribution of businesses to the regional economy) and employment is expected to be significantly adversely affected.

1.7 The Council has undertaken significant work to review its options to understand the difference it could make and how best to support the economic recovery of the county from COVID-19. The Council wants to use its financial strength to set up a Fund that could provide finance to support Warwickshire based businesses, and businesses wanting to set up or move to Warwickshire to increase the number, range and quality of jobs available to its residents. It is therefore proposing to establish the Warwickshire Recovery & Investment Fund (WRIF). The WRIF will operate as an overarching portfolio with three main themes or 'pillars' of investment operating within it. The three themes or 'pillars' are:

- Business Investment Growth;
- Local Communities & Enterprise; and
- Property & Infrastructure.

EXISTING LANDSCAPE

1.8 Following preparation and Cabinet approval of the Business Case for the WRIF, further engagement with key stakeholders operating within the current investment market in the region was undertaken. The main purpose of this engagement was to refine the details of the WRIF and ensure there was market appetite for the type and scale of finance being offered.

1.9 There has been a varied range of financial assistance, in the form of loans, tax relief and grants, available to businesses who have been affected by the COVID-19 pandemic. Government support via schemes such as the Coronavirus Business Interruption Scheme (CBILS) and Bounce Back Loan Scheme (BBLS) have been significant measures, alongside the Job Retention Scheme – which has allowed companies across the UK to put staff on furlough (temporary paid leave) during the pandemic. The chancellor's budget has recently launched The Recovery Loan Scheme with the aim of ensuring businesses of any size can continue to access loans and other kinds of finance up to £10 million. Despite this level of support, the impact of COVID on UK businesses in terms of their sales, employment, investment and costs is still expected to be significant, particularly for small businesses, and demand for finance remains high.

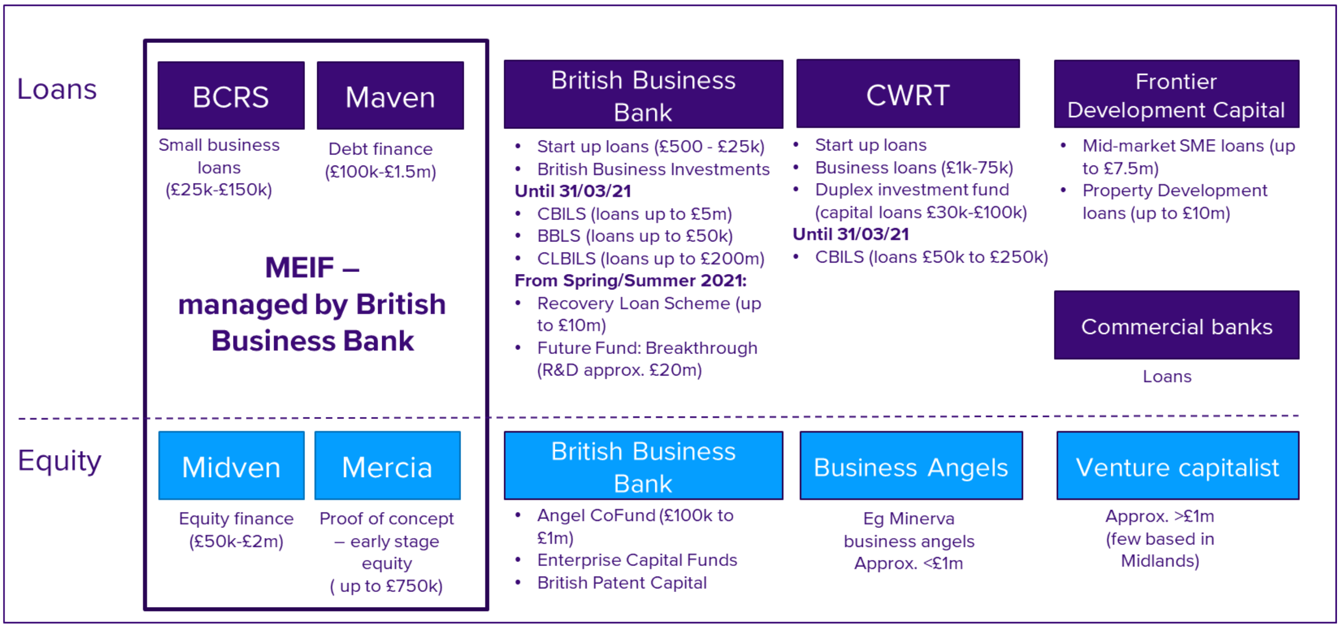
1.10 During February 2021, a total of 12 organisations were engaged with via a soft market testing exercise. The market engagement indicated general support for the main aims and objectives of the WRIF and recognition that the different pillars were appropriately aligned to address several gaps in the current investment market.

1.11 This market engagement has also indicated that the WRIF proposals should be further defined in the following ways:

- Clearer definition of the purpose and focus of the overall fund and each different element;
- Pillar proposals should ideally be further split out to allow clearer identification and separation between specialisms, particularly between debt and equity, and to package the overall fund in a way that the external fund management market can easily respond to, noting that fund management services and skills are very different between debt and equity;
- Clearer focus of outcomes relating to each pillar, noting that a broader range of measures require more input/cost from a fund management perspective;
- Minimum fund size for external fund management indicates that any equity investment element should be considered for in-house management given the proposed scale of finance available;

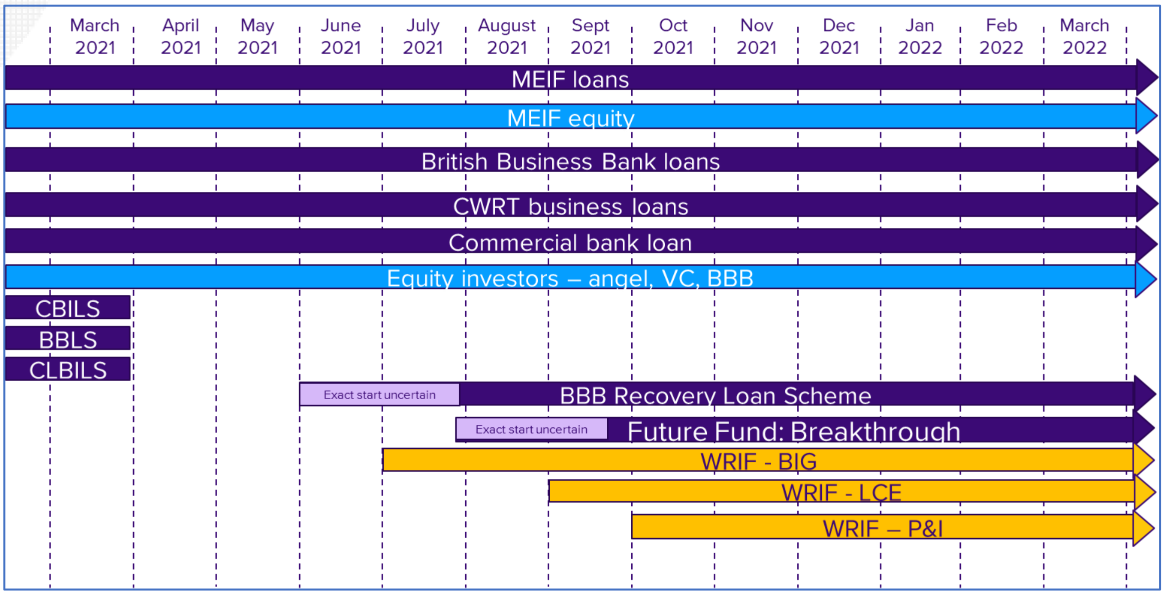
- Limited appetite for finance from social enterprises and an indication that supporting business/investor readiness for these business types in the short term would enable investment and growth in the medium term;
- Ongoing demand for finance, particularly from those businesses that have not accessed the government support via CIBILS and BBILS, such as micro businesses;
- There remains a gap in finance availability for debt <£500k and £1m-£5m;
- The next 18 months is a key time for making finance available; as national government schemes stop, the WRIF can help avoid a 'cliff edge' in availability of finance for businesses.

1.12 The existing market for finance for business in Warwickshire is shown in the diagram below, split between loans and equity.



1.13 Although there are providers of debt finance the market engagement has confirmed there remains demand for additional debt finance via the provision of loans of <£500k and between £1m and £5m.

1.14 The availability of finance over the next year is depicted in the diagram below.



OBJECTIVES OF THE WRIF

1.15 The objectives for the WRIF are to:

- Provide access to finance that helps businesses in Warwickshire start, grow and scale up; or helps businesses locate to the county;
- Leverage additional resources or funding for the county through the investment and support of key growth businesses;
- Secure an ongoing financial return, commensurate with risk;
- Make investments that deliver benefits and social value to the residents and communities of Warwickshire in both in the short term (0-12 months) and medium term (1-5 years);
- Fill a gap in access to finance for businesses in Warwickshire;
- Support investments that make a contribution towards meeting net zero carbon goals; and
- Support the delivery of the Council's strategic goals and policy objectives as set out in the Warwickshire Council Plan 2025, COVID 19 Recovery Plan, Economic Strategy, Commercial Strategy and Place Shaping Programme.

Principles

1.16 The main principles of how the Fund will operate are:

- Support businesses either based within Warwickshire or looking to locate to the county;
- Create a diversified and balanced portfolio of risk-based investments that protect the public purse, support business and both creates new and protects existing jobs;
- Manage risk and target full recovery of investments;
- Generating permitted financial returns;
- Provide a flexible tool to consider and enable a range of opportunities for supporting business;
- Support business through investments based on agreed investment criteria and priorities that are developed from analysis of the economy and strategic sectors and support key sectors and growth, rather than weaker sectors;

- Support investment opportunities that will deliver against clear criteria that align with WCC outcomes and priority objectives - this is done not to deliver commercial returns/yield but to deliver Council objectives by filling a gap in the market;
- Target priorities by promoting investment in priority sectors, business types and investments that enable development, and provide wider social value benefits across the Warwickshire economy;
- Create an investment profile that grows slowly to avoid excessive risk with clear management and monitoring pathways to avoid creating a cost to the revenue budget/tax payer;
- A consistent and streamlined approach to considering investment opportunities and ensure all investment decisions are made against agreed investment criteria and align with Council priorities and outcomes;
- To amplify and complement the existing investment landscape and other recovery packages; and
- Provide funding within the limits and requirements set out in the council's non-treasury Investment Strategy.

BENEFITS

1.17 It is proposed that the WRIF will give a particular priority focus to investment opportunities that:

- Stimulate job creation of skilled or entry level jobs in the county;
- Can or will leverage additional resources or funding;
- Help meet the net zero carbon targets for the Council and County; and
- Increase social value – where the investment brings benefits to local residents, removes barriers to employment, supports health and well-being, protects and enhances the natural environment, creates better places to live and/or maximises opportunities to strengthen community capacity and resilience.

1.18 It is desired for the overall portfolio to deliver the following direct benefits (delivered through the WRIF rather than other measures) – these are to be quantified in the following ways:

Benefit	Measures & Quantification
Support business and grow the economy; create the conditions for business innovation and investment to support business growth in growing sectors and drive economic growth.	Annual GVA / Value of GVA uplift to the County Number of new start-up businesses / businesses supported Business rates income Council tax income County-wide equitable distribution of funding
Increase the rate of employment; investment stimulates job creation with an increase of skilled or entry level jobs in the County	Number of jobs created/ filled by unemployed Number of jobs safeguarded
Provides employment land and premises; investment addresses the lack of appropriate employment land and premises in the County	Creation of employment land and premises – commercial space completed then occupied Amount of land developed/enabled

Benefit	Measures & Quantification
Enables Carbon reduction; investment in environmentally and/or economically sustainable businesses that are driving climate change benefits, carbon neutral and low carbon initiatives	An increase in the use of/public support for low and zero carbon technologies Number of responsible investments
Increases Social Value; investment brings benefits to local residents by promoting initiatives that increase skills and capabilities, removes barriers to employment, improves health and wellbeing, protects and enhances the natural environment, creates better places to live and maximises opportunities to strengthen community capacity and resilience.	Poverty premium - how many people's lives have they touched and households helped

1.19 The potential range of benefits of the WRIF as a portfolio fund of £140m could deliver the following benefits over a period of years based on metrics from other funds:

WRIF at £140m

Potential outcomes	**Summary**
Jobs created	2,500 - 3,400
Jobs safeguarded	2,700 - 3,900
Annual regional GVA (£m)	110 - 160
Number of Businesses supported	118
Private sector leverage (£m)	78 - 104
Public sector leverage (£m)	26 - 35
Land & development enabled (hectares)	15-23

1.20 Benefits realisation will be regularly monitored, will form part of the performance monitoring framework and will monitor key metrics at portfolio, pillar and individual investment level.

BUSINESS PLAN TARGETS FOR 2021/22

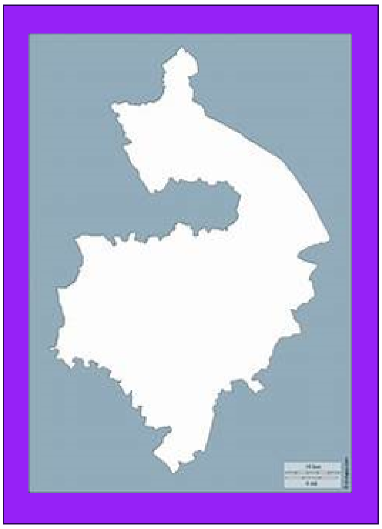
1.21 This business plan looks in detail at the 2021/22 year, with high level targets set for investments made during the financial year. Based on the WRIF launching with the Business Investment Growth pillar from July 2021, the Local Communities & Enterprise and Property & Infrastructure Pillars following later in the year and the subsequent gradual investment profile, the targets for 2021/22 are as follows:

Amount invested
£22m

Companies supported
12

Value of leverage
£0m

GVA uplift
£0m



2021/22

Jobs created
0

Jobs safeguarded
390

Amount of land / development enabled
0

1.22 The indicative targets for each year are shown below:

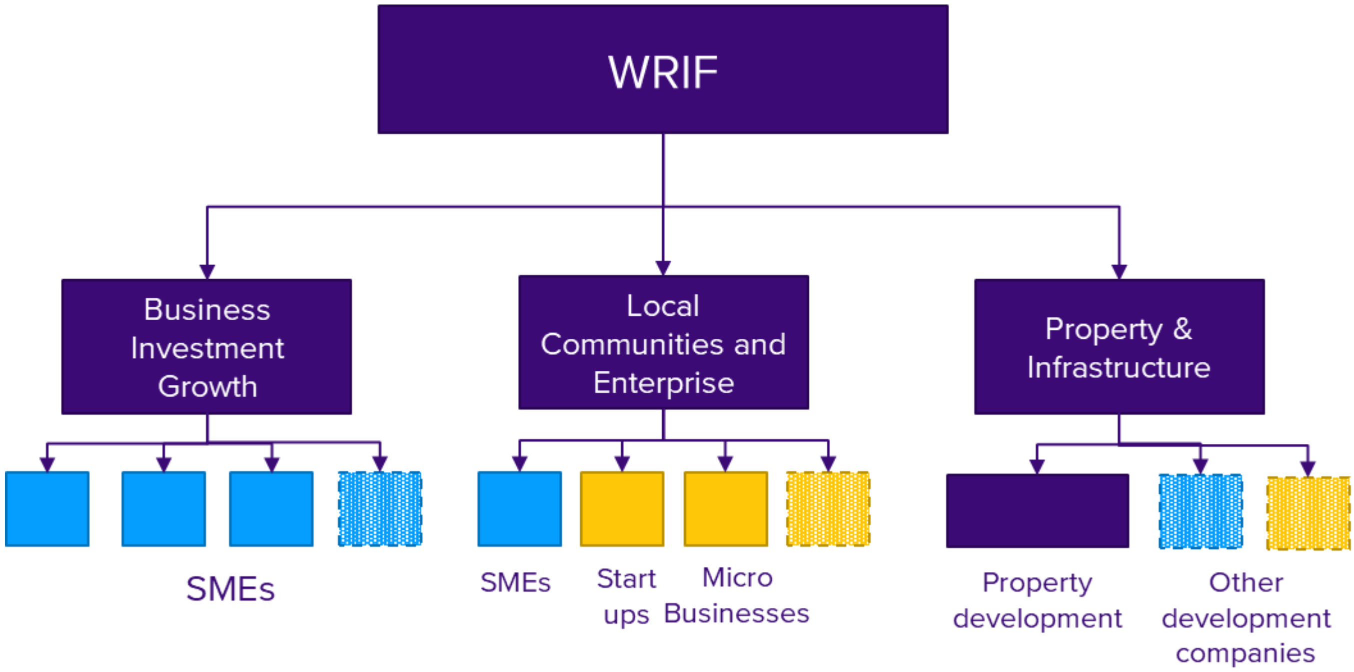
Key target	Indicative outcomes (per biz case)	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Amount invested	**£140m**	£22m	£32m	£32m	£32m	£22m	£0m	£0m	**£140m**
Companies supported (number of investments)	**118**	12	23	23	23	21	0	0	**102**
Jobs created	**2,500 - 3,400**	0	1,000	670	670	500	170	0	**3,010**
Jobs safeguarded	**2,700 – 3,900**	390	740	740	740	680	0	0	**3,290**
Value of leverage (public & private)	**£104m - £139m**	0	40	30	30	20	10	0	**130**
GVA uplift	**£110 - £160m**	0	30	30	30	30	10	0	**130**
Amount of development enabled	**15 - 23 ha**	0	0	2	5	5	5	2	**19**

1.23 Performance against these targets will be monitored and reviewed on an ongoing basis as part of the Performance Management Framework described in section 6.

2. The Proposal

THE STRUCTURE OF THE FUND

2.1 A structure for the WRIF has been developed that uses three main pillars of investment to drive recovery and growth as shown below:



2.2 The following tables summarise the key features for the overall WRIF portfolio, for each individual pillar and for funding options operating within the WRIF.

Table 1 -Investment Priorities

Element	Description	Priorities
WRIF portfolio *Offering a range of funding options designed to complement and enhance the provision of commercially available finance and support economic recovery for businesses located or looking to be located in Warwickshire.* *Offering businesses access to specific and tailored pre- and post-investment support programmes and ensure they are both business and investor ready.*	Providing access to finance to aid business recovery and growth that will support the economic recovery of the County.	**Portfolio priorities:** • Investment in priority sectors or any sector or industry or business type that creates or safeguards skilled or entry level jobs • Securing inward investment – can or will leverage additional resources or funding • Increasing social value – where the investment brings benefits to local residents, removes barriers to employment, supports health and well-being, protects and enhances the natural environment, creates better places to live and/or maximises opportunities to strengthen community capacity and resilience

Element	Description	Priorities
		• Support for 'green' / sustainable technologies or industries
Business Investment Growth Pillar *Finance for growing businesses with sound prospects.* *Aimed at enabling growth and supporting medium – longer term economic recovery.*	**Business Growth Fund** *Finance to support businesses local growth plans – helping provide the necessary infrastructure, site improvements or machinery that allows businesses to expand its operations, hire new staff, and grow customer reach* *Predominantly Debt finance although some consideration will be given to equity-based investment opportunities.* Focus on established and growing businesses. Businesses located in Warwickshire or expanding/relocating into the County where large injections of capital are often needed to continue growth.	Focused on Medium Sized Enterprises (50-250 employees), but open to smaller or larger businesses on a case by case basis **Future Growth Sectors:** • Automotive Technology • Digital Creative & Digital Technologies • Future of Mobility • Low carbon technologies **Other key priority sectors:** • Advanced manufacturing • Culture, Tourism & Hospitality • Modern methods of construction • Health & Wellbeing • Agri-tech and rural based businesses • Businesses in the supply chain that support delivery of the Council's priority outcomes for people, for example public health, social care and education.
Local Communities & Enterprise Pillar *Aimed at addressing the short-term impact of the pandemic.* *Focus on new, sustainable and growing SMES.*	**Small Business Fund** *Debt Finance for growth, support and development projects.*	Focused on start-ups, micro and small businesses (less than 50 employees) **Building on our strengths:** • Advanced manufacturing & engineering • Digital Creative & Digital Technologies • Culture, Tourism & Hospitality • Low carbon technologies **Other key priority sectors:** • Retail • Community based enterprises • Creative industries • Health & wellbeing • Social care or other supply markets to the Council
Property & Infrastructure Pillar *Focus on enabling and accelerating development of*	**Property & Infrastructure Fund** *Providing loans to forward fund infrastructure, invest*	Flexible fund to help bring forward new employment land and commercial space **Creating space for future growth:**

Element	Description	Priorities
property and site-specific infrastructure schemes.	*in commercial site and premises and to unlock development consistent with the needs of key sectors and/or wider ambitions for economic recovery.*	• Automotive technology • Digital Creative & Digital Technologies • Future of Mobility • Low carbon technologies • R&D and innovation facilities • New start-up, incubator and accelerator space **Other key priorities:** • New/upgraded spaces within our town centres, incl. retail, hospitality, culture, leisure, health & wellbeing, community-based enterprises, co-working/flexible work space • Health & social care facilities

Table 2 -Key Investment Features

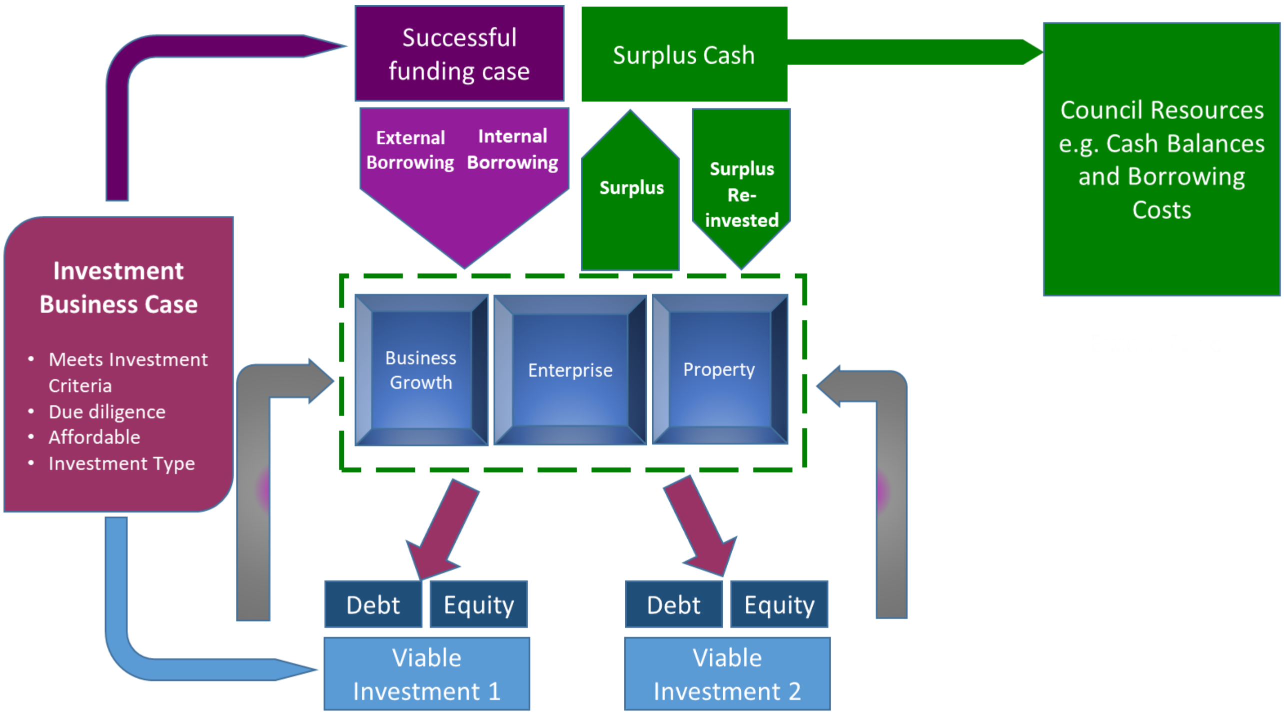
Element	Fund and indicative size	Investment size & volume	Investment term	Investment type
WRIF portfolio	[£140m]	n/a	Up to 10 years	• Predominantly Debt plus a small proportion of Equity products, once established
Business Investment Growth Pillar [£90m]	Business Growth Fund [£90m]	<£10m (Approx. 2-5 per annum. Low number of high value loans)	Up to 10 years	• Predominantly debt - commercial loans • Management Buy Outs/ Acquisitions / Refinancing • Once established, small number of investment opportunities will be considered for equity based investment
Local Communities & Enterprise Pillar [£10m]	Small Business Fund [£10m]	<£500k (Approx. 10-30 per year. Higher volume, lower value loans)	Up to 5 years	• Small Business Loans
Property & Infrastructure Pillar [£40m]	Property & Infrastructure Fund [£40m] For investments	<£40m	Up to 10 years	• Commercial loans • Equity investment • Corporate guarantees • Joint Ventures

	that sit outside WPDC			

2.3 This gives a total portfolio size of up to £140m across the three pillars. There will need to be flexibility to respond to circumstances such as market need and demand and changing economic and financial climates, however as the risk profile of each pillar is different, limits will be set for the maximum amount that can be invested in each pillar, within which the Fund must operate. These limits will be set in the Council's non-treasury Investment Strategy which is approved by Council.

2.4 The WRIF will operate as a closed Fund, meaning that a period of investment decision making for the Fund would initially be limited to up to 5 years. The performance of the WRIF will be reviewed as it progresses through the five-year period to establish whether an economic and financial business case and sufficient demand from businesses exists to justify extending beyond this period. This will be incorporated into future years MTFS rounds.

2.5 The WRIF will provide a clear and consistent methodology to assess each request to the Council for investment support. By establishing this structure and assessing a portfolio of support, the WRIF will allow the Council to manage risk and give it the ability to invest in some moderately higher risk activities, where these risks are offset against some lower risk opportunities. Any surplus cash from the portfolio may be reinvested within the WRIF or transferred into the Council balances at the Council's discretion (the financial model assumes no reinvestment). This approach for the WRIF is demonstrated in the diagram below.



DELIVERY MECHANISM

2.6 The WRIF will be delivered by a mixed economy where the Council internally manage some aspects of the fund, with the support of external advisors, and outsources other parts of the fund to be managed by an external Fund Manager(s) or providers.

2.7 It is proposed that the:

- Business Investment Growth pillar will be managed in-house by the Council with support from external advisors.
- Local Communities & Enterprise pillar will be managed by external Fund Manager(s).
- Property & Infrastructure pillar will be managed by an external Fund Manager(s).

2.8 Flexibility for the WRIF to adapt and respond to the market, scaling up and down to reflect demand, will be important and therefore the management arrangements may adjust as the scale of the Fund increases. However, in order to control exposure to risk, limits on activity will be set by Council via the non-treasury Investment Strategy.

PROPOSED PRODUCTS

2.9 The scope of the WRIF is kept intentionally as broad as possible to enable it to deliver the interventions that the market requires.

2.10 The types of investment that the WRIF will predominantly undertake are commercial loans to businesses within the county that are focused on the key investment priorities, or that support and enhance the overarching objectives of the Fund.

2.11 However, the Council will also consider opportunities that require the following types of investment and decisions will be made on a case-by-case basis considering the market, due diligence (financial and legal), assessment of risk, the potential reward/outcomes to be delivered from the investment and cashflow implications*, a glossary is provided at Appendix 1 for some of these terms:

- Mezzanine Finance;
- Investment in company equity, for example in start-up companies;
- Co-Investment – capital or equity – with other Funds or individual investors;
- Purchase of assets: Including commercial property, land or infrastructure where it can be shown to meet the funds objectives and is in line with PWLB lending requirements;
- Partnerships to leverage additional private sector resources (skills or finance);
- Management buy-outs/acquisitions;
- Corporate Guarantees; and

- Other more innovative products that allow start-ups to repay once they are successful e.g. debts convert to equity or loan repayment 'holidays' for 2 years.

(* The financial case is built on the assumption and higher certainty of interest income from loans which off-set the cost of borrowing and administration costs of the WRIF. The use of alternative financing options to loans need to factor in the cash flow implications where income certainty is reduced, or this will have revenue budget implications for the Council.)

2.12 The type of investment to be undertaken is expected to differ between each individual pillar and has been determined using the feedback from the market engagement, legal advice and accounting considerations as well as from discussions with Council officers. The WRIF Investment Strategy at Appendix 4 sets out more detail the types of investment and investment criteria to be used to support the investment decision making process.

SWOT ANALYSIS

2.13 To understand the environment in which the WRIF will operate a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis has been undertaken. It examines the internal and external factors that may affect the Funds future performance over the course of the business plan.

2.14 SWOT analysis is an effective way of identifying the Council's capabilities of delivering the WRIF in the context of the current investment market and business environment. The analysis can enable the Council to direct the operation of the Fund towards areas where their capabilities are strong and opportunities are great.

2.15 The SWOT analysis should be reviewed and revised regularly.

Strengths	Weaknesses
• The Fund is under the direct decision-making control of the Council in terms of setting the strategic purpose and objectives of the fund to enable policy driven investments • Knowledge of the existing market and sectors operating in the county will support identification of need and demand to inform the Investment Strategy • Annual confirmation of the Investment Strategy will allow the WRIF to respond to market pressures/demand • Existing relationships with Funds and Fund Managers operating within the region • The Fund is a flexible approach that allows different recipients/beneficiaries and different benefits to be targeted to ensure delivery of objectives	• Lack of internal skills and experience in managing an investment fund • Time it will take to establish the Fund against pressing need for short term financial support • Challenges in achieving balance of work for Fund Management / Council (business as usual). • Costs to establish and operate the WRIF • Limited knowledge in how to market/ advertise the Fund • Risk appetite will restrict the potential investment products that can be offered • Focus on recovery increases the risk of default • Requirements to ensure that State Aid (now public subsidy) rules are considered

• The Fund supports and delivers local economic benefit to the businesses in which the WRIF invests and the county as a whole • Can deliver benefits to Warwickshire, for a nil revenue impact on the Authority • Designed to meet existing and unmet demand not being addressed by the current investment market • Potential to leverage additional funding • Access to a range of different funding sources • A mixed economy of Fund Management provides for a slim, low cost organisation to support delivery of the WRIF • Compliance with Public Works Loan Board requirements	
Opportunities	**Threats**
• Flexibility of Investment Strategy to reflect demand for finance • Allows the Council to focus on emerging high growth areas and corporate priorities (e.g. the climate emergency) • Current and unmet demand for finance • Potential to leverage additional funding / investment • Provide skills transfer / diversification through investment activities and liaison with external Fund Managers • Potential to deliver a variety of different benefits and to different beneficiaries • To expand and/or extend the Fund if deemed successful	• Reputational risk • Changes in Market demand • Increases in interest rates and/or reduction in rate of returns for the Council • Impact of Public Subsidy guidance on attractiveness of Fund • Risk of default or asset valuation reductions causing financial losses • Legislative changes and/or borrowing restrictions which could be unfavourable to the WRIF • Potential capacity of Council staff to deliver internally managed elements of the Fund • Need to create ethical walls with existing Business & Skills team/other areas of the Council • Lack of appetite from external fund managers

2.16 The SWOT analysis indicates the following:

- In general, this demonstrates that the WRIF has significant strengths to deliver a targeted approach to economic recovery for the county. It will build on existing knowledge and contacts within the current investment market and establish a flexible approach that can reflect and respond to market pressures and demand.

- The WRIF provides the opportunity to capitalise on these strengths both by having the potential to expand and/or extend the Fund if successful and by providing skills transfer to the Council, through investment activities and liaison with external advisors and fund managers. There is also the ability to flex if elements of the fund don't prove to be as successful.

- The challenges posed by the threats are not underestimated but this Business Plan shows how the Council intends to both address these whilst delivering the objectives for the WRIF.

2.17 In order to address the SWOT analysis, the following areas have been identified upon which to focus to secure the successful operation of the WRIF.

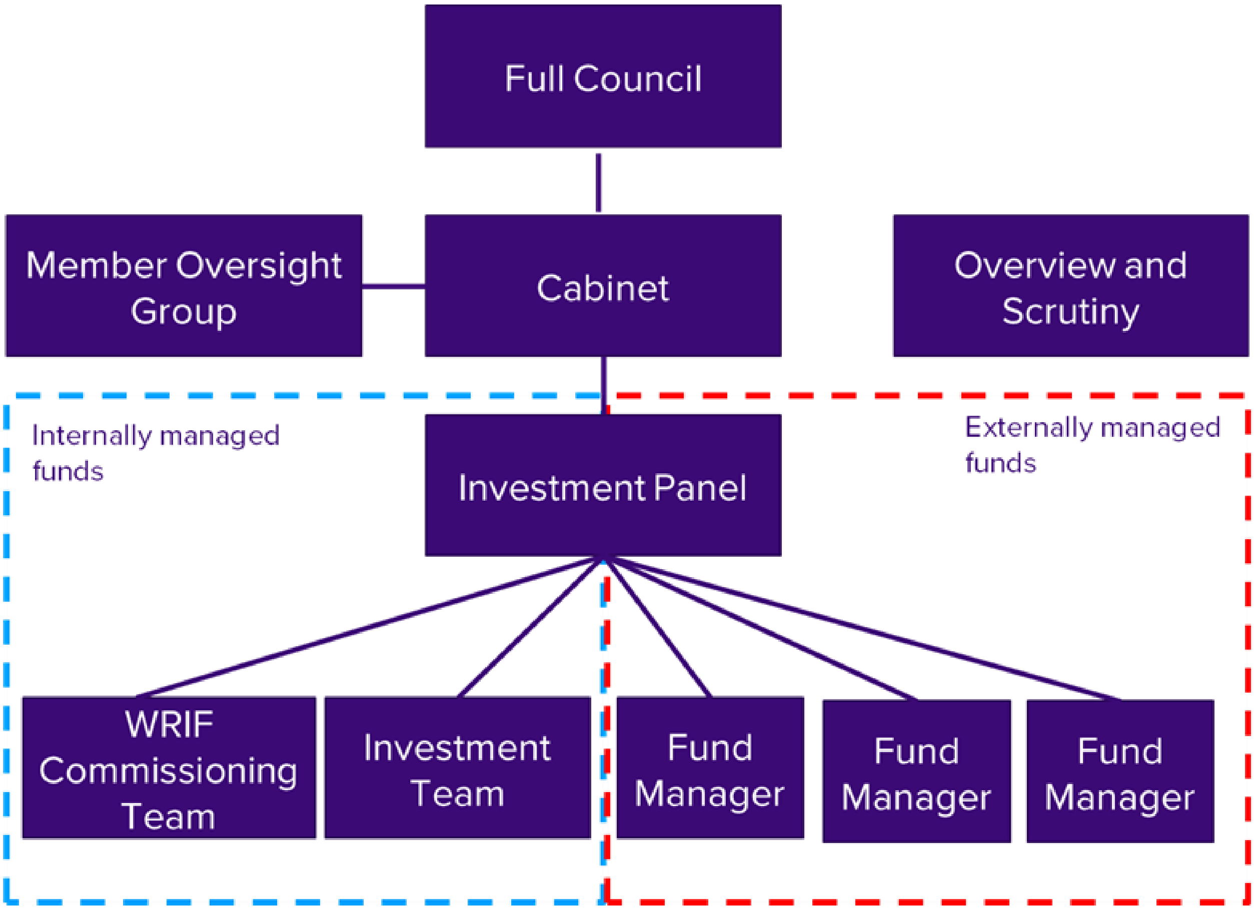
- Establishing a robust due diligence and governance process to ensure viable investments that demonstrate alignment with the achievement of objectives are recommended for approval;
- Regular monitoring of market demand to identify any changes and update the Investment Strategy accordingly;
- Regular monitoring of legislation changes to ensure the Investment Strategy remains in line with guidance and accordance with the Council's fiduciary duties;
- Establishing a clear benefits realisation process to monitor progress against the achievement of outcomes;
- Securing access to an external pool of advisors with a wide range of skills, knowledge and expertise to supplement the internal Investment Team to ensure effective due diligence of investment decision making and expose the council to as many opportunities for skills transfer;
- Putting in place a robust risk management strategy to identify, monitor and mitigate risks that threaten the successful operation of the WRIF.

2.18 This analysis has informed the design of the WRIF, the implementation plan and the risk register in the rest of this document.

3. Management

GOVERNANCE

3.1 The Governance of the WRIF incorporates both Member and Officer roles as set out below:



3.2 The roles of each group are as follows:

Group	Role
Full Council	• Approval of MTFS, budget, Treasury Management Strategy and Investment Strategy
Cabinet	• To approve the annual Business Plan • To review previous year's performance • To recommend the WRIF budget for subsequent years • To agree priorities for external fund managers, provided they are consistent with the Council's Investment Strategy • To approve and agree amendments to the WRIF Investment Strategy • To approve individual investments (within the BIG and PIF pillars) in line with WRIF Investment Strategy. N.B. individual investments for the LCEF pillar by external fund manager/s will not be approved by Cabinet

Group	Role
Council	• To approve WRIF funding • To approve the Council's overarching Investment Strategy and Treasury Management Strategy and their controls and protocols that the WRIF must operate within
Overview & Scrutiny Committee	• To have oversight and to scrutinise the WRIF arrangements and its performance as determined by the relevant Overview and Scrutiny Committee through the setting of its work programme
Audit & Standards Committee	• Ensuring that the Council has robust systems of internal control and making sure that both councillors and officers follow high standards of conduct in the way they conduct the business of the council
Member Oversight Group	• To consider and provide representations on the direction, scope and priorities of the WRIF Investment Strategy • To have oversight of the fund's performance on policy and financial grounds, assessing delivery of the annual business plan • To develop a greater understanding and build expertise and skills in the analysis of the investment market and investment opportunities
Investment Panel	• To recommend the approval of the annual Business Plan to Cabinet • To agree proposed updates to the WRIF Investment Strategy and priorities for external Fund Managers and make recommendations to Cabinet • To approve which opportunities are to proceed to Investment Business Case stage, following the sift process • To make recommendations to Cabinet on individual investments within the BIG and PIF Pillars (individual investments by the external fund manager for the LCE Pillar are not received by Cabinet) following Business Case completion • To monitor performance of individual investments and portfolio and take corrective action where necessary • To monitor progress and performance and take action as necessary, of the WRIF portfolio in terms of performance against targets, balance, diversification and risk exposure • To monitor benefits realisation
WRIF Commissioning Team (within Economy & Skills)	• To provide subject matter input into the regular review of the WRIF Investment Strategy and ensure it reflects the needs of local businesses, the local economy and the investment market • To provide input into the annual Business Plan • To develop overall performance framework and undertake contract management of external Fund Managers • To source investment opportunities • To provide the 'front door' first point of contact for applicants to the WRIF • To promote and signpost potential applicants • To work with businesses in advance of submitting funding/investment requests • To provide and coordinate business support programmes

Group	Role
	• To sift and evaluate opportunities in line with the Investment Strategy • To prepare Investment Business Cases for Investment Panel consideration • Manage the pool of external advisors called off via a new dynamic purchasing system (DPS) for business support services as required • To write reports to the Member Oversight Group on pipeline of investment approvals and those rejected or referred for further support.
WRIF Investment Team (within Finance)	• To lead and coordinate the preparation of the annual Business Plan for Investment Panel approval • To lead and coordinate preparation of the annual refresh of the Investment Strategy • To establish the Investment Panel and have an ongoing role in monitoring governance arrangements to ensure they remain robust • To lead on and coordinate the due diligence process to inform individual investment business cases • To support the Investment Panel in evaluating opportunities, by undertaking due diligence and providing a report on the overall investment portfolio • To monitor progress and performance of investments and portfolio, including on risk (for internally managed investments) • To manage the financing of investments (e.g. via internal and external borrowing) • To oversee and manage accounting requirements • Manage the pool of external advisors as required • Maintain the WRIF Risk Register and own responsibility for relevant mitigating actions
External Fund Managers	• To source investment opportunities • To sift and evaluate opportunities in line with the Investment Strategy and contract, including undertaking due diligence • To make investments • To monitor and regularly report on progress and performance of investments and portfolio • To provide open access to information and performance data to WCC

3.3 The membership of the Investment Panel is proposed as:

- Strategic Director for Communities (Chair)
- Strategic Director for Resources (optional)
- Business & Economy & Growth/Regeneration representation - Assistant Director: Communities / Strategy & Commissioning Manager: Economy & Skills
- Governance & Policy representation - Assistant Director: Governance & Policy / Strategy & Commissioning Manager: Legal and Democratic
- Strategy and Commissioning Manager (Property Management)

- Finance representation - Assistant Director: Finance (Deputy S151) / Strategy & Commissioning Manager: Strategic Finance] / Strategy & Commissioning Manager: Treasury, Pension, Audit & Risk
- External Advisors (to be determined)
- The Investment Panel may from time to time invite additional members as relevant to its agenda

3.4 The WRIF Investment Team, within Finance, will be responsible for setting up and running the Investment Panel meetings, with support from the commercial team, PMO or Governance and Policy Team as required by the panel.

3.5 A regular quality assurance process (QA) or peer review process will be undertaken to review the performance of the portfolio outside of the Investment Panel as a minimum on a 6 monthly basis. This will be led by the Strategic Director of Resources with support by independent advisors as required.

3.6 The Member Oversight Group will be a cross party working group, chaired by the Portfolio Holder for Finance, supported by the Democratic Services Team and attended by the chair of the Investment Panel, and representation from Economy & Skills and Finance teams as required, who will present any reports referred for consideration.

APPROVALS/ AUTHORITY

3.7 The following approvals have provided the authority for the council to operate the WRIF:

- Cabinet have granted approval in principle to the establishment of the WRIF and have authorised the Strategic Director for Resources to finalise the proposals, the fund allocations and develop the Year 1 Business Plan.
- Cabinet have also granted approval to the proposed WRIF governance arrangements and the establishment of a Member Oversight Group and an Officer Investment Panel.
- Approval is now being sought, via consideration of this Business Plan, to agree to launch the Fund and commence procurement for the resources required to support the operation of the WRIF.
- The WRIF Investment Strategy which sets out the objectives, priorities for investment and criteria to support investment decision making together with benefits, measures and quantification is also to be approved to form the basis of the Fund and its investment objectives. Any future changes to the WRIF Investment Strategy should be referred to Cabinet for re-approval.

STAFFING

3.8 The WRIF will operate a blended approach using a combination of internal resources of the Council and external resource. This will ensure that the Council retains control of the WRIF whilst securing the advantages of external expertise, resources, capacity and knowledge.

3.9 There are three main areas of resource from which the WRIF will draw to operate the Fund:

a) Internal Council Resources via:

- a newly established WRIF Commissioning Team within Economy & Skills
- a newly established WRIF Investment Team within Finance
- Support from the Governance & Policy, PMO and Commercial Teams

b) External Advisors to support the WRIF Commissioning & Investment Teams

c) External Fund Management / providers

a) <u>Internal Resources</u>

3.10 The Fund will have access to the following staffing resource available to deliver the Plan:

Council Team	**FTE**	**£ / p.a. plus on costs**	
WRIF Commissioning Team (Economy & Skills)			
Business Growth Manager	1	£	18,000.00
Business Advisor	1	£	48,700.00
Plus Advisor Pool		£	100,000.00
WRIF Investment Team (Finance)			
Treasury Manager	0.65	£	42,900.00
Senior Finance Manager	0.5	£	20,000.00
Senior Accountant	0.5	£	29,000.00
Plus Advisor Pool		£	50,000.00
Governance & Policy Team (inc. Legal)			
Adhoc allowance incl in Advisor Pool		£	25,000.00
S151 independent review		£	10,000.00
Sub total FTE		**£**	**158,600.00**
Sub total Advisory pool		**£**	**185,000.00**
Total	**3.65**	**£**	**343,600.00**

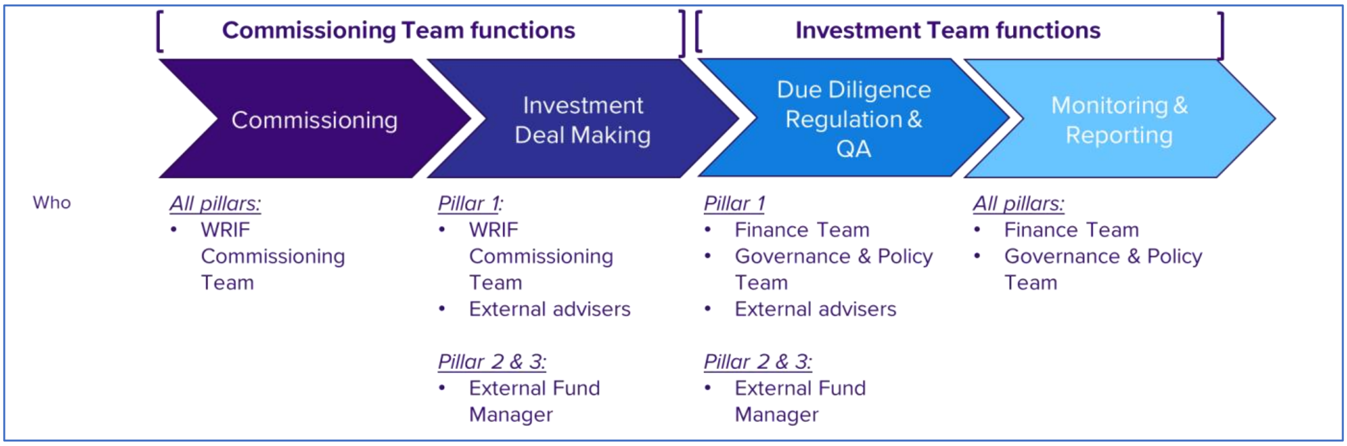
3.11 There will be a split in function, roles, and responsibilities within the internal WRIF Investment Team with a summary of key Investment responsibilities divided in the following way:

- **WRIF Commissioning Team (within Economy & Skills)**
  - Overall responsibility for operational running of the WRIF 'investment business' of the Council

- Business Support & investor readiness
- Sourcing & Commissioning Investment Opportunities – providing the ‘front door’ to the WRIF
- Providing subject matter input into the Investment Strategy & Annual Business Plan
- Investment Deal Making – Agreeing proposed terms of the deal and liaising with investee
- Preparing documentation for investment opportunities (Sift & Business Cases) for Investment Panel approval
- Monitoring performance of individual investments
- Contract Management and monitoring of External Fund Managers (in conjunction with Finance)

- **WRIF Investment Team (within Finance with support from Governance & Policy Team)**

  - Overall responsibility for operational running of the WRIF ‘risk business’ of the Council
  - Establish and run Investment Panel & ongoing monitoring of governance arrangements
  - Lead and coordinate the preparation of the annual refresh of the Annual Business Plan and Investment Strategy
  - Providing finance/ subject matter input into the Investment Strategy & Annual Business Plan
  - Coordinate and arrange the commission of external advice and support as required
  - Due Diligence, legal and company, including risk, confirm availability of resources
  - Regulation & Quality Assurance
  - Active management, Monitoring & Reporting portfolio performance, maintain risk register



3.12 By separating these functions, a virtual barrier or ‘ethical wall’ is created that prohibits communications or exchanges of information that could cause conflicts of interest. This approach will ensure that objective due diligence can take place and effective challenge given to potential investments to ensure investment decision making is on the basis of the information provided in the investment business case and a clear case for investment is made in the context of a range of considerations.

3.13 This approach also enables the WRIF Commissioning Team to maintain and build relationships with the business community with a segregation from the investment decision making process.

Business ready support / investor readiness

3.14 The market engagement indicated a key requirement for additional support to businesses pre-investment to ensure they are both business and investor ready.

3.15 The types of support include signposting and liaison across different funds; accelerator programmes; and incubator arrangements as well as help in developing viable business propositions with all the information available to form an Investment Business Case.

3.16 The Economy & Skills Team additional resources will be responsible for providing this business and investor readiness support. They will work in conjunction with existing support initiatives the Council is involved with such as the Business Ready Programme in partnership with University of Warwick Science Park.

3.17 The 'Business ready' support will be funded separately to the WRIF.

3.18 Additional support via specialist advisors may also be sought on an ad-hoc basis should the scale of the support requirements be beyond the resource capacity of the Economy & Skills Team.

b) External Advisors

3.19 The in-house Commissioning and Investment Team will be supported by a team of external specialist advisors. The types of skills that may be required are set out below:

- **Specialist Business Advice / Technical advisers** – industry specialists, incubator or accelerator support;
- **Legal advisers** – advice on structuring investments, Subsidy Control and the powers required to make investments;
- **Financial advisers** – financial due diligence and implications of Subsidy Control rules, financial viability assessments, accounting advice and specialist investment advice;
- **Tax advisers** – Advice as required on Stamp Duty Land Tax, VAT, Corporation Tax;
- **Property and Investment Valuations** – advice on valuations and property development; and
- **Peer review or business Leaders** - challenge function.

3.20 The team of external advisors will need to be appropriately procured. The Council has access to a number of panels and frameworks already via the DPS (Dynamic Procurement System) and it proposes expanding the existing business support services framework in order to provide access to the above list of skills on a call off basis.

3.21 A procurement exercise to update the existing business support services framework is required to give the Council access to the full range of skills and types of advisors required.

c) <u>External Fund Management</u>

3.22 External Fund Management services will be engaged to provide the following services:

- Sourcing investment opportunities;
- Support to businesses in developing viable business/investment propositions;
- Evaluating applications;
- Due Diligence & Business Case preparation;
- Investment appraisal;
- Investment decision making & allocating funds;
- Valuation services (as required);
- Portfolio & Fund Management; and
- Performance Monitoring.

3.23 External Fund Management services will be procured to deliver the following elements of the WRIF:

- LCE Pillar – Small Business Fund
- P&I Pillar – Property & Infrastructure Fund

3.24 External Fund Management is considered the optimum management arrangement for the above two elements for the following reasons:

- BIG Pillar – Business Growth Fund: Due to the smaller volume of loans and the predominance of more straightforward commercial loans as a type of investment for the Business Growth Fund it is proposed, in the first instance, that this Pillar be managed internally by the Council with the support of a range of legal, financial, commercial, and technical external advisors as required. The volume of loans may not justify the costs for external management;

- LCE Pillar – Small Business Fund: It is anticipated that there will be a higher volume of lower value loans coming forward via this Fund and due to this, the objective to deliver finance in the short term, plus the similar characteristics of this Fund to a number of other funds operating in the region, there is expected to be clear market appetite for external fund managements services;

- P&I Pillar – Property & Infrastructure Fund: Due to the scale of finance available, the nature of the likely investments and the potential to attract and leverage other investment, a Fund Manager may need to be regulated by the Financial Conduct Authority (FCA) and therefore external fund management is required.

3.25 External Fund Managers will be procured, and their proposals will be evaluated on appropriate criteria including but not limited to the following:

- Their ability to start deploying and commence on-lending to SMEs quickly following appointment;
- Management Team and Key personnel, recent and relevant experience and successful track record in fund management, including SME Loan book;
- Loan origination strategies such as:
  - Structure and location of the management, origination and portfolio management team;
  - Track-record of ability to originate loans;
  - Expected drawdown profile;
  - Pipeline of near-term lending opportunities; and
  - Approach to portfolio diversification and risk management.
- Proposals that evidence robust and tested systems and processes are in place for making and managing loans (e.g. documentation, back-office systems, monitoring and governance arrangements, management information reporting);
- Information on:
  - Expected gross and net annual return;
  - Details of any expected costs and fees charged;
  - Evidence that any proposed fees or costs are commensurate with market rates;
  - How the fee structures clearly and appropriately align the interests of the Council;
  - Protection and recovery of the Council's investment in the event of default.
- Additional Benefits and added value in areas such as;
  - Adding social value outcomes
  - thinking skills
  - apprenticeships,
  - opportunities for care leavers,
  - getting particular age bands back into work
- and;
- Demonstrating the following are in place:
  - Appropriate permission, registrations and authorisations;

- Capacity to carry out due diligence and anti-money laundering checks to applicable legal and regulatory standards;
- Systems, controls and procedures for identifying making investments and controlling risks; and
- Reporting systems and compliance with GDPR.

4. Operational Processes

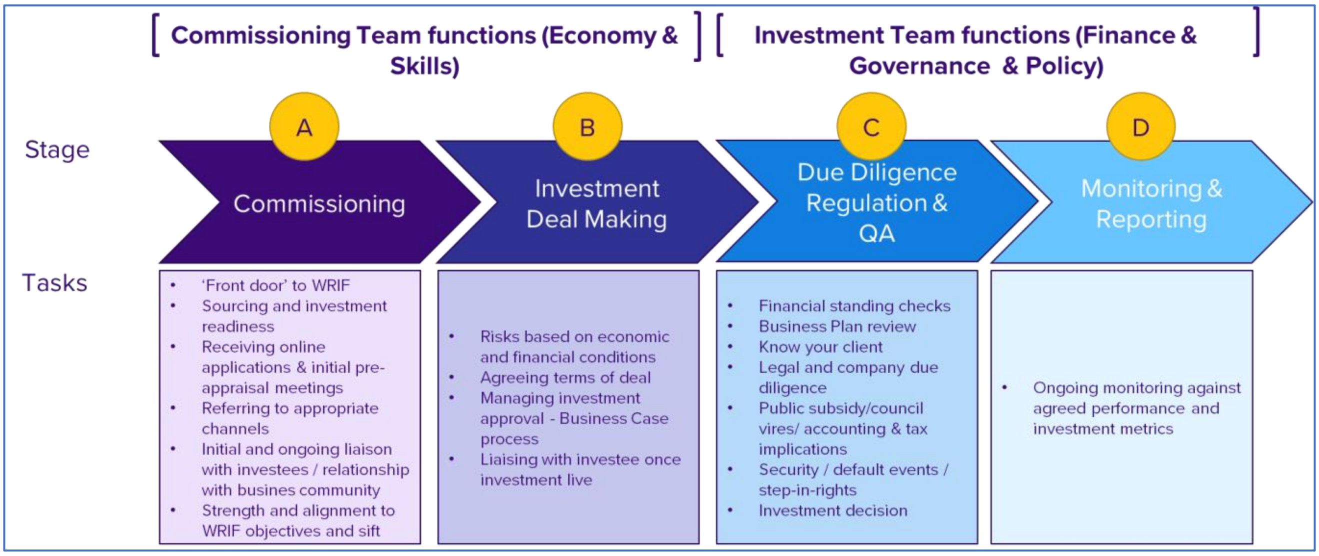
4.1 This section sets out the operational processes that will be followed in operating the WRIF.

OVERALL PROCESS

4.2 There are a number of strategic activities, as is set out in Section 3, that are to be undertaken at regular intervals to ensure the WRIF Investment Strategy remains aligned with market need. These strategic activities will be undertaken to set priorities, inform the WRIF Investment Strategy, and incorporate lessons learned from performance in the previous year.

4.3 Outside of those strategic activities, there are four key stages that reflect the operational process for all 3 pillars of the WRIF as set out below in Figure 1.

Figure 1: Overall WRIF process



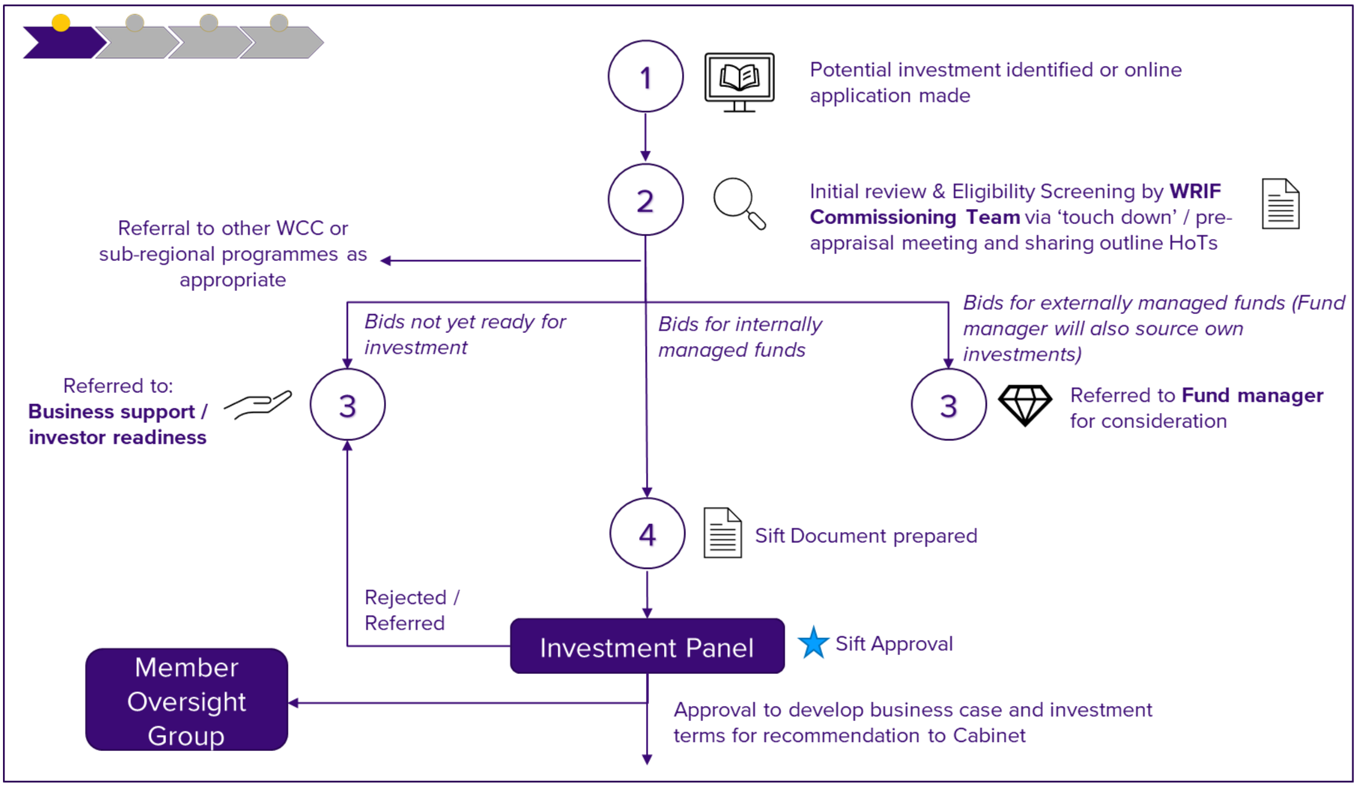
4.4 The process for investments is consistent across all 3 pillars; but for those managed externally, stages B, C, and D (with monitoring by the internal team additionally) above will be carried out by a Fund Manager. For PIF and BIG pillars investment decisions will be made by Cabinet. There is an interface at the start and end of the process where the Economy & Skills Team might refer a potential investment to the Fund Manager (rather than through the internal process) if it meets the criteria for each pillar; and the Fund Manager will be expected to support the monitoring and reporting of the WRIF through the Investment Panel. But otherwise, it will be up to the Fund Manager to establish their own appraisal and due diligence processes to ensure that robust investments are made that meet the requirements of the WRIF. These arrangements will be assessed as part of the Fund Manager procurement process.

4.5 We consider each of the four stages in more detail below.

A - COMMISSIONING

4.6 The commissioning stage acts as the 'front door' to the WRIF (and WCC's wider access to finance offer) and involves sourcing, receiving and directing bids to the appropriate place depending on the nature of the bid and the pillar to which it relates (or signposting applicants to other WCC or sub-regional programmes.

Figure 2 – The commissioning process for internally and externally managed funds



4.7 The 4 key stages that are shown above for the typical process are as follows:

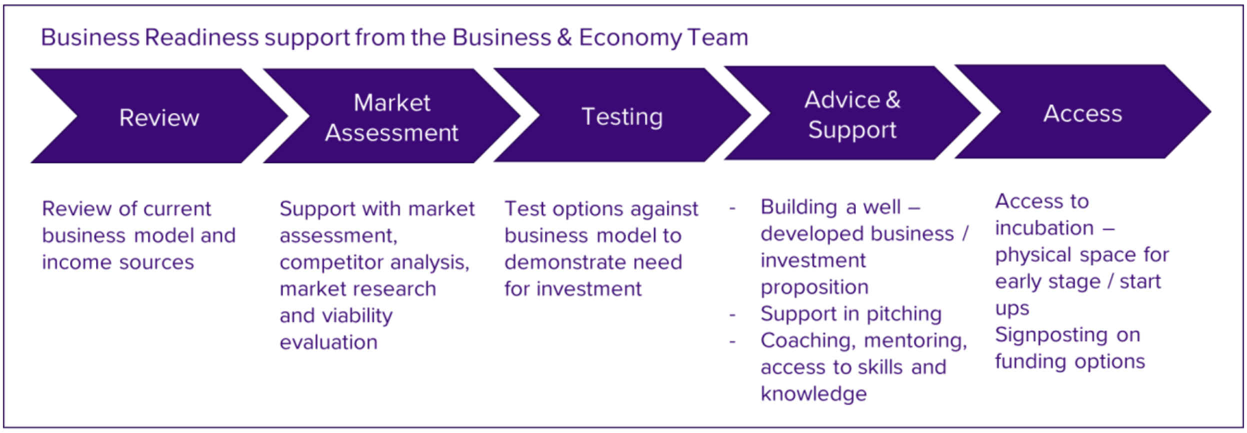
- **Stage 1 Potential investment identified/applied**– Potential investment identified by the WRIF Commissioning Team or an application is made online to the WRIF (see Appendix 5 for application form). The intention is that the Council will engage with businesses before submitting detailed information to support an application. Therefore, the online submission will require minimal information to enable this engagement to happen.
- **Stage 2 Initial review & Eligibility Screening** – Initial review, via a 'touch down' or pre-appraisal meeting, by the WRIF Commissioning Team to determine there is a valid business/investment proposition and the proposal is eligible i.e. is in line with high level criteria e.g. within the funding envelope, aligns with the objectives of the WRIF, the business is based in Warwickshire and has the attributes described in the application etc. At this stage outline Heads of Terms will also be shared/confirmed with the potential investee to ensure the

financing arrangement is understood and accepted. If a strong, clear and valid proposition is made then the Commissioning Team will start to prepare a Sift Document. This stage may include some simple due diligence checks to minimise effort that would be wasted if simple checks were to be failed later in the process.

- **Stage 3 Investment referral –** depending on the nature of the investment, it will be referred to the next stage as appropriate. This will either be for further review internally, to an external fund manager, or to Business/Investor readiness support where the business requires further support to reach a stage where it can be assessed for investment. Similarly, it could involve a referral to another WCC or sub-regional programme.
- **Stage 4 Sifting process –** The WRIF Commissioning Team prepare a Sift document to outline the potential investment at high level and demonstrate strategic alignment with objectives and other key investment criteria and to confirm the affordability of the potential investment and any appropriate sifting-stage due diligence checks with Finance including financial standing checks (see template in Appendix 5 which sets out all the criteria that must be satisfied for approval). Once completed all Sift Documents are referred to Investment Panel to seek approval to proceed to Investment Business Case stage. The Investment Panel comprises representation from Communities and Resources Directorates each of whom must 'sign off' the Sift Document to confirm each Directorate's approval, this will include confirmation from Finance that appropriate funding is available and the risk analysis of the investment. The Member Oversight Group will receive regular pipeline reports on investment approvals and those rejected or referred for further support.

4.8 The following diagram, Figure 3, sets outs out the typical stages of business/investor readiness support that will be offered by the Council's Business & Economy Team to a potential investee/applicant if required.

Figure 3 Business / Investor readiness support process

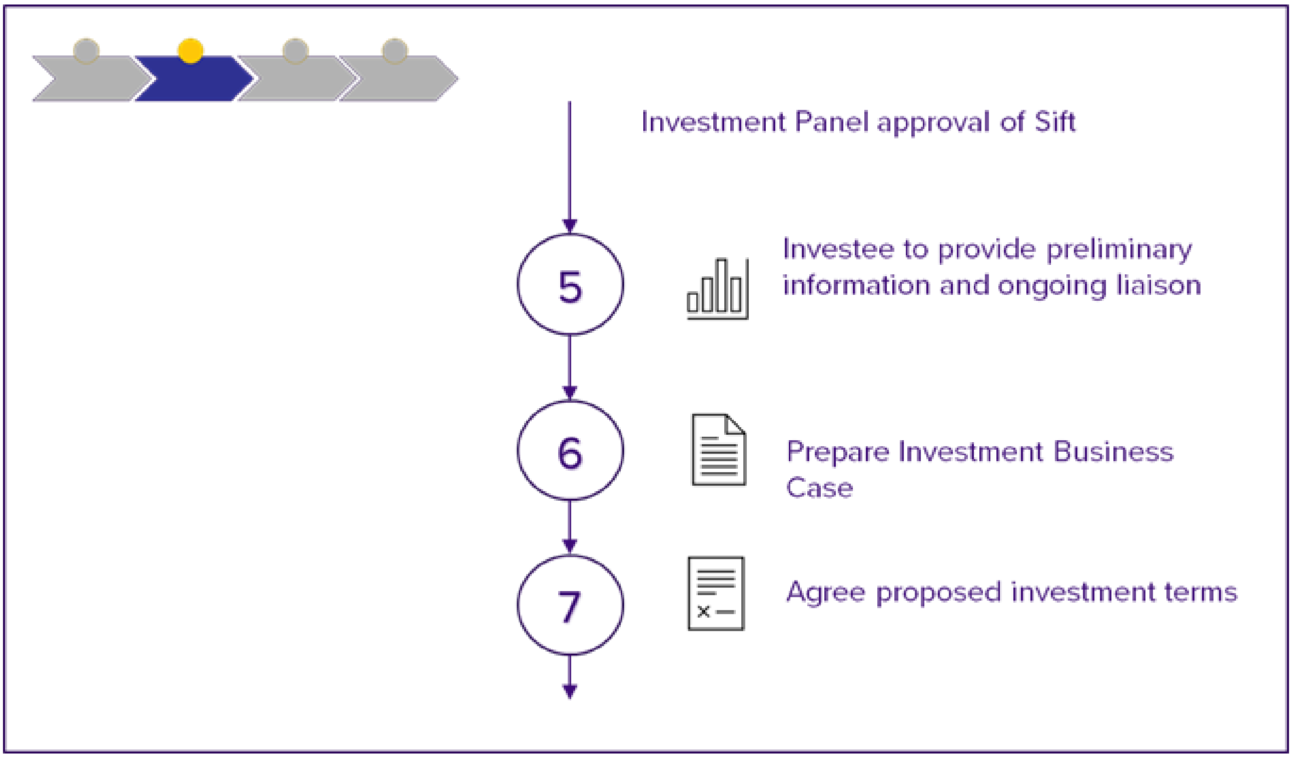


4.9 The quantity and type of business advice and support will be dependent upon the individual needs of the investee. This will vary significantly and will be customised to meet the requirements of each client. The Economy & Skills team will access resources as required, including via existing business support programmes such as Coventry and Warwickshire Cooperative Development Agency (CDA) and University of Warwick Science Park (UWSP).

B – INVESTMENT DEAL MAKING

4.10 In this section, we only consider the process for those applications considered internally, as those managed by a Fund Manager would follow their own process.

Figure 4: Investment Deal making for typical investment



4.11 The 3 key stages that are shown below for the typical process are as follows:

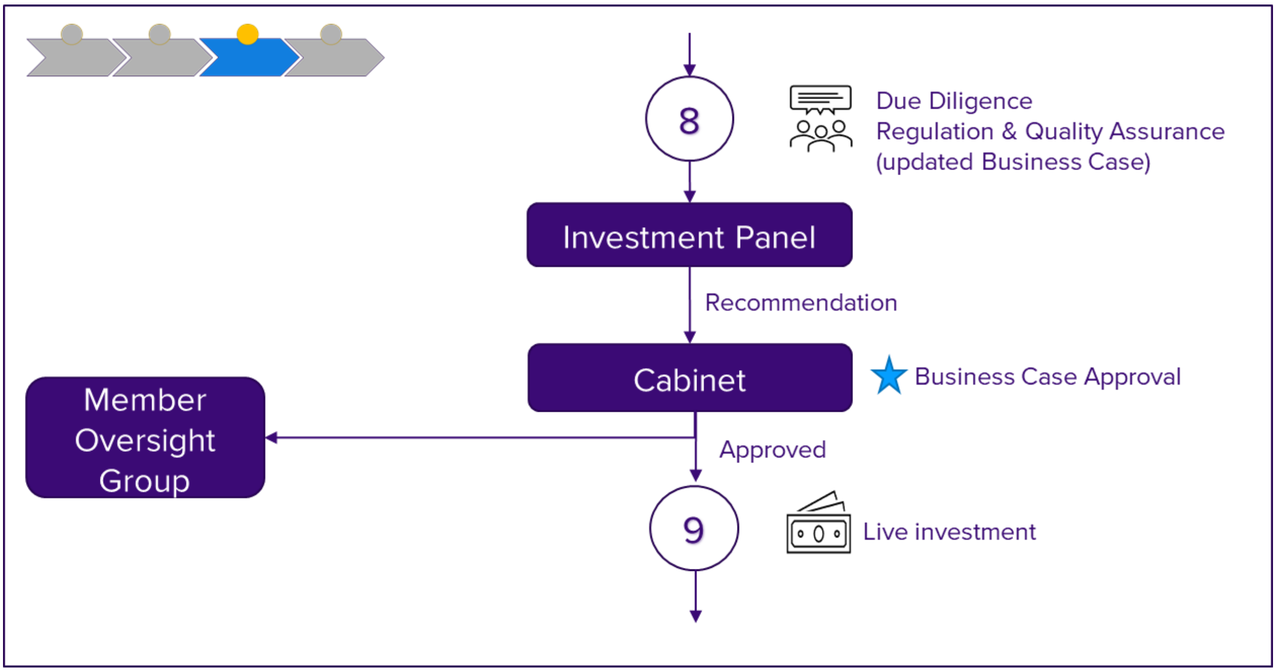
- **Stage 5 Information gathering –** the WRIF Commissioning Team will liaise with the investee to review the preliminary information and secure further clarification and documentation as required.
- **Stage 6 Investment Business Case** – An investment business case is prepared by the Commissioning Team with information supplied by the investee/applicant and support from Communities and Resources Directorates plus external advisers as required (see template in Appendix 5 which sets out all the information and criteria required for approval).
- **Stage 7 Investment terms** – the terms of the proposed investment will need to be agreed with the investee for example the type of investment, the payback period, interest rate, any security on the loan etc. These terms will need to be reflected in the investment business

case to ensure that all issues are considered. This work will be done by the Investment Team, supported by external advisers as required. The Investment Panel will determine that these terms comply with the necessary legal and financial requirements.

C - DUE DILIGENCE

4.12 In this section, we only consider the process for those applications considered internally, as those managed by a Fund Manager would follow their own process.

Figure 5: Due diligence for typical investment



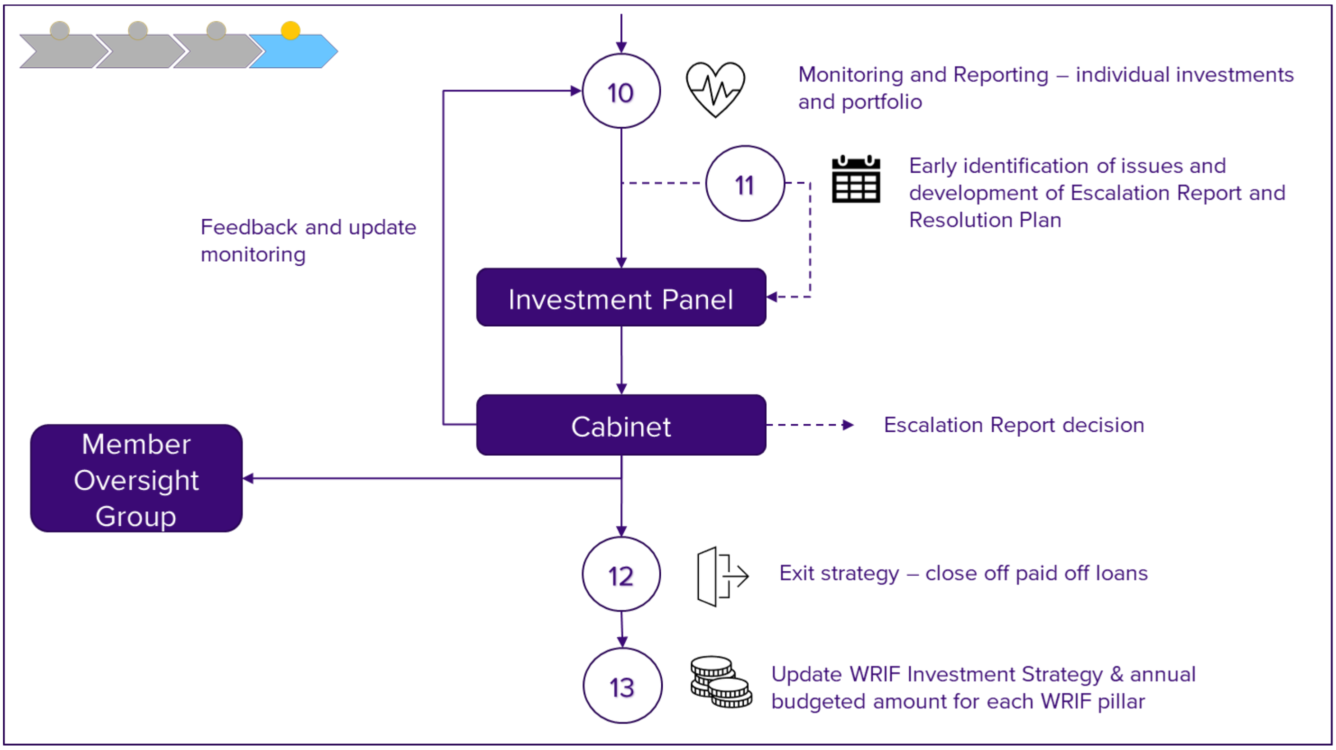
- **Stage 8 Due Diligence –** Due diligence, investment challenge and regulation is carried out by the Investment Team- Finance and Governance & Policy Teams plus external advisors as required. This will comprise additional financial standing checks; Business Plan review; know your client; legal and company due diligence as well as confirming again the availability of resources. Once completed all Investment Business cases are presented to Investment Panel and if appropriate criteria are met, a recommendation is made, and the investment is then referred to Cabinet to then approves or reject it for funding. Members through other committees such as the relevant overview and committees and audit and risk committee for example will also have a critical role in due diligence.

- **Stage 9 Live Investment -** If approved by Cabinet, the investment becomes part of the WRIF.

D – MONITORING AND REPORTING

4.13 The following flow chart sets out the process that would be undertaken by the Council in managing investments once they have been approved.

Figure 6: Monitoring and reporting



- **Stage 10 Monitoring and reporting** – the Investment Team with support from the Finance and Governance & Policy Team, will be responsible for monitoring all live investments and providing monitoring reports to Investment Panel, Cabinet and Member Oversight Group as required but as a minimum on a quarterly basis. Challenge to the investment deal making process and advice to the Investment Panel will be provided via the Finance Team. A template for the Monitoring report is shown at Appendix 5. A pipeline report will also come forward to the Investment Panel and Member Oversight Group showing the investment applications approved, referred, and rejected.

  A regular quality assurance process (QA) or peer review process will be undertaken to review the performance of the portfolio as a minimum on a 6 monthly basis. This will be led by the Strategic Director of Resources with support by independent advisors as required.

- **Stage 11 Issue escalation -** for any instances where potential issues/difficulties have been identified in the performance of a live investment (for example potential repayment default, delayed cashflow, or failure to achieve agreed investment objectives such as job generation) the Investment Manager will engage with the investee in the first instance to understand the potential cause of the issues and to agree a Resolution Plan to resolve them. An Escalation Report will be submitted with the Resolution Plan to the Investment Panel, Cabinet (and Member Oversight as required) for approval. The Escalation Report and Resolution Plan will consider options for dealing with the ongoing issues and may include but are not limited to converting loans to equity, extending loans, taking debt recovery action, invoking any available investors rights such as taking up rights to secured assets, pathways to write-offs and activation the exit strategy for an individual investment. The determined option for the resolution plan will depended on the individual investment circumstances. If needed, the Council's urgency procedures will be used for significant issues that need escalating quicker than the above procedures allow.
- **Stage 12 Exit –** an investment might reach its natural exit point (for example a loan fully paid off) or an Escalation Report may recommend an early exit. The Investment Panel will make a recommendation and Cabinet has the authority to grant approval to implement the exit strategy on any investment. Should an exit strategy be required at short notice then there will be a delegation to the Chair of the Investment Panel in consultation with the Portfolio Holder for Finance to take the decision and details of exits would be included in the regular monitoring reports to Members.
- **Stage 13 update WRIF Investment Strategy and Budgets –** any learning from the monitoring of current investments, natural or early exit from investments should be reflected in an updated WRIF Investment Strategy to be agreed annually by Cabinet. Where necessary updates to the MTFS and the Council's non-treasury Investment Strategy will be informed by WRIF experience.

APPROVALS

4.14 This process sets out 3 clear approval points:

- **Sift approval** – by the Investment Panel. This approves the investment to move to Business Case stage including negotiating the terms of the deal and undertaking due diligence. The key areas that need to be considered and satisfied at this stage are (the SIFT document / Funding Request Dashboard is at Appendix 5):
  - Strength and alignment to the WRIF objectives;
  - Projected performance against the WRIF investment criteria;
  - Funding requirements and availability of funding;
  - Sift-stage due diligence;

    - Key risks that need to be managed; and
    - Investment exit strategy.
- **Business case approval** - by Cabinet on the recommendation of the Investment Panel. Cabinet has the final say on those investments that proceed. The key areas that need to be considered and satisfied at this stage are:
    - Strategic case - strategic alignment and investee;
    - Economic case – benefits and opportunity cost of the investment;
    - Commercial case – the commercial structure, the powers under which the investment is made, how the investment complies with Subsidy Control rules and any other legal considerations;
    - Finance case – key financial terms, full due diligence checks, the cashflow and funding requirements, any accounting and tax implications, projected investment performance, portfolio impact, company financial projections, company financial standing; and
    - Management case – company management capability, key risks, timelines, strategy for growth and resources required.
- **Exit strategy approval** – by Cabinet on the recommendation of the Investment Panel. All investments should have a clear exit strategy articulated at the point of approval. However, some investments might need to be exited sooner if they are underperforming and these will need approval to exit. The key areas to be considered at this stage are:
    - Clarity on timing and arrangements for exit;
    - Minimising financial losses;
    - Minimising any reputational issues;
    - Impact on MTFS;
    - Impact on portfolio performance; and
    - Impact on benefits realisation.

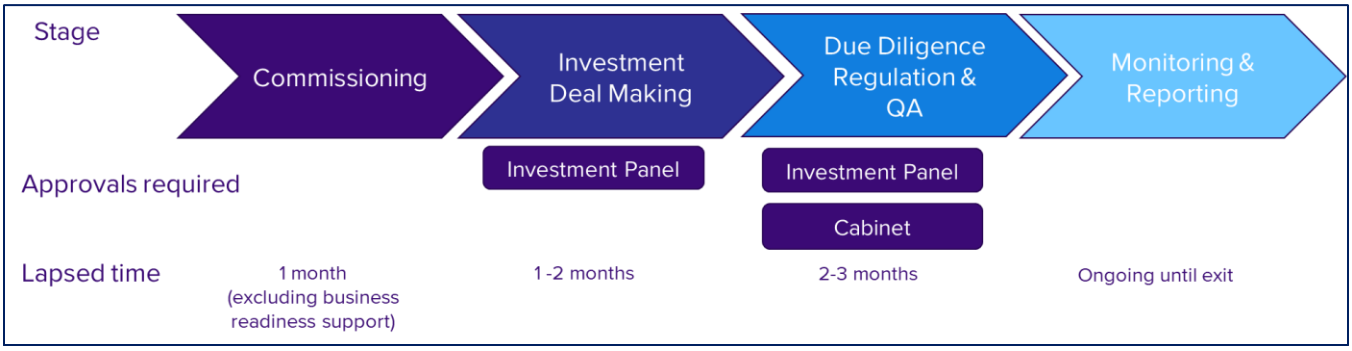
4.15 Members have oversight of these three approval stages through the Member Oversight Group where decisions can be challenged.

4.16 A regular quality assurance process (QA) or peer review process will also be undertaken to review the performance of the portfolio outside of the Investment Panel as a minimum on a 6 monthly basis. This will be led by the Strategic Director of Resources with support by independent advisors as required.

TIMESCALES

4.17 It is estimated that the approximate timescales from identification of investment opportunity to live investment is between 3-6 months, excluding any business readiness support as demonstrated below:

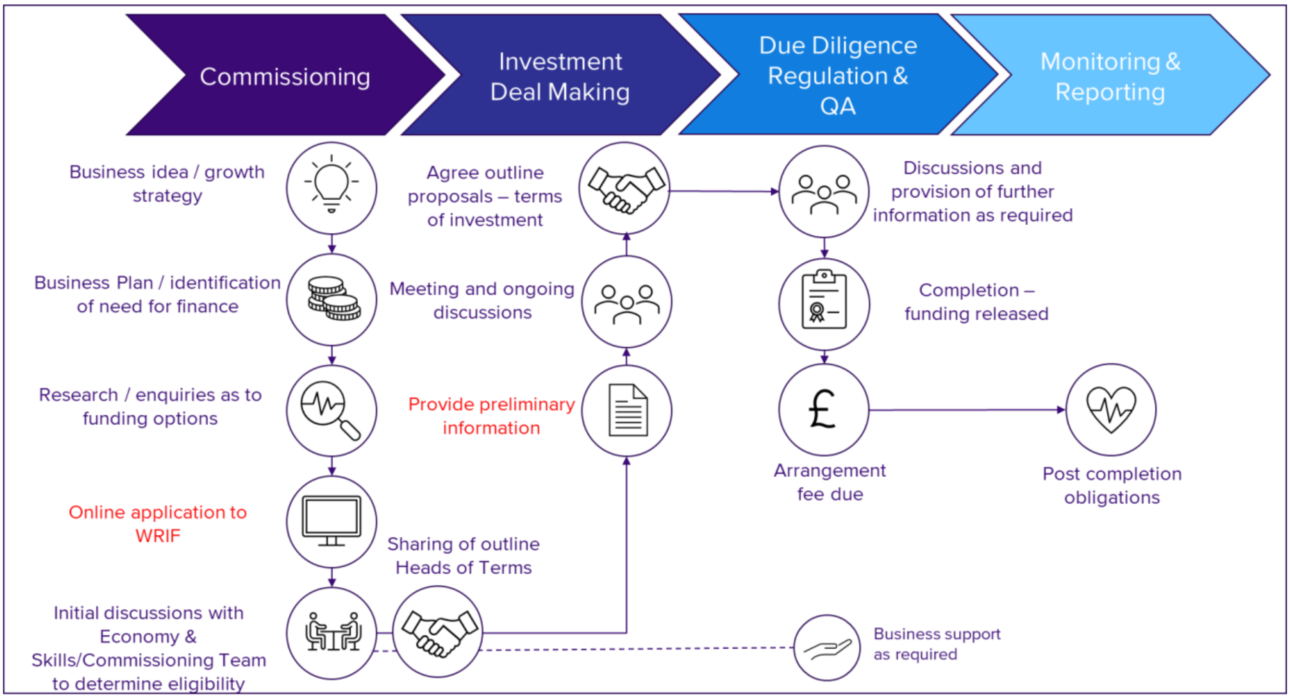
Figure 7: Approximate timescales for investment decisions



THE INVESTEE JOURNEY

4.18 From the investee point of view, the process is as follows, mapped against the Council outline process:

Figure 3: The investee journey mapped against the Council process



4.19 The investee will be required to provide information in support for the submission (highlighted in red) to enable the Council to assess the application.

4.20 The online application will require minimal information to enable the Council to make contact with the potential investee with further detailed financial and company information required once initial discussions have been held. The information required at these stages is outlined at Appendix 5.

4.21 An arrangement fee, to cover the cost to the Council of making the deal (for example due diligence costs), will be due from the investee ahead of the release of funding. Unless it is agreed to be added to the loan or other instrument as agreed during the Investment Deal Making Phase.

5. Financial Plan

5.1 This section details the forecast financial performance of the WRIF based on the activities and operations detailed in the sections above.

BUDGET

5.2 A total of £140m is proposed to be allocated to the WRIF. This will form a block of finance available to support its activities and will be drawn down to be invested, in line with the approved governance structure, as investments are made.

5.3 This is an important control for the Council as it allows the fund to use this block allocation to manage risk and assess the affordability, viability and risk of each investments based on the level of finance available.

5.4 The planned split of the fund, based on market testing and an internal assessment of risk, is set out in the table below, however, this split will be considered on an annual basis to ensure that the fund is addressing its core objectives.

5.5 It is envisaged that each investment will have its own business case and in this a determination will be made as the source of Funds. Broadly, it is assumed that BIG and P&I Pillars will be predominantly capital in nature, whereas the LC&E Pillar will be predominately revenue. This is an important distinction as it will dictate where the Council will source the finance.

Pillar	**Total Allocation/ £m**	**Capital £m**	**Revenue £m**
BIG	90	90	
LC&E	10		10
P&I	40	40	
Total	**140**	**130**	**10**

5.6 In addition, the profile of investment will match market need. For the purposes of this Business Plan the following investment profile has been used to support the financial model. Whilst this business plan sets out the expected level of investment, hard limits on investment at the level of each of the 3 funds will be set out in the Council's non-treasury Investment Strategy as the 3 funds have distinct risk profiles. Those limits will be designed to provide some flexibility to maximise benefits whilst ensuring that the risk profile of the WRIF is kept reasonably close to the plan approved by Council, and it should be noted that investment limits may be the same as or greater than investment targets

Pillar	Total £m	21/22 £m	22/23 £m	23/24 £m	24/25 £m	25/26 £m
BIGI	90	20	20	20	20	10
LC&E	10	2	2	2	2	2
P&I	40	0	10	10	10	10
Total	**140**	**22**	**32**	**32**	**32**	**22**
Capital	130	20	30	30	30	20
Revenue	10	2	2	2	2	2

Source of Finance

5.7 The source of finance for investments will be determined by the classification of the investments. This will predominantly be influenced by:

- Whether the investment is capital or revenue in nature;
- The relative cost / benefit of the different sources of external borrowing. As per the Council's non-treasury Investment Strategy all WRIF investments must meet PWLB lending criteria therefore PWLB borrowing will always be an option; and
- Whether the Council will have sufficient internal cash balances available to enter the full period of the investment.

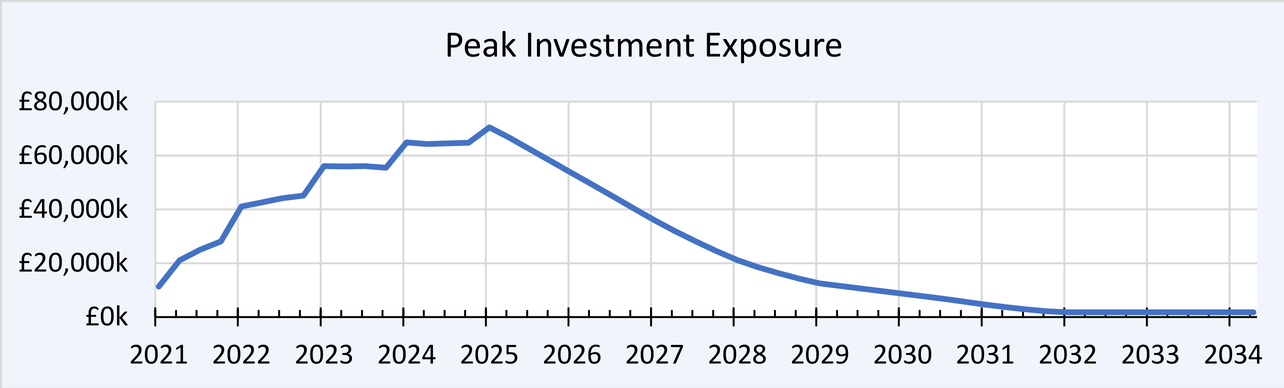
5.8 Where an investment is deemed to be not for capital then the Council will look to use internal cash balances to support these investments. However, internal cash balances are limited and only available temporarily pending decisions in the MTFS and budget. Therefore, the span of any investment funded in this way will need to consider the availability of cash balances across the lifespan of the investment.

5.9 The form on investment will be defined by the rules set out in the Council's Treasury Management Strategy and the accompanying non-treasury Investment Strategy.

5.10 Where an investment is classified as capital expenditure then the Council has the choice between the use of cash balances or, depending on the prevailing interest rates, to use its Powers under the Prudential Code to borrow this money.

FUNDING STRATEGY

5.11 The investment profile will be driven by market appetite, the Council's approach to risk and availability of finance. Based on the financial model assumptions, in particular the assumption that the maximum £140m will be spent on the WRIF, the peak exposure of the Council, (investments outstanding less any principal repayments received), is detailed in the figure below:

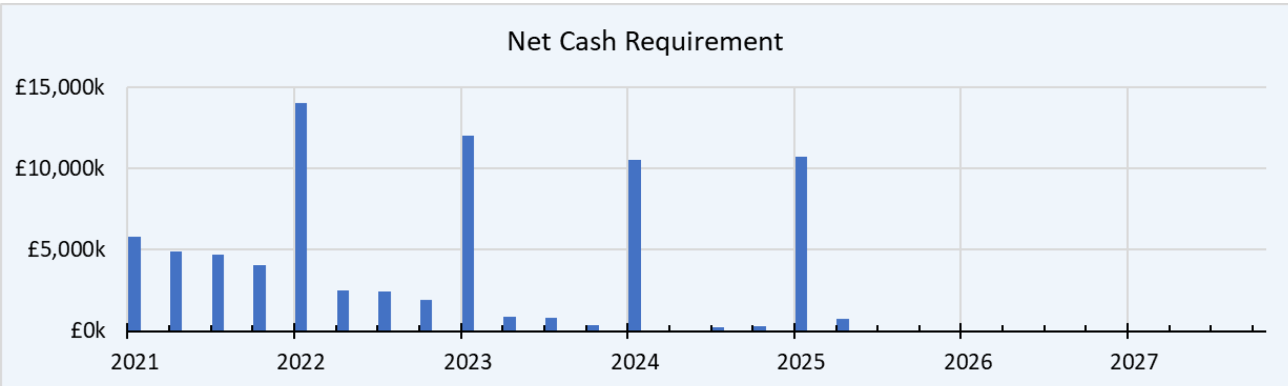


5.12 Based on this profile the peak exposure is £70.6m in October 2025.

5.13 Using this profile, the estimated cash requirements of the WRIF are set out in the figure below. These figures will be continually monitored based on the market appetite for investment and will form part of the Council's Treasury Management and Investment Strategies, approved by full Council. The proposed WRIF arrangements were not part of the Treasury Management and Investment Strategies approved by Council in February 2021. Therefore, for 2021/22 updated strategies will be brought forward for approval alongside the approval of the WRIF to demonstrate the WRIF is prudent and affordable and to ensure the necessary approvals to deliver this business plan are in place.

5.14 In future years the impact of the refreshed business plan and its affordability to the Council will be agreed and any updates will be required to fit within any limits, conditions, and parameters set out in the Treasury Management Strategy and Investment Strategy as approved annually by Council.

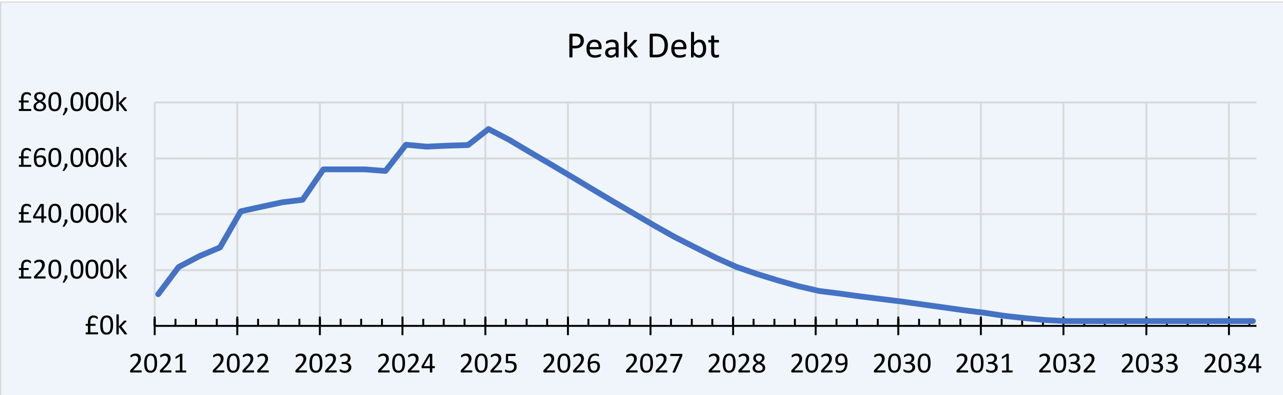
5.15 Using this profile, the estimated cash requirements of the WIRF are set out in the figure below. These figures will be continually monitored based on the market appetite for investment. Any changes would need to fit within the approved Treasury Management and Investment Strategies, to be put to the Council for annual approval:



Peak debt

5.16 It is anticipated that the Business Growth & Investment Pillar and the Property and Infrastructure Pillar will focus investment activity at capital projects and the Council will rely on its borrowing powers to source finance for these investments.

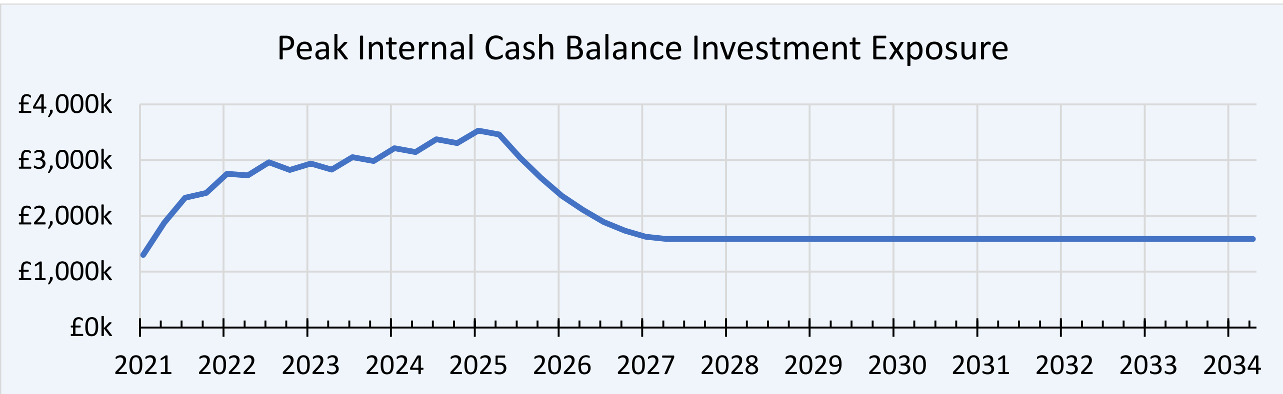
5.17 The figure below sets out the peak borrowing figure based on the activities of these two funds. The maximum borrowing of these two pillars is in October 2025 at £67m.



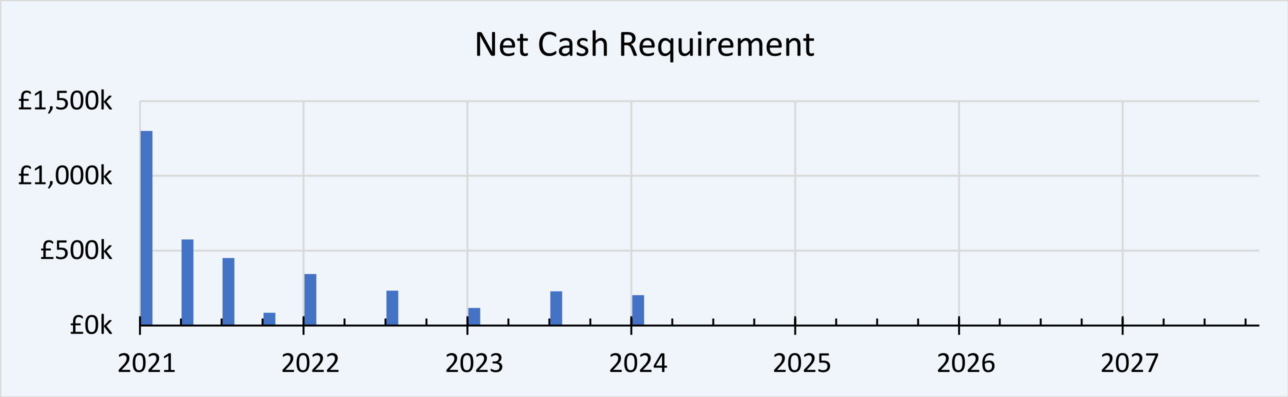
Use of Internal Cash balances

5.18 It is anticipated that the majority of investments made to support the activities of the Local Enterprise & Growth Pillar may not be classified as capital expenditure and as a consequence will need to be funded from the Council's internal cash balances.

5.19 The figure below sets out investment exposure of the Council to this Pillar with the tail representing the potential loss on the fund beyond 2028 that will need to be managed across the WRIF.



5.20 The net cash requirement to support the investment profile is set out below. However, this will be dependent on the agreement with the external fund manager.



INVESTMENT STRATEGY

5.21 The investment strategy of the WRIF is set out at Appendix 4. This sets the criteria through which to assess investments against the agreed outcomes of the Council and includes financial, economic, social and environmental criteria.

5.22 Of particular importance is the requirements for the WRIF as a whole to be affordable to the Council – this being defined as meetings its objectives whilst "at least" having no negative annual impact on the Council's revenue account, once all set up and Year 1 costs have been considered.

5.23 In addition, the Council has identified, that for the purposes of compliance with Public Subsidy rules, that any return to the Council must be on a commercial basis, commensurate with the level of risk being undertaken. Alongside this, the Council is also mindful of new and revised guidance aimed at stopping Councils borrowing to invest with the sole purpose of creating a yield. The Council's position is that it will not invest purely or primarily for yield and all WRIF investment decisions are required to meet these criteria.

5.24 The Business Case clearly sets the rationale for the WRIF, its three Pillars and their support of the Council's recovery and growth objectives. As such, any return from individual investments when considered in light of both sets of guidance rules will be assessed for appropriateness based on a specific risk assessment and market analysis.

Income & Expenditure

5.25 The table below sets out the expected financial performance of the WRIF over the first five years in the form of a summary income and expenditure account. The financial return is expressed as the revenue return to the Council and is net of the repayment of any principal owed. The running costs allowance of £448k p.a. reflects the 2% of capital cost allowance as recommended in the Business Case.

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Income/ Interest Received	394	1,679	2,667	3,324	3,838	

Fees	110	110	110	110	59	
Total Income	**504**	**1,789**	**2,777**	**3,434**	**3,989**	
Running Costs	448	448	448	448	448	
Interest payments	199	795	1,250	1,557	1,818	
Recognition of potential losses	69	238	346	353	344	
Total Costs	**761**	**1,481**	**2,044**	**2,358**	**2,610**	
Profit / Loss	**-212**	**308**	**733**	**1,076**	**1,328**	

FINANCIAL ANALYSIS - FINANCIAL RETURN

5.26 A detailed financial model underpins this Business Plan, and this section summarises the model and the underpinning assumptions. In addition, noting the diversity of the investments made through the LC&E Pillar, this Pillar has been further stratified (from the Business Case to allow for a better understanding of risk and return).

5.27 The following assumptions have been made across the three Funds in the financial forecasts:

Financial forecasts:

Detail	BIG	LC&E (Mezzanine)	LC&E (Debt)	P&I
Max. Fund Size	£90.0m	£3.0m	£7.0m	£40m
# Loans	18	10	70	4
Average Loan Size	£5,000k	£300k	£100k	£10,000k
Interest Rate	5.0%	10.0%	6.0%	6.5%
Arrangement Fee	0.5%	0.5%	0.5%	0.0%
Loan Period	3 – 7 Years	2 Years	2 Years	3 – 7 Years
Default Rate	3.0%	35.0%	20.0%	0.0%
Recovery on Default	80%	25%	40%	100%

Financial Return

5.28 The table below sets out the potential return of the WRIF based on these assumptions – over the life of the fund:

	Total WRIF	Business Investment Growth	Com.& Ent. Mezz	Com.& Ent. Senior	Property & Infrastructure
Gross Funding	£140m	£90.0m	£3.0m	£7.0m	£40.0m
Peak Funding	£76m	£45.0m	£1.3m	£2.2m	£24.6m

PWLB Interest	-£9.5m	-£5.77m	-£0.15m	-£0.27m	-£2.77m
Potential Loss	-£2.2m	-£0.54m	-£0.79m	-£0.84m	£0.00m
Running Cost	-£2.8m	-£1.80m	-£0.06m	-£0.14m	-£0.80m
Arrangement Fee	£0.5m	£0.45m	£0.01m	£0.03m	£0.00m
Interest Repayment	£20.5m	£11.5m	£0.3m	£0.4m	£7.2m
Net Revenue	**£5.9m**	**£3.8m**	**-£0.7m**	**-£0.8m**	**£3.6m**
Net Revenue (NPV)	**£4.6m**	**£3.2m**	**-£0.6m**	**-£0.6m**	**£2.7m**

5.29 The financial modelling indicates the total financial return from the WRIF over its investment cycle lies in the region of £6.0m. This is a positive return to the Council and demonstrates, given the baseline assumptions used that the WRIF is viable and affordable.

5.30 Further work has been completed to assess the viability of the three pillars within the WRIF. The Table in the sensitivity analysis section below sets out the performance of each pillar given the baseline assumptions.

Set up costs

5.31 Indicative costs to set up the WRIF are as follows:

Cost Item	£ Estimate
Procurement of External Fund Managers	£60,000
Procurement of Framework for External Advisors	Broadening of existing procurement so no cost to WRIF
Marketing, Communication & Engagement (including website)	£50,000 Budget
IT portal for fund applications	£20,000
Legal/Tax Advice for standard documentation e.g. loan agreements	£50,000
External support to produce WRIF Business Plan	£60,000
Total	**£240,000 estimate**

Running & Operating Costs

5.32 Running and operating costs of the Fund will need to be accounted for and monitored in relation to the performance of the Fund. It is proposed that the Fund will cover all internal costs for resources and external costs for management as well as any transaction fees and charges. The aim is to make the Fund run as efficiently as possible, seeking to pass costs on to borrowers wherever appropriate. This will be generally achieved through a market normal transaction charge for any investment.

5.33 The following table provides estimates of the costs to run the fund, using the baseline estimate of 2% of capital invested at a total of £2.8m as set out in the Business Case. VAT costs are excluded at this stage but will be captured as part of the regular monitoring process:

	2021/22	2022/23	2023/24	2024/25	2025/26	Following 10 years	Total
Business Case Running Cost Allowance @2% of Capital invested	**£ 448,000**	**£ 448,000**	**£ 448,000**	**£ 448,000**	**£ 448,000**	**£ 560,000**	**£ 2,800,000**
Business Ready Support	funded separately						
Management resources							
Staffing (internal resources)	£ 79,350	£ 158,700	£ 158,700	£ 158,700	£ 158,700	£ 100,000	£ 814,150
External Fund Management Services (2% of Capital invested - £50m)	£ 80,000	£ 210,000	£ 210,000	£ 210,000	£ 210,000	£ 80,000	£ 1,000,000
External Pool of Advisors	£ 138,750	£ 185,000	£ 185,000	£ 185,000	£ 185,000	£ 100,000	£ 978,750
Ongoing Marketing, Comms & Engagement		£ 10,000	£ 10,000	£ 10,000	£ 10,000		£ 40,000
Total Costs	**£ 298,100**	**£ 563,700**	**£ 563,700**	**£ 563,700**	**£ 563,700**	**£ 280,000**	**£ 2,832,900**
Balance against BC allowance	£ 149,900	-£ 115,700	-£ 115,700	-£ 115,700	-£ 115,700	£ 280,000	-£ 32,900
Cumulative		*£ 861,800*	*£ 1,425,500*	*£ 1,989,200*	*£ 2,552,900*	*£ 2,832,900*	

5.34 The total running costs over the life of the portfolio is shown to be £2.9m excluding set up costs. This is £113k over the £2.8m allowance budgeted in the Business Case.

SENSITIVITY ANALYSIS

5.35 Any investment comes with the risk that some or all of the investment is lost. In addition to recognising this risk, sensitivity analysis has been performed on these financial forecasts and give an indication of the predicted range of return:

Total WRIF	Business Investment Growth	Local Communities & Enterprise	Property & Infrastructure

Downside Risk (NPV) (5%)	£2.1m	£1.4m	-£2.7m	£2.7m
Upside Potential (NPV) (95%)	£6.1m	£3.7m	£0.2m	£2.7m

5.36 In addition, the Monte Carlo Simulation was used to assess % chance of a positive return against each pillar, this was further split for the LC&E Pillar to reflect the different risk profile against each form on investments; the information is set out in the table below:

	Total WRIF	Business Growth	Com.& Ent. Equity	Com.& Ent. Mezz	Com.& Ent. Senior	Property & Infrastructure
% Chance of Positive NPV	**99%**	99%	69%	2%	1%	99%

EXAMPLE INVESTMENTS/ CASE STUDIES

5.37 Example case studies of a number of archetypal investments that the council could make under each pillar is included in Appendix 6. The examples are based on investments made by similar funds and are representative of the types that could be supported by the WRIF.

6. Performance Management Framework

6.1 A performance management framework will be used to monitor the performance of the WRIF, to ensure that the Fund meets its objectives, investments perform as expected and deliver the outcomes/benefits required.

6.2 The framework comprises four elements:

1. Portfolio and pillar performance;
2. Live investments performance;
3. Pending investments; and
4. Rejected / Referred investments

PERFORMANCE METRICS

6.3 Financial, Economic, and Social and Environmental metrics are to be used to monitor the ongoing performance of the WRIF at a portfolio level in terms of meeting its objectives and to monitor individual investments to ensure they are performing as expected. Monitoring should be quarterly, showing historic and predicted data to ensure that trends are identified and the necessary adjustments made to the Investment Strategy The metrics can be used at portfolio, pillar and individual investment level.

Financial Metrics

Financial metrics	Portfolio	Pillar	Investment
Investment value (£)	✓	✓	✓
Interest received (£)	✓	✓	✓
Principal repayment (£)	✓	✓	✓
Cashflow (£)	✓	✓	✓
Surplus/deficit to date (£)	✓	✓	✓
Yield and/or profit on cost (%)	✓	✓	✓
Internal rate of return (%)	✓	✓	✓
NPV (£)	✓	✓	✓
Loan to value or cost (%)	✓	✓	✓
Interest rate cover ratio	✓	✓	✓

Financial metrics	Portfolio	Pillar	Investment
Debt service cover ratio	✓	✓	✓
Default rate (%)	✓	✓	
Management fees (£)	✓	✓	
Running cost recovery (%)	✓	✓	

Economic Metrics

Economic metrics	Portfolio	Pillar	Investment
Jobs created	✓	✓	✓
Cost per job created	✓		✓
Jobs safeguarded	✓		✓
GVA uplift	✓		
Number of businesses supported	✓	✓	✓
Private sector leverage	✓		✓
Public sector leverage	✓		✓
Sq ft of enabled development	✓	✓	✓
Sq ft of additional commercial premises	✓	✓	✓

Social and Environmental Metrics

Social and Environmental metrics	Portfolio	Pillar	Investment
Value of investment by district (£)	✓		
Poverty Premium – number of residents lives touched/ households helped	✓		
Number of responsible investments	✓	✓	
Investee feedback	✓		

6.4 Each investment should be subject to regular monitoring against the conditions in the loan document to identify 'trigger events' that would require escalation or review for example missed repayments or changes to management structures.

REPORTING

6.5 Quarterly monitoring reports will be provided to the Investment Panel, Cabinet, Member Oversight Group and other forums as required. All financial reporting should include reference to how the WRIF fits into WCC financing overall.

6.6 Included in the reporting process will also be:

- An overview of any pipeline investments that are currently part way through the deal making, due diligence or approval process, as is shown in the example table below:

Pipeline investments											
Investment name	Pillar	investment company	Investment value	Product	Application date	Lapsed time	Strategic alignment	Risks	Resources	Other	Current status
Investment #1	BIG	Company #1	£1.5m	Commercial loan	01/04/2021	60 days					Business case approved (cabinet)
Investment #2	BIG	Company #2	£750k	Commercial loan	10/04/2021	30 days					Pre-business case approval
Investment #3	BIG	Company #3	£500k	Commercial loan	15/05/2021	15 days					Sift approved (Investment panel)
Investment #4	BIG	Company #4	£2.45m	Commercial loan	02/06/2021	5 days					Pre-sift approval

- A summary of investments that have been rejected or referred and details of the reason for any rejection, as is shown in the example table below:

Rejected investments								Referred investments
Investment name	Pillar	investment company	Investment value	Product	Application date	Rejection date	Reason for rejection	Referral (if applicable)
Investment #5	BIG	Company #5	£750k	Commercial loan	03/04/2021	20/06/2021	Not strategically aligned to WRIF priorities - could revisit if priorities change	Referred to {x} other WCC programme
Investment #6	BIG	Company #6	£20m	Commercial loan	12/05/2021	20/06/2021	Insufficient security on loan to reflect the level of risk	Referred to {x} other subregional programme
Investment #7	BIG	Company #7	£500k	Commercial loan	13/05/2021	20/06/2021	Unable to agree heads of terms - may return in 6 months	n/a
Investment #8	BIG	Company #8	£250k	Commercial loan	03/06/2021	21/07/2021	Company not ready for investment.	Referred to Business readiness programme
		BIG						
Rejection rate		5%						

- Risk Register – further details of which is set out in Section 8.

Dashboard

6.7 As part of the regular monitoring process and included in all reporting a visual dashboard of performance metrics will be provided. Below is an example of how the performance metrics will be displayed visually for an individual investment and it is proposed that a similar dashboard is used for the portfolio too, comparing performance against the Business Plan targets.

7. Implementation Programme

MARKETING, COMMUNICATION & ENGAGEMENT STRATEGY

7.1 The purpose, scope, and operation of the WRIF will need to be clearly communicated across the Council.

7.2 Effective operation of the WRIF will also require communication and engagement with stakeholders outside of the Council who may introduce or signpost potential investment opportunities to ensure the objectives of the Fund and the types of finance available, criteria for investment are clearly understood. Internal stakeholders include for example the Council's members and relevant committees, the Council's Corporate Board and council services. External stakeholders include businesses, representative business bodies, district and borough councils and other public sector and quasi-public sector organisations including the Local Enterprise Partnership.

7.3 Key stakeholders, external to the Council, have identified to be:

- Department for Work and Pensions;
- Homes England;
- CWLEP Growth Hub;
- West Midland Chamber of Commerce;
- Federation of Small Businesses (FSB);
- West Midlands Combined Authority;
- Coventry City Council;
- Solihull Metropolitan Borough Council;
- District & Borough Councils;
- British Business Bank;
- Midlands Engine Investment Fund;
- University of Warwick; and
- Coventry University.

7.4 A detailed marketing strategy, recognising FCA regulation, will be developed that sets out the nature of the fund, its focus and priority areas and the nature of the investment it is likely to make. This will promote the fund locally and be used to source investment opportunities.

7.5 A communication & engagement strategy will be developed to form part of the Marketing Strategy that will set out the types of communication and engagement required to support the WRIF to ensure the ongoing sourcing of opportunities remains effective. The communication and engagement strategy will be complemented by a communications programme to raise awareness and build the reputation of WRIF with its key stakeholders.

7.6 The marketing strategy will consider a launch event for the Fund, advertisement, and the establishment of an online web presence to promote and support the sourcing of investment opportunities and support the investment application process.

7.7 The key aspects of the marketing, communication and engagement strategy that are required as part of the set up of the WRIF and a key element of Year 1 of the Business Plan are as follows:

- Internal Website – Council's own web page dedicated to the WRIF with links to the business support programme and including case studies/example investments;
- External WRIF standalone website, including case studies/example investments
  Slides / PDF brochure/ prospectus providing an overview of the WRIF, key investment criteria and instructions on how to apply;
- IT system/ portal for online applications; and
- Digital Outreach PR & marketing programme to launch the fund.

7.8 Key channels of information, including events, for the launch and in the ongoing marketing, communication and engagement of the Fund are:

- PR & marketing outreach programme;
- Trade and local government press;
- Digital outreach – LinkedIn, Newsletter and targeted marketing campaign;
- Inclusion within the Finance Finder tool on the GOV.UK website which provides information on grants and schemes provided by the public sector;
- Inclusion within the British Business Bank Finance Hub – an independent information Hub to help investees understand and identify suitable available finance options;
- VentureFest West Midlands - brings together investors, regional businesses, universities, science parks and business support organisations;
- MIPIM; and
- Meet the Provider events plus 'piggy backing' onto other existing annual events:
  - CWLEP Growth Hub
  - British Business Bank events – build awareness of finance options available to smaller businesses
  - MEIF events
  - West Midlands Growth Company

IMPLEMENTATION PROGRAMME

7.9 The following table sets out the key milestones that relate to the implementation programme for the WRIF.

Activity	Description	Target Start Date	Target End Date
Set Up			
Approvals	Cabinet Approval to launch Fund Investment Strategy Approved Procurement Strategy Budget approval for Year 1 WCC Investment and Treasury Management Strategies approved by Council	June 21 June 21 June 21 June 21 July 21	
Governance	Investment Panel established Member Oversight Group established	July 21 July 21	
Strategies	Marketing, Comms & Engagement Strategy prepared	April 21	June 21
Resources	Recruitment of internal Investment Team	April 21	July 21
Procurement	External Fund Management External pool of advisors	May 21 March 21	August 21 June 21
Website	Internal Council webpage External webpage	April 21 tbc	April 21
Launch			
Launch	Press Release Website live PDF brochure	Summer 21	
Individual Fund launch	BIG LCE PIF	July 21 September 21 October 21	
Operation - Established Investment Activity			
First Investment Panel Meeting	Agree ToR	Summer 21	
First Investment	First investment approved by Cabinet	Autumn 21	

First Member Oversight Group Meeting	Agree ToR, full briefing on WRIF Investment Strategy and operational processes	Autumn 21	
Monitoring & Reporting			
First investment trial monitoring process	First investment trial due diligence, monitoring, regulation and QA process	Summer / Autumn 21	

YEAR 1 (2021/22) WORK PROGRAMME

7.10 The following areas of activity will be undertaken in 2021/22 to establish and start to operate the WRIF and can be grouped under the headings of:

- Strategy and Direction;
- Funding & Finance;
- Governance;
- Communication, Engagement & Marketing;
- Procurement & Resources;
- Investment;
- Performance Monitoring, Quality Assurance and Reporting; and
- Risk Management.

7.11 The work programme for Members, officers and advisers envisaged during Year 1 and then following years of operation of the Fund is envisaged to be as is set out in the table at Appendix 2.

8. Risk Management

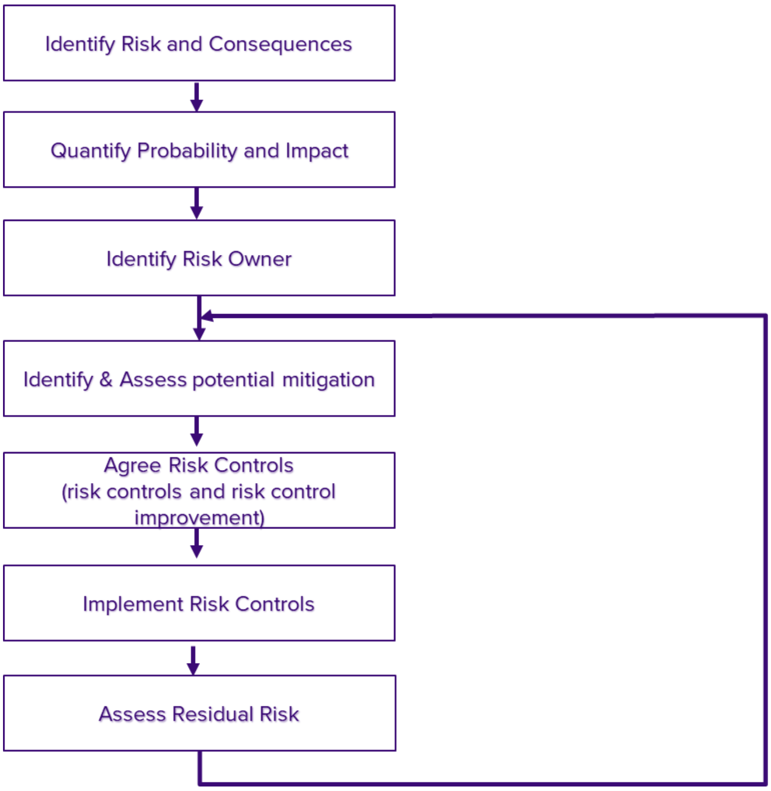
8.1 The WRIF Investment Strategy indicates the potential for a series of investments to be made by the Council. In funding these investments the Council intends to take on an anticipated peak figure of £76m of debt. All of these investment activities carry with them varying degrees of risk that need to be considered and managed within risk appetite thresholds. This section will set out the risk management strategy, including a risk register that will look to manage risk at a portfolio level.

RISK STRATEGY

8.2 The Council will establish a risk management approach that addresses risk, through its governance processes for the WRIF (including the reporting and monitoring via the Investment Panel, Cabinet and Member Oversight Group) and individual investment risk, through the Investment Managers/ Fund Managers together with the Finance and Governance & Policy Teams. Overview and Scrutiny also plays a key role in terms of risk management. In order for risk management to be effective, risks must be:

- **Identified –** The risk must be described, and possible consequences outlined;
- **Assessed** – Each risk must be ranked in terms of its estimated impact and immediacy;
- **Controlled** – Appropriate responses to risks must be identified, owners assigned, and responses must be monitored over time.

8.3 The process to manage risks is set out in the flowchart below:



8.4 To facilitate the above approach, a risk register will be maintained and discussed in Investment Panel meetings and will inform the quarterly monitoring reports that go to Cabinet.

RISK APPETITE

8.5 Risk appetite is the level of risk that an organisation is prepared to accept in the pursuit of its objectives, and before action is deemed necessary to reduce the risk.

8.6 The Council is committed to ensuring that all risks are identified and mitigated to a level that is consistent with the types and amount of risk they are willing to operate within and the opportunities and potential benefits that exposure to risks may provide access to. The Council's Strategic Risk Management Framework includes reference to the Council's risk appetite and this will be the baseline against which WRIF risks will be monitored.

8.7 In developing this Business Plan the Council has had to determine its risk appetite that will relate to the WRIF and this is demonstrated by the level of activity it is planning in this Business Plan period. It is critical to review this risk appetite on an ongoing basis and it is the role of the Investment Panel to undertake this review regularly.

8.8 One approach in defining an organisation's risk appetite is to make a broad statement of risk appetite. Below are the broad categories of risk that the Council have adopted as part of their Strategic Risk Management Framework to describe their risk tolerance and to ensure that a response to risk is proportionate to their risk appetite:

- **Averse** - Avoidance of risk and uncertainty is a key organisational objective;

Minimalist - Only prepared to accept the possibility of very limited adverse impacts in all circumstances;

- **Cautious** - Tolerance for risk taking is limited to those events where there is little chance of any significant downside impact;
- **Open** - Tolerance for decisions with potential for significant risk, but with appropriate steps to minimise any exposure and deliver benefits;
- **Hungry** - Eager to pursue options offering potentially higher rewards despite greater inherent risk.

8.9 In relation to this Business Plan, the Council's current risk appetite (which may be reviewed and changed over time) relates to the category of activities that will be undertaken – in this case Commercial and Investment which is as follows:

- **Open** - The risk of financial loss from commercial decisions, but where risk is managed to enable participation in new opportunities with significant gains.

8.10 There is then an ongoing process to manage risks set out in the flowchart at paragraph 8.3 above. Where the investment panel recommends agreement to Cabinet outside the risk appetite this must be explicitly made clear alongside the rationale for doing so. It is also important that external fund managers operate within the Council's risk appetite.

8.11 Risk management will also be delivered through the "3 lines of defence" model. In this model the application of controls, management of risk, and provision of assurance around the delivery of objectives is categorised as follows:

Line	**Actions / Controls**	**WRIF Resources**
1st Line of Defence Management controls and general internal controls	• Investment Strategy – criteria to guide decision making • Delegated authority – financial limits on decision making • Best practice – HMT Green Book business case proforma process to guide decision making • Investment Panel – 'Stop/Go' gateway decision making - governance to review, veto and obtain quorum on decisions – membership to include external 'expert' advisors	Economy & Skills Service

	• Annual review and update of Investment Strategy and Business Plan with 'stop/continue' approval via Cabinet • Annual report to full Council	
2nd Line of Defence Functions which oversee or specialise in compliance or the management of risk	• Due diligence process on individual investments with support from external 'expert' advisors • Specialist advice available via framework to 'call off' as required to support investment business case decision making • Member Oversight Group – to oversee governance and monitor progress against Business Plan targets	Strategic Finance & Treasury Management Services Legal Services Procurement HR Risk Management
3rd Line of Defence Functions that provide independent assurance	• Internal audit & regular QA process via peer review to review performance of portfolio on min. 6monthly basis • Overview and Scrutiny Committee • Oversight of accounts by Audit and Standards Committee • Engagement with external auditors • External specialist review report(s) on performance and investments commissioned by the Council's Section 151 Officer.	Internal Audit External Audit Overview and Scrutiny

8.12 In addition to the 3 lines of defence, further assurances are provided by what is sometimes referred to as a 4th line of defence, that being external entities including external audit and regulatory bodies. The Investment Panel will receive periodic reports on a minimum annual basis in respect of the 3 lines of defence model.

RISK REGISTER

8.13 The Council must consider financial and non-financial risks in the effective management and operation of the WRIF.

8.14 A current risk register capturing both Financial and non-Financial risks, together with management and risk controls, is included at Appendix 3.

ASSESSING RISK

8.15 The following approach will be taken in assessing risk:

At portfolio/fund level	**For individual investments**
External advice on portfolio risk – financial/treasury management and legal.	Customer and supplier relationships: length of customer/supplier relationships, impact on growth timely payments, bargaining power.
Balance of internal and external fund management – backed up by a small number of additional specialist staff on both the commissioning and finance/risk side of the Council.	Profitability: expected profits based on industry market averages, volatility on profitability, sector and market specific.
Annual Business plan approval: effectively stop/continue Cabinet decision annually; will assess risk profiles within the portfolio, performance, market conditions and set priorities for investment for the year ahead (sector by 'pillar', type of investment), taking account of portfolio level risk assessment and market assessment.	Liquidity and financial flexibility financial needs, plans and alternative sources of funds, stress testing their ability to achieve their financial programme without damaging creditworthiness, alternative lines of credit, impact of a fall in asset values.
Member Oversight Group: to oversee risk and performance at Fund/portfolio level.	Management capability; quality, depth and continuity of key individuals, experience in marketplace, favourable and unfavourable influencers on governance and company financial policies, strategic investment capability, risk and risk appetite.
Annual reporting: to full Council.	Financial reporting; creditability, timeliness of audited accounts (if available), analysis of statements, credibility/ transparency.
Oversight and audit: Engagement with external auditors, oversight of accounts by Audit and	Alignment with Fund priorities; the Fund level risk assessment will drive the assessment

At portfolio/fund level	For individual investments
Standards Committee, role of OSC. Internal audit reports.	process, led by an officer/Investment Panel informing recommendations to Cabinet.
	Securitisations; quality of securitisation to minimise default risk.

DECISION POINTS

8.16 A summary of those risks with the highest priority level will form part of the quarterly monitoring report to Cabinet together with details of the proposed effectiveness of risk control actions.

8.17 Where the impact of a risk is significant and that same risk also has the highest priority level, then a decision point or 'Go/No Go point' should occur where the Investment Panel should evaluate whether an investment should continue or agree to implement the exit strategy. In these instances, the Investment Panel will make a recommendation to Cabinet as to what action should be taken. Examples of significant risk impacts in relation to the Fund are:

- A situation or contract which could have a serious impact on the Council's finances, service delivery or reputation;
- A situation where investment is being used for a purpose which would be contrary to or inconsistent with Council policy
- A situation where risk of a negative impact on the health and wellbeing of our communities arises from continuation with the investment;
- Continuation with the investment could prevent future investment activity and/or undermine the future viability of the Fund.

8.18 The process to approve the Business Plan on an annual basis also provides an effective Go/No Go Cabinet decision where the risk profiles, performance and market assessment will be taken into account.

SECURITY

8.19 The Council, as a guardian of public money, has a Fiduciary Duty to the residents of Warwickshire to make best use of its financial resources. With this in mind the Council has a primary function in operating the WRIF not to lose money. To do this Council manages risk across the three pillars on a portfolio basis rather than at an individual investment level. This approach allows the Council to better manage risk on a dynamic basis, offsetting higher risk investments with less risky activities, creating a positive return when the WRIF is considered in its entirety. In addition to this portfolio approach to risk the WRIF also looks to manage risks on individual investments through:

- Detailed due diligence on the applicants, their business activities and use of funds;
- Investment criteria to ensure the WRIFs objectives are being met;
- A legal suite of documents that looks to minimise risk by:
    - Setting strict repayment terms;
    - Has sufficient reporting criteria;
    - Agrees suitable security for each investment e.g. a charge over applicants assets or a Parent Company Guarantee (PGC) (where appropriate)

8.20 The security taken by the Council through the loan agreement should be at least sufficient to allow the WRIF to recoup a significant, if not all, of the initial investment.

9. The Toolkit

9.1 The following key documents support operation of the WRIF:

- WRIF Investment Strategy
- Fund application proforma
- Sift Document / Funding Request Dashboard
- Investment Business Case template
- Monitoring Report template
- Standard documents (legal and banking e.g. proforma loan agreements)

9.2 Some of these documents are provided at Appendix 5, the others will be developed as part of the set up and launch of the fund.

Appendix 1 – Glossary

This section contains some of the key terms used in the business plan.

Term	Definition
COVID-19	Coronavirus disease 2019 (COVID-19) is a contagious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2).
SME	Small Medium Sized Enterprises
Mixed Economy	Delivery of the Fund's objectives lie with both internal and external fund managers
Mezzanine Finance	Mezzanine financing is a hybrid of debt and equity financing that gives the lender the right to convert to an equity interest in the company
Corporate Guarantee	Where the Council uses its corporate strength to provide security for a financial liability
Parent Company Guarantee (PCG)	A PCG is a contractual promise to ensure the guaranteed party/organisation performs their obligations under a contract or loan agreement. In this instance, a PGC would be used to provide the Council with security over the loan repayments and would enable it to offer more favourable loan terms as a result of the added security.
Interest Cover Ratio	Net Income / Interest Expenditure in a given year
Debt Service Cover Ratio	Net Income / (Interest Expenditure + Principal Repayment) in a given year
Net Present Value	The sum of the discounted cash flow. If discount rate = x% than the discount factor for Year 1 = 1 / (1 + x)^1 , Year 2 = 1 / (1 + x)^2, Year 3 = 1 / (1 + x)^3, Year n = 1 / (1 + x)^n
Internal Rate of Return	Rate of return in a given cash flow. Another definition is the discount rate at which the NPV = 0.
Yield on Cost:	Net Income / Total Capital Expenditure
Profit on Cost:	Profit / all investment cost
Loan to value/loan to cost ratios	LTV: Outstanding Debt Principal (Debt Amount) / Asset
Value LTC:	Outstanding Debt Principal (Debt Amount) / Total Capital Expenditure
Debt investment	A debt investment involves the loan of money in exchange for the promise of a return of the principal loan plus interest. Debt investments

	tend to be less risky than equity investments but usually offer a lower but more consistent return
Equity investment	Equity investment refers to buying shares in a company and thereafter holding those shares in order to gain ownership interest that can be sold later to generate returns. Equity investments are a classic example of taking on higher risk of loss in return for potentially higher reward.
Monte Carlo Simulation	A model used to predict the probability of different outcomes when the intervention of random variables is present.

Appendix 2- Work Plan

Activity	2020/21		2022/23 - 2026
	When by	Responsible	
Strategy and Direction			
Produce final version of Investment Strategy and seek Cabinet approval	June 2021	Investment Manager in conjunction with Investment Panel	Annual updates (as a minimum or to reflect changing market demand) and Cabinet Approval
Marketing & Engagement Strategy prepared	June 2021	Economy & Skills Team	Ongoing marketing campaign and management of WRIF website
Develop and agree Procurement strategy	June 2021	31ten with Procurement Team	n/a
Funding & Finance			
Approval of updated capital programme, MTFS, Treasury Strategy and Investment Strategy	June 2021	Finance Team	Regular updates to MTFS to reflect cash flow and peak debt using financial model. Update Treasury Management Strategy and the accompanying Investment Strategy must precede WRIF strategy approval and implementation.
Establish due diligence process to inform Investment Business Case and support investment decision making	June 2021 using trial/example investments	Finance Team	Update process to reflect any lessons learned from live investments
Governance			
Establish Investment Panel and agree ToR, organise meetings	July 2021	Place Shaping Programme	n/a
First Investment Panel Meeting	July 2021	Investment Panel	Meetings to be held regular intervals (monthly)
Establish Member Oversight Group, agree ToR, organise meetings	August 2021	Place Shaping Programme	n/a
First Member Oversight Group Meeting	September 2021	Democracy Services Team	Meetings to be held quarterly
Agree governance arrangements for External Fund Managers	July 2021	Investment Panel	Regular monitoring to check governance working effectively
Communication, Engagement & Marketing			
Communicate WRIF proposals to key stakeholders	July 2021 or following launch	Economy & Skills Team	Proactive communication strategy to be put in place
Develop council WRIF web page & go live	July 2021	Place Shaping Programme	Regular updates to website to include live investment examples

Secure resources to prepare external Website	April 2021	Place Shaping Programme	n/a
Develop external website & go live	July 2021	Place Shaping Programme	Regular updates to website
Prepare pdf prospectus	June 2021	Economy & Skills Team	Updates to prospectus to reflect Investment Strategy
Press release for launch	July 2021	Economy & Skills Team	n/a/
Procurement & Resources			
Secure resource to run procurement exercise(s)	April 2021	Place Shaping Programme	n/a
Procure external Fund Management Services, agree contract	May - August2021	Place Shaping Programme/ Procurement Team	Agree contract
Procure/ establish external panel of advisors via DPS	May/ June 2021	Economy & Skills Team / Procurement Team	n/a
Establish and recruit new internal council resources with necessary staff structures	July/ August 2021	Place Shaping Programme	On board / induction process
Investment			
Fund Go Live/ launch	July 2021	Place Shaping Programme	n/a
First investment business case approved	September 2021	Investment Manager / Investment Panel	n/a
First investment go live	October / November 2021	Investment Manager / Investment Panel	n/a
Management & Monitoring			
Trial investment due diligence process	May – September 2021	Finance Team	Review and updates to due diligence approach
First Quarterly monitoring report	January 2022	Investment Manager/ Finance Team	Every quarter
Risk Management			
Undertake risk workshop to baseline risks at launch of Fund	June 2021	Investment Manager	To be undertaken every quarter
Update to Risk Register	July 2021	Investment Manager	To be updated monthly for Investment Panel meeting
First Risk report as part of Quarterly Monitoring	January 2022	Investment Manager	Regular review as part of risk management strategy

Appendix 3– Risk Register

Risk Category	Risk Description	Impact Description	Impact Level	Probability Level	Priority Level	Mitigating actions	Owner
Risk heading	*Brief summary of the risk*	*What will happen if the risk is not controlled*	*Rate 1 (low) to 5 (high)*	*Rate 1 (low) to 5 (high)*	*Impact x probability (Address highest first)*	*What can be done to lower or eliminate the impact or probability*	*Who is responsible*
Governance	Insufficient resource and expertise is committed to the business case process that supports any investment decision and as such investment decisions are poor and increase the likelihood of loss	Higher risk of default / cost to the Council	5	2	10	The Council must identify sufficiently qualified resource to ensure business cases are robust and any investment decisions properly understood.	Investment Panel
	The Council is slow in making corrective actions where investments are performing below expectations	Higher risk of default / cost to the Council Loss of market appetite/ interest in Fund	5	2	10	Reporting should be sufficiently regular and detailed to ensure that issues are identified and addressed in a timely manner.	Investment Team
	Recent coverage of Local Authorities getting into difficultly when making loans to third party entities has highlighted the need for a robust understanding the risks, governance arrangements and the need to quickly identify and act on any financial issues. Appropriate training, sufficient understanding of investment and purpose, timing of returns and robust reporting against issues were all identified as key areas to Council wishing to undertake these activities.	Higher risk of default/ cost to the Council	5	2	10	The Council should pay regard to recent Public Interest reports in this area and ensure that lessons learnt are embedded in the governance of the WRIF. A key element highlighted in the reports was the need to challenge optimum bias and for appropriate training and skills for officers and also training for members to enable members to adequately scrutinise and challenge the information they receive. Use of external advisors should also assist in ensuring that issues are identified at the earliest opportunity	Investment Team
Finance and Funding	Finance rates are currently at historically low levels, with some commentators believing that the current market outlook may push these rates lower. As such, debt is currently relatively cheap, although this could be considered the new norm when looking at the current Government Bond Market. There is a risk that the future success of the programme could be impacted by an interest rate rise or by a loss of access to PWLB lending rates.	Higher risk of default/ cost to the Council	3	3	9	The Council has a corporate Treasury Management strategy that allows rises in interest rates to be managed across a range of financial instruments thereby lower the impact of future rate increases. Investment limits are set to put a limit on total exposure to risk.	Finance
Debt monitoring and recovery	Where an element of a funds is internally managed there may be insufficient resource applied to monitor and recover debts once the initial investment has been made.	Higher risk of default/ cost to the Council	4	2	8	Sufficient resource must be identified to monitor and report on the performance of the funds. Market Testing has indicated the total costs of the Fund to be in the region of 2% of the total sums invested	Investment Panel
Exceed Fund estimates	Default rates have been estimated based on the financial strength of the counterparties. However, as the Fund is focused on Growth and Recovery losses may exceed those expected and there may be insufficient set aside to cover Fund losses.	Higher risk of default/ cost to the Council	5	2	10	The Council may wish to consider setting aside an annual reserve to cover expected losses. The value of the reserve could be assessed each year for prudence and adjustments made accordingly. Losses should be reported to the Investment Panel and should inform future investment criteria and possible changes in total level of future investment.	Finance
Investment Objectives	Investment objectives are unclear, not consistently applied or don't adapt to meet changing market conditions or the needs of the Council.	Loss/lack of market interest in the fund	4	2	8	Regular review of the relevance of the investment objectives, including their rationale, is vital in keeping the programme and investment decision making responsive	Investment Panel

Risk Category	Risk Description	Impact Description	Impact Level	Probability Level	Priority Level	Mitigating actions	Owner
Risk heading	*Brief summary of the risk*	*What will happen if the risk is not controlled*	*Rate 1 (low) to 5 (high)*	*Rate 1 (low) to 5 (high)*	*Impact x probability (Address highest first)*	*What can be done to lower or eliminate the impact or probability*	*Who is responsible*
		Inability to deliver against objectives and benefits/outcomes					
Local Government regulation	There is currently heightened scrutiny in the Sector, where authorities are looking to support their financial positions through the use of commercial investments. This increases the risk of changes to Local Government Regulation that may inhibit the ability of the Council to invest in such activities or increase the cost of doing so. Failing to meet the current PWLB rules would have an adverse impact on the Council's ability to borrow for future activities. For instance, regulation around MRP has been adapted to respond to current market activity and borrowing requirements from PWLB have recently changed	Inability to deliver fund objectives Increased risk of costs to the council	4	2	8	The Council must identify key individuals responsible for the regular review of all legislation and financial requirements. The Council must have the flexibility to alter investments if those changes would adversely impact the ability to borrow/fund statutory services	Investment Team
The Political environment	Changes to PWLB and other recent guidance from central government is that Local Authorities are expected to be more considered when making investment decisions than previously permitted. This represents a risk to a purely commercial investment approach	Performance of the fund is affected resulting in a cost to the council Reputational damage	3	1	3	A business case is to be prepared for each individual investment decision to demonstrate the economic, social and environmental benefits to be delivered via the investment in order to meet the current guidance. This will need to be kept under close review.	Investment Team
CIPFA guidance	Recent guidance from CIPFA on deterring local authorities from borrowing for investment purposes purely or primarily to seek to generate a yield	Performance of the fund is affected resulting in a cost to the council	4	1	4	The WRIF Strategy includes both financial and non-financial criteria for the assessment of investment opportunities and the business case will seek to show alignment with both to demonstrate that any borrowing will not be solely for investment purposes	Finance Team
PWLB restrictions	The restrictions in place on access to PWLB.	Ability to fund investments is restricted affecting delivery against objectives	4	1	4	To be monitored and considered by the Investment Panel in relation to each investment opportunities and on a case-by-case basis to ensure that the council's wider borrowing power is not compromised A key investment policy is that investments will not be purely or primarily for yield.	Investment Panel
Subsidy Control regulations	Investment decision making will need to be carefully monitored to ensure compliance with changing subsidy control regulations	Ability to fund is restricted, reputational damage	4	2	8	Regular monitoring as part of due diligence and investment business case prior to investment decision making	Finance Team
Resource and skills	A lack of available or suitable resources could result in delays to the establishment of the Investment Panel / procurement of external Fund Management services and consequently the sourcing of investment opportunities	Delays affect the performance against Business Plan objectives and targets and result in slower economic recovery	5	2	10	The marketing strategy and promotion of the opportunities of the Fund via the Council's own network will widen the potential pool of resources available to the Council. The Council can scale up the WRIF over time as resources are procured.	Place shaping programme and later the Investment Panel
Benefit realisation	The WRIF is unable to finance the number of investments anticipated or investments perform more poorly than anticipated and consequently the complete realisation of benefits is not achieved.	Cost to the Council	4	2	8	Regular monitoring of performance and benefit realisation by the Investment Panel through the life of the investment and at portfolio level. A clear exit strategy should be in place to ensure that investments only remain live when delivering against the investment criteria agreed.	Investment Panel

Risk Category	Risk Description	Impact Description	Impact Level	Probability Level	Priority Level	Mitigating actions	Owner
Risk heading	*Brief summary of the risk*	*What will happen if the risk is not controlled*	*Rate 1 (low) to 5 (high)*	*Rate 1 (low) to 5 (high)*	*Impact x probability (Address highest first)*	*What can be done to lower or eliminate the impact or probability*	*Who is responsible*
Reputation	concerning liability surrounding investments, public perception of investments made and adhering to responsible and sustainable practice. Perception if funds underperform or the council seeks to enforce against assets etc.	Reputational damage, market interest in the fund	4	2	8	The marketing, communication & engagement strategy will be key to managing the public perception of the Fund. The contract for external fund managers will set the parameters for investment to mitigate this risk. The robust decision-making process for internal fund management will monitor this risk.	
Investment Performance	Higher levels of bad debt, higher default levels, lower levels of return and /or low market interest results in under performance of the WRIF and the Council losing money	Higher default/ cost to the council	5	2	10	Sensitivity testing analysis has been undertaken to model the WRIF to demonstrate that overall investment performance can be achieved in a range of scenarios and via a diverse portfolio of investments. A number of crystallisation events will be created as milestones in the management of the WRIF that will ensure the Council cover their costs as a minimum. The flexibility of the WRIF with a portfolio approach will ensure a diversification of investments with a range of risk, return and types of investments to mitigate against underperformance.	Investment Team
Market interest	Market Interest in the Fund is lower than expected and a smaller quantum of investment opportunities being sourced.	Failure to deliver against objectives and target benefits/ outcomes	3	3	6	The focus and priority areas of the Fund are based on economic analysis of the likely needs of the local market. The bespoke forecasting tool should continue to be used to shape and update the WRIF Strategy to ensure it continues to reflect the market. The WRIF will only continue to operate if it has sufficient resource, expertise and experience to manage it. Success can be others investing and not spending the full Council WRIF profiled budget if the economy recovers.	Commissioning Team / Economy & Skills Team

Appendix 4 WRIF Investment Strategy

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Appendix 5– Toolkit

A separate document provides some of the following documents to form part of the toolkit:

- SIFT document / Funding Request Dashboard
- Investment Business Case template
- Financial Model
- Fund application

Appendix 6 – Example investments

Example Investment 1 – BIG pillar **Investment in a Company** – A company working in a key market sector, as identified in the Investment Strategy is seeking an investment to support the development of a new technology that it is seeking to bring to market. It has tried traditional routes to procure the finance and is struggling to find a bank willing to take the risk. However, the development of this technology will create significant inward investment to the east of the borough and create at least 40 new primary jobs after the first year, with the possibility of expansion if successful. The Company is seeking a £2.2m loan over 5 years, interest rate 3.76% with a 1 year payment holiday.
Example Investment 3 – BIG pillar **Commercial loan for medical company –** a medical technology company was looking to quickly adapt its current manufacturing process to deliver a medical device to support the fight against Covid19. It was struggling to get finance because: • Banks capacity to lend is restricted by high level of current market activity; • Traditional funders unwilling to lend to support speculative developments; • Company's current funding terms were restricted to the development of specific projects and products; • Time was an imperative to bring product to market to support NHS/Care home in fight against Covid19. The company was provided a loan of £2.05m on commercial terms to support the development of a new product line; • Able to offer a repayment holiday for 1 year to support company cashflows; • Created 40 primary jobs and committed, where possible to developing a local supply chain; • Terms and conditions included specific items around social and economic benefits to the region e.g. apprentices and education.
Example investment 3 – LCE pillar **Technology Start-up -** A start-up company from overseas is introduced to the County from the Department of International Trade. The company receives a small loan set up its new office facilities. Three years later the firm has been successful in developing new technologies and winning work from auto OEMs. The company secures a £1m+ investment from a German auto company looking to diversify its technologies.
Example Investment 4 – P&I pillar **Office Development** – there is a shortage of grade A office space. There is an opportunity to buy There is an opportunity to buy and repurpose a large well-located building and fit it out with suitable accommodation.

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Warwickshire County Council

Warwickshire Recovery & Investment Fund (WRIF)

Investment Strategy

Introduction

1. A key priority for Warwickshire County Council ('the Council') is to support businesses located in, or looking to locate to, the County; and Warwickshire's economy to ensure it remains vibrant and is supported by the right jobs, training, skills and infrastructure.

2. The impact of COVID-19 is being directly experienced in Warwickshire and the local economy, where GVA and employment is expected to be significantly adversely affected.

3. Economic Analysis commissioned and undertaken by SQW, (a provider of research, analysis and advice in economic and social development). Its research assessed the potential impact of COVID-19 in the local economy and endeavoured to forecast this impact by sector and indicate potential job losses and the recovery timescale of both. SQW also developed an economic forecasting model to enable the Council to review and update the potential impacts on the local economy over time.

4. The economic analysis suggested that a Fund focused on three themes for investment might best support the economic recovery in the County. The three themes were:
    - Business Growth
    - Local Communities & Enterprise
    - Property & Infrastructure

5. As a result, the Council are seeking to establish a Warwickshire Recovery and Investment Fund (WRIF) to mitigate the impact to the County and aid the economic recovery from COVID 19. This fund will be one of the Council's significant directly controlled contributions to the economic recovery of Warwickshire amongst the much larger and broader county and government response.

6. The WRIF will provide access to finance to support businesses located in (or looking to relocate to) the County and leverage additional funding for the County, both of which will support the economic recovery of Warwickshire.

7. The County Council will also seek to use the WRIF to support the future growth of the economy, helping drive the transition to a low carbon economy; and to lever wider social value through our investments.

8. The WRIF Investment Strategy is required to operate within any parameters and requirements (including investment limits) set out in the Council's wider non-treasury Investment Strategy.

The Objectives of the WRIF

Objectives

9. The objectives for the WRIF are to:

- Provide access to finance that helps businesses in Warwickshire start, grow and scale up; or helps businesses locate to the county;
- Leverage additional resources or funding for the county through the investment and support of key growth businesses;
- Secure an ongoing financial return, commensurate with risk;
- Make investments in Warwickshire that deliver benefits and social value to the residents and communities in both the short term (0-12 months) and medium term (1-5 years);
- Fill a gap in access to finance for businesses in Warwickshire;
- Support investments that make a contribution towards meeting net zero carbon goals; and
- Support the delivery of the Council's strategic goals and priorities as set out in the Warwickshire Council Plan 2025, COVID 19 Recovery Plan, Economic Strategy, Commercial Strategy and Place Shaping Programme.

Principles

10. The main principles of how the Fund will operate are:

- Support businesses based within Warwickshire or looking to locate in the county;
- Create a diversified and balanced portfolio of risk-based investments that protect the public purse, support business and both creates new and protects existing jobs;
- Manage risk and target full recovery of investments;
- Generating permitted financial returns;
- Provide a flexible tool to consider and enable a range of opportunities for supporting business;
- Support business through investments based on agreed investment criteria and priorities that are developed from analysis of the economy and strategic sectors and support key sectors and growth, rather than weaker sectors;
- Target priorities by promoting investment in priority sectors, business types and investments that enable development, and provide wider social value benefits across the Warwickshire economy;
- Support investment opportunities that will deliver against clear criteria that align with WCC outcomes and priority objectives - this is done not to deliver commercial returns/yield but to deliver Council objectives by filling a gap in the market;
- Create an investment profile that grows slowly to avoid excessive risk with clear management and monitoring pathways to avoid creating a cost to the revenue budget/tax payer;

- A consistent and streamlined approach to considering investment opportunities and ensure all investment decisions are made against agreed investment criteria and align with Council priorities and outcomes;
- To amplify and complement the existing investment landscape and other recovery packages; and
- Provide funding within the limits and requirements set out in the council's non-treasury Investment Strategy.

Strategic Scope

11. The WRIF will offer a range of funding options designed to complement and enhance the provision of commercially available finance and support economic recovery for businesses located or looking to be located in Warwickshire.

12. Alongside the provision of finance, the WRIF will also offer businesses access to specific and tailored pre- and post-investment support programmes ensure they are both business and investor ready.

13. The WRIF will consider investments that have clear alignment to any of the objectives of the Fund. Investment proposals will need to demonstrate the extent to which they contribute to the achievement of any of the objectives and support delivery of the Council's strategic goals and priorities.

14. Particular focus will be given to investment opportunities that:
    - Stimulate job creation or safeguarding of skilled or entry level jobs in the County;
    - Can or will leverage additional resources or funding;
    - Help meet the net zero carbon targets for the Council and County;
    - Increase social value; and
    - Are complimentary to other investments in achieving Fund and Council objectives.

15. The three pillars of investment proposed to operate within the WRIF as an overarching portfolio are:
    - Business Investment Growth Pillar [£90m]
    - Local Communities & Enterprise Pillar [£10m]
    - Property & Infrastructure Pillar [£40m]

16. Each Pillar is proposed to have a different focus, different investment criteria, different types of investment, different management arrangements and different target beneficiaries and outcomes.

17. The WRIF will be used to accelerate and promote investments in **priority sectors** and for **priority business types** and for investments that **enable development**. Separate Priorities have been set for each Pillar with a focus on:

- The Business Improvement Growth Pillar will focus on established and growing businesses in order to enable growth and support medium and longer term recovery rather than addressing the short term effects of the pandemic. The priorities for investment will be on **securing inward investment**, for **priority business types** where businesses have been operating for more than 3 years (or have a strong track record of business activity) and are demonstrating growth potential, **and priority sectors** where Warwickshire already has particular strengths and are growing sectors.

- The Local Communities & Enterprise Pillar will focus on investment opportunities that aim to address the short-term impact of the pandemic. The priorities for investment will be **priority business types** such as new, early stage. and growing small and medium sized businesses and key priority business sectors.

- The Property & Infrastructure Investment Pillar will focus on enabling and accelerating development of property and site-specific infrastructure schemes that underpin medium- and longer-term recovery with a focus on growing existing business and attracting and bringing new companies into Warwickshire by having supply options to meet their location needs. The priority focus will be on **enabling development** and **priority sectors** where development can support the needs of key sectors in the region and wider ambitions for economic recovery.

Priorities

18. The priorities for investment relating to each of the proposed pillars of investment are set out below:

Business Investment Growth Pillar

The Business Investment Growth Pillar will focus on providing debt finance for growing businesses with sound prospects. It will focus on businesses that have been operating for more than 3 years or have a track record of operations that demonstrate growth potential opportunities to secure inward investment and sectors where Warwickshire has particular strengths and on projects and investments that help meet net carbon zero targets.

Support will be given to the following priority business types:

- Businesses operating for more than 3 years or a track record of operations that demonstrate growth potential;
- Businesses that will help meet net carbon zero targets in the region; and
- New businesses to the County that will secure inward investment via the introduction of a new business/additional business premises into the County.

Opportunities for equity-based investments will also be considered within the Business Growth Pillar if there is a compelling case that the finance will secure business growth, the risk profile is acceptable, and the investment is clearly aligned with the WRIF objectives.

The priority sectors are those where Warwickshire has particular strengths and are growing sectors as outlined in the Council's Economic Strategy as priorities for economic growth in the County. Particular focus will be given to investment opportunities that also relate to the Council Plan priorities. The priority sectors are:

Future Growth Sectors:

- Automotive Technology
- Digital Creative & Digital Technologies
- Future of Mobility
- Low carbon technologies

Other key priority sectors:

- Advanced manufacturing
- Culture, Tourism & Hospitality
- Modern methods of construction
- Health & Wellbeing
- Agri-tech and rural based businesses
- Businesses in the supply chain that support delivery of the Council's priority outcomes for people, for example public health, social care and education.

Focused on Medium Sized Enterprises (50-250 employees), but open to smaller or larger businesses on a case by case basis

The priority sectors are not exclusive, and ANY sector will be considered if it meets the funds objectives and creates or retains skilled or entry level jobs.

Local Communities & Enterprise Pillar

The Local Communities and Enterprise Pillar is aimed at directly addressing the short term economic and social consequences of the pandemic. It focuses on lending to small businesses or those in the early stages of operation that are looking to start up, grow and create jobs.

The **Local Communities & Enterprise Pillar** will focus on providing debt finance for growth, support and development projects.

The **priority sectors** are those where Warwickshire has particular strengths and are growing sectors as outlined in the Council's Economic Strategy as priorities for economic growth in the County. Particular focus will be given to investment opportunities that also relate to the Council Plan priorities. The **priority sectors** are:

Building on our strengths:

- Advanced manufacturing & engineering
- Digital Creative & Digital Technologies
- Culture, Tourism & Hospitality
- Low carbon technologies

Other key priority sectors:

- Retail
- Community based enterprises
- Creative industries
- Health & wellbeing
- Social care or other supply markets to the Council

Focused on start-ups, micro and small businesses (less than 50 employees)

Particular focus will be given to support the following **priority business types**:

- Micro Businesses (up to 10 employees)
- Start-ups & Early-Stage Businesses <operating less than 3 years
- SME's – company with no more than 250 employees
- Businesses ran by under-represented groups

Key objectives for the council for this fund are:

- New business starts
- Helping small businesses grow and scale
- Helping establishment of social enterprises and community-based businesses
- Creation of new jobs (particularly including apprenticeship opportunities)
- Safeguarding jobs
- Supporting transition to the low carbon economy
- Support climate change adaptation and mitigation
- Delivering wider social value in line with the Council's objectives

The priority business types are not exclusive, and ALL business types will be considered if the proposal meets the funds objectives and creates or retains skilled or entry level jobs.

<u>Property and Infrastructure Investment Pillar</u>
The Property and Infrastructure Pillar will provide loans to forward fund infrastructure, invest in commercial site and premises and to unlock development consistent with the needs of key sectors and/or wider ambitions for economic recovery.

The investment focus will be on enabling and accelerating development of property and site-specific infrastructure schemes in the following **priority sectors**:

Creating space for future growth:

- Automotive technology
- Digital Creative & Digital Technologies
- Future of Mobility
- Low carbon technologies
- R&D and innovation facilities
- New start-up, incubator and accelerator space

Other key priorities:

- New/upgraded spaces within our town centres, incl. retail, hospitality, culture, leisure, health & wellbeing, community-based enterprises, co-working/flexible work space
- Health & social care facilities

A flexible fund to help bring forward new employment land and commercial space.

The beneficiaries of this pillar are likely to be:

- Developers of employment land
- Developers of office space
- Developers of operational business buildings
- Infrastructure projects
- Developers and contractors of house building
- Occupiers of existing businesses

This is a flexible investment scheme that can be deployed to help the development of new employment land or commercial space to support the growth of our economy. Our focus is on supporting new development that will help provide the platform for the future growth of our economy and will therefore be linked to supporting growth in our key priority sectors.

The priority sectors and beneficiaries proposed here are not exclusive and a wide range of investment opportunities will be considered as long as the proposal meets the objectives of the WRIF and create or retain skilled or entry level jobs.

Types of Investment

19. The WRIF will consider a broad range of types of investment to enable it to deliver the interventions that the market requires.

20. The types of investment that the WRIF will predominantly undertake will be debt in nature, e.g. Commercial loans to businesses within the County that are focused on the key priorities, or support and enhance the overarching objectives of the WRIF;

21. However, the Council will also consider opportunities that require the following types of investment and a decision will be made on a case-by-case basis considering the market, due diligence, assessment of risk and the potential reward/outcomes to be delivered from the investment. In order to manage exposure to risk the Council will set limits on how much investment may be of an alternative risk profile than commercial loans, for example:

    - Mezzanine Finance
    - Investment in company equity, for example in start-up companies
    - Co-Investment – capital or equity – with other Funds or individual investors

- Purchase of assets: Including commercial/retail property, land or infrastructure
- Partnerships to leverage additional private sector resources (skills or finance).
- Management buy-outs/acquisitions
- Corporate Guarantees
- Other more innovative products

22. The type of investment to be undertaken is expected to differ between each individual Pillar. The predominant types of investment for each individual fund are expected to be:

Business Growth Pillar	**Local Communities & Enterprise Pillar**	**Property & Infrastructure Pillar**
• Business Loans • Management buy/outs acquisitions/ refinancing • Equity based investment opportunities	• Small Business Loans	• Commercial Loans • Equity Investment • Purchase of assets • Corporate Guarantees • Partnerships (Joint Venture)

23. The most appropriate source of funding for each individual investment will be determined on a case-by-case basis at the time of the investment decision making, when the individual opportunity is being reviewed.

Eligibility Criteria

24. Eligibility criteria is a means of ensuring investment is targeted to achieve the intended objectives but will also be used as a mechanism to mitigate risk.

25. Eligibility criteria will be set that will differentiate between core criteria and other important investment criteria that will assess the potential performance of the investment in delivering the benefits and other wider outcomes.

<u>Core Criteria</u>

26. All investment opportunities will be assessed against their strategic alignment with the WRIF objectives and whether they meet the investment criteria set for the Fund.

27. In addition to strategic fit, other core criteria will be those non-negotiable aspects that ensure an investment proposition is suitable for funding such as:
    - 'Due Diligence / compliance;
    - Eligibility for funding i.e. meet company definitions and legal criteria;
    - The business already being located in the county or with a commitment to relocate to the county in the long term;

- Having a strong and capable management team with a verifiable track record;
- Having a compelling and commercial investment strategy and a quality plan for how the funding will deliver growth and/or the benefits cited; and
- Meeting financial due diligence tests.

Investment Criteria

28. A decision to invest in the Fund will depend on passing the eligibility criteria plus the balance of performance against the following criteria:
    - Economic Value
    - Social Value
    - Environmental, including climate change mitigation and carbon reduction
    - Financial

29. Investments are not expected to meet all the economic and social and environmental criteria so long as the strategic objectives and financial metrics are met and there is a clear economic, social or environment benefit from the investment.
30. The focus on key investment criteria for each Pillar is set out in the Summary at Appendix A.

Investment Criteria - Economic and Social Value

31. All investments made by any Pillars operating as part of the WRIF must create economic and social value to residents and businesses in the County.

32. An assessment of strategic fit will be undertaken, and the following quantifiable metrics will be assessed:

Benefit	**Quantifiable Metric**
Value of GVA uplift to the County	The total (£) net Gross Value Added (GVA) amount of economic contribution to the County or value generated that will result from the investment / Annual GVA generated
Number of new start-up businesses	The number of new businesses registered with Companies House having a Warwickshire postcode that result from the investment
Business Rates Income Council Tax Income	The increased amount (£) of business rates and council tax income directly resulting from the investment.
Equitable distribution of funding	The geographical pattern of investment across the County.
Number of jobs created	The number of people given permanent employment in the County as a direct result of the investment (plus any matched funding or third-party inward investment). This could include jobs created in a partner or supply company, so long as these

	jobs are created within the County and are directly attributed to the investment. For example, if a loan to a start-up company enables it to expand to an additional 15 jobs in a variety of roles plus a subcontractor who needs 10 people, both can be included)
Number of jobs filled by the unemployed	The number of jobs filled by previous unemployed individuals as a direct result of the investment.
Number of jobs safeguarded	The number of jobs safeguarded that would have otherwise been lost had the investment not been made.
Value of third-party inward investment	The total amount (£) of investment secured from third parties e.g. match/ leveraged funding in relation to the investment
Number of new homes	The number of housing units created in the county, either rented or owned, as a direct result of the investment
Number of responsible investments	The number of investments that increase the use of low and zero carbon technologies; and/or The number of investments that have an explicitly positive environmental or social impact/ outcome by benefiting the local community and/or preserving the environment
Poverty premium	How many residents' lives have been touched and households in the County helped as a direct result of the investment
Sq ft of enabled development	The total quantum of development (sq ft) enabled that may have been stalled/delayed or reduced in its quantum would it not be for the investment
Increased wireless network capacity	The amount of increased network capacity for the county as a direct result from the investment

33. All metrics should be measured on delivery of direct benefits (delivered through the WRIF rather than other measures).

34. Targets have been set against a handful of key metrics looked at across the whole life of the WRIF and the whole portfolio. These are as follows:

Key target	Indicative outcomes (per biz case)	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	Total
Amount invested	**£140m**	£22m	£32m	£32m	£32m	£22m	£0m	£0m	**£140m**
Companies supported (number of investments)	**118**	12	23	23	23	21	0	0	**102**
Jobs created	**2,500 - 3,400**	0	1,000	670	670	500	170	0	**3,010**
Jobs safeguarded	**2,700 – 3,900**	390	740	740	740	680	0	0	**3,290**
Value of leverage (public & private)	**£104m - £139m**	0	40	30	30	20	10	0	**130**
GVA uplift	**£110 - £160m**	0	30	30	30	30	10	0	**130**
Amount of development enabled	**15 - 23 ha**	0	0	2	5	5	5	2	**19**

35. These numbers are targets and not limits. The actual investment opportunities that present themselves may vary from this indicative profile. The WRIF should monitor outcomes across the portfolio over a number of years and set annual targets each year with reference to any limits or requirements set out by Council in the non-treasury Investment Strategy and based on past performance and expected full-life outcomes. These metrics will also be embedded in the Council's performance framework.

36. The achievement of these should be monitored by the Investment Manager and Investment Panel, with regular reports to Cabinet, through the life of the investment.

Investment criteria – Environmental, Social and Governance

37. All investments will be judged on their Environmental, Social and Governance (ESG) criteria in terms of the business' values in three key areas:
- environmental responsibility and sustainability;
- social – impact in terms of promoting societal benefits; and
- governance – strong leadership and a responsible organisational culture.

Investment criteria – financial

38. The portfolio as a whole and all investments made by the WRIF will be measured against a range of financial criteria, that could include but are not limited to:
- Affordability to the Council including net impact on the revenue account
- Return on Investment (£)
- Investment value (£)
- Interest received (£)
- Principal repayment (£)
- Cashflow (£)
- Surplus/deficit to date (£)
- Yield and/or profit on cost (%)
- Interest rate cover ratio

- Debt Service Cover Ratio
- Default rate (%)
- Net Present Value (£)
- Management fees (£)
- Running cost recovery (%)

39. A decision to invest will depend on the balance of performance against these criteria and the expected performance will depend on the type of investment made and the risk profile of that investment asset class.

Appendix A – Fund Summary

Element	Description	Portfolio Size	Individual Investment size & volume	Priorities	Types of Investments	Economic & Social Investment Criteria
WRIF Portfolio	Offering a range of funding options designed to complement and enhance the provision of commercially available finance and support economic recovery for businesses located or looking to be located in Warwickshire. Offering businesses access to specific and tailored pre- and post-investment support programmes ensure they are both business and investor ready.	Up to £140m	**n/a**	Portfolio priorities: • Investment in any sector or industry or business type that creates or safeguards skilled or entry level jobs • Securing inward investment – can or will leverage additional resources or funding • Increasing social value – where the investment brings benefits to local residents, removes barriers to employment, supports health and well-being, protects and enhances the natural environment, creates better places to live and/or maximises opportunities to strengthen community capacity and resilience • Support for 'green' / sustainable	**Predominantly Debt & potentially some Equity products**	• Number of jobs created/safeguarded • Number of jobs filled by unemployed • Value of GVA uplift • Number of responsible investments • Returns aligned to risk framework • Poverty Premium • Increased wireless network capacity

Element	Description	Portfolio Size	Individual Investment size & volume	Priorities	Types of Investments	Economic & Social Investment Criteria
				technologies or industries		
Business Investment Growth Pillar **[£90m]**	**Business Growth Pillar** *Finance to support local growth plans – help companies expand its operations, hire new staff, purchase machinery, manage working capital and grow customer reach*	£90m	<£10m Approx. 2 – 5 per annum	**Future Growth Sectors:** • Automotive Technology • Digital Creative & Digital Technologies • Future of Mobility • Low carbon technologies **Other key priority sectors:** • Advanced manufacturing • Culture, Tourism & Hospitality • Modern methods of construction • Health & Wellbeing • Agri-tech and rural based businesses • Businesses in the supply chain that support delivery of the Council's priority outcomes for people, for example public health, social care and education.	Predominantly debt - Business Loans Equity based investment opportunities as a small percentage of the overall fund if there is a clear investment case for business growth and the risk profile is acceptable.	• Creating & safeguarding jobs – number of jobs created/safeguarded • Value of GVA uplift • Value of third party inward investment • Uplift in Business rates

Element	Description	Portfolio Size	Individual Investment size & volume	Priorities	Types of Investments	Economic & Social Investment Criteria
Local Communities & Enterprise Pillar **[£10m]**	**Local Communities & Enterprise Pillar Debt** *Finance for growth, support and development projects*	£10m	<£500k (average investment modelled at £100k) Approx 10 – 30 per annum	**Building on our strengths:** • Advanced manufacturing & engineering • Digital Creative & Digital Technologies • Culture, Tourism & Hospitality • Low carbon technologies **Other key priority sectors:** • Retail • Community based enterprises • Creative industries • Health & wellbeing • Social care or other supply markets to the Council	Small Business Loans	• Creating/safeguarding Jobs or number of jobs created • Number of jobs filled by unemployed • Number of new start-up businesses
Property & Infrastructure Pillar	**Property & Infrastructure Pillar** *Providing loans to forward fund infrastructure, invest in commercial site and premises and to unlock development*	£40m	<£40m	**Creating space for future growth:** • Automotive technology • Digital Creative & Digital Technologies • Future of Mobility • Low carbon technologies	• Commercial loans • Equity investment • Purchase of assets • Corporate guarantees • Joint Ventures	• Creating & safeguarding jobs - number of jobs created/safeguarded • Sq ft of enabled development

Element	Description	Portfolio Size	Individual Investment size & volume	Priorities	Types of Investments	Economic & Social Investment Criteria
	consistent with the needs of key sectors and/or wider ambitions for economic recovery.			• R&D and innovation facilities • New start-up, incubator and accelerator space **Other key priorities:** • New/upgraded spaces within our town centres, incl. retail, hospitality, culture, leisure, health & wellbeing, community-based enterprises, co-working/flexible work space • Health & social care facilities **Beneficiaries**: • Developers and contractors of house building • Developers of employment land • Developers of office space		

Element	Description	Portfolio Size	Individual Investment size & volume	Priorities	Types of Investments	Economic & Social Investment Criteria
				• Developers of operational business buildings • Infrastructure projects • Occupiers of existing businesses		
Business Support	**Business Support Programme** *Additional support to businesses pre-investment to ensure they are both business and investor ready*	Funded separately to WRIF		• Social Enterprises • Charities • Micro Businesses (up to 10 employees) • Start ups with high growth potential • Early-Stage Businesses <operating less than 3 years • SME's – company with no more than 250 employees • Those businesses with a need for equity	• Review of current business model and income sources • Provide support with market assessment, competitor analysis, market research and viability evaluation • Help investees test options against business model to demonstrate need for investment • Provide support in building a well	• Number of businesses provided with business support • Proportion of businesses that proceed to investment stage following support

Element	Description	Portfolio Size	Individual Investment size & volume	Priorities	Types of Investments	Economic & Social Investment Criteria
					– developed business / investment proposition as well as pitching • Coaching, mentoring, access to skills and knowledge • Access to incubation – physical space for early stage / start ups	

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Investment Strategy (For Non-Treasury Investments)

Warwickshire County Council

2021/22

1. Introduction

1.1 Local Authorities may make investments of two types:

- Treasury Investments.
- Other Investments (also referred to in this strategy as “non-treasury investments”).

1.2 This Investment Strategy covers “Other Investments” and is prepared according to statutory guidance issued under the Local Government Act 2003, and also the Treasury Management Code of Practice, and The Prudential Code for Capital Finance in Local Authorities. Non-Treasury Investment are policy investments made to deliver Corporate objectives as set out in the Capital Strategy and Medium Term Financial Strategy.

1.3 For the purposes of this Investment Strategy, an investment is any financial or non-financial asset of the authority which is held partially or primarily to generate a return. Investments include loans made by the local authority to wholly-owned companies or associates, to a joint venture, or to a third party. For the avoidance of doubt, the strategy does not include pension fund, trust fund investments which are subject to separate regulatory regimes, or treasury investments which are detailed separately in the Treasury Management Strategy.

1.4 Non-treasury management investments may take a number of forms, for example holding shares in companies, issuing loans to companies, promoting economic development, or holding non-financial assets (e.g. property). Details of the Council’s existing and planned non treasury investments are set out in Section 12 and 13 of this strategy.

2. Transparency and Democratic Accountability

2.1 This Investment Strategy is a public document and must be approved annually by full Council, and any material changes during the year also being presented to Council for approval.

2.2 The more specific and detailed governance arrangements for any new funds will also be subject to Member approval through Cabinet or Council. For example, arrangements for the governance of the WPDG (WPDG) and Warwickshire Recovery and Investment Fund (WRIF).

2.3 Under Regulation 17 of The Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 as amended overview and scrutiny committee members have right of access to any confidential information relating to any decision by the executive or any member of the executive of their council where relevant to a review or scrutiny being undertaken by the committee or included in its work programme.

2.4 Any fundamentally new or additional levels of investment outside of those specified in or delegated by this Investment Strategy for investment for non-treasury purposes will be required to have direct Council approval that would be set out in an updated Investment Strategy.

2.5 The Section 151 Officer has delegated authority to implement this Investment Strategy, with the following overarching responsibilities highlighted.

- Ensuring that due diligence is carried out on investment proposals in accordance with the risk appetite of the authority.
- Ensuring the proportionality of investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources.
- Ensuring an adequate governance process is in place for the approval, monitoring, and ongoing risk management of non-treasury investments.

3. Investment Objectives

3.1 The primary objective of all non-treasury investments will be to contribute towards the Council's core organisational objectives:

- "Warwickshire's economy is vibrant and is developed, supported by the right jobs, training, skills and infrastructure";
- "Warwickshire's communities and individuals are supported to be safe, healthy and independent"; and
- "Making the best use of resources".

3.2 In addition, all non-Treasury investments will be required to demonstrate how they contribute towards the objectives specified in MHCLG guidance which will control local authority access to Public Works Loan Board (PWLB) lending by the withdrawal of PWLB lending to authorities when not met. These objectives are harmonious with the Council's overarching strategic objectives and powers, and are summarised below and detailed in Annex 1:

- Service
- Housing
- Regeneration
- Treasury management

- Prevention of social or economic decline

3.3 The principles of security, liquidity, and yield must be considered when making any investment. When considering treasury management investments, security is the highest priority, followed by liquidity, and yield is a low priority. However, for non-treasury investments, whilst all three principles matter, there is more flexibility around the relative priorities depending upon risk appetite and investment objectives. The following sections set out these principles in detail.

4. **Security**

4.1 The principle of security relates to the preservation of capital, i.e. Ensuring that the original investment is returned.

4.2 Non-treasury investments will be categorised as a means of indicating and controlling risk as follows:

- Specified Investments
- Loans
- Non-Specified Investments

4.3 Annex 2 describes these in detail and Annex 3-5 sets out how these will be managed.

4.4 Total exposure to investments will be capped as specified by this Investment Strategy, including detailed limits specifying ceilings on different types of investment, in order to limit risk exposure. This is summarised in Section 11 and detailed in Annex 5 and Annex 6.

4.5 All investments will have a specified end date and a documented process for review and, where contractually possible, early closure and realisation of capital should the circumstances performance, or risk profile require it. Investments which are of a nature that do not have a contractual end date, for example equity, will still have a planned holding duration.

4.6 Investment cash or non-treasury assets will not be issued in advance of need, minimising third party treasury management risk and the risk of cash or assets being used for objectives other than the investment objective.

4.7 A review will be undertaken in 2021/22 to assess the value of security held against non-treasury investments and to report on their sufficiency.

5. Liquidity

5.1 The principle of liquidity relates to how quickly investments can be returned to the Council.

5.2 In order to manage liquidity risk, this Investment Strategy will specify the maximum durations for which financial investments may be committed.

5.3 The default arrangement for loans will be annuity repayments, i.e. the payment of principal in even instalments throughout the duration of the loan term. Other profiles may be considered on an exceptional basis, however the risk of alternative profiles must be considered alongside how the profile would help to meet organisational objectives.

5.4 The contractual terms of investments made will specify repayment conditions and timing.

5.5 For non-treasury investments, medium and long-term financial planning will be used to ensure that funds can be accessed when needed to repay capital borrowed.

5.6 The level of liquidity of non-treasury assets will be assessed and monitored.

5.7 The capital programme, capital financing requirement, and treasury management activity will have regard to the planned repayment of investments relating to non-treasury investments, for example capital receipts and the repayment of loan principal.

5.8 The new investments in the Warwickshire Property Development Company (WPDG) will be relatively long term and illiquid in nature. Annex 2 to 8 set out arrangements and controls which will be used to manage this risk.

6. Yield

6.1 Investments will not be made purely or primarily for yield. This will mean that the Council will have access to PWLB lending at the low rates available from this source. Should the Council want to consider investments purely or primarily for yield, this would require a review of the overall capital financing position for the Council, because the Council would lose access to PWLB rates and capital financing costs would foreseeably be expected to increase.

6.2 However, where investments are made, the expected rates of return will have regard to the nature of investment and the level of risk been taken by the Council. Investment returns cannot be so low as to breach state aid/subsidy rules and cannot be so high as make an appropriate investment unviable to appropriate counterparties. Investment returns will seek to align with market norms.

6.3 Net yield will be calculated after having regard to costs, fees, and expected credit loss.

7. Borrowing

7.1 The Council will not borrow purely for profit and will not borrow more than or in advance of need purely or primarily to profit.

7.2 However, the Council may borrow in advance of need primarily for risk management or borrowing efficiency reasons (for example to lock into low interest rates if interest rates are expected to rise significantly).

7.3 Capital receipts shall not be repurposed from the acquisition of assets that contribute to service delivery in order to fund the purchase of investments solely to avoid borrowing in advance of need.

8. Risk

8.1 Any investment, by its nature, involves a risk that the rate of return may not be achieved, and the original investment may not be repaid. It also carries the potential risk that more than the original investment is lost if an investor for whatever reason subsequently puts additional money in above the original investment, for example if unsuccessfully attempting to turn around a failing investment.

8.2 The financial risks involved in the new non-treasury investments relating to the WPDG are of a different nature and greater than the financial risks relating to traditional capital expenditure and treasury investments. The reasons for the differences are:

- Treasury investments prioritise security and liquidity in order to serve the primary objective of treasury management which is to ensure that cash is available when needed to serve the purpose for which that cash is held. To achieve this treasury objective, relatively safe and secure investments are chosen, and consequently low rates of return are accepted.

- Traditional capital spending is expenditure by nature and is fully funded as such. A capital asset provides benefits over its financial life and the cost of the asset is spread across the life of the asset, reflecting its consumption and use. At the end of the life of the asset, a new asset would be required if the same benefits are required to continue, and in order to pay for a new asset new money is needed. This new money is prudently provided for by the Council making an annual provision called the Minimum Revenue Provision (MRP). This means that money will be available to purchase a new asset when the time comes. There is no assumption that the asset will retain its financial value, or that the asset will provide a financial return, and therefore there is no risk of either of these assumptions not happening.

- Non-Treasury investment risks are different in that:

  - They are assumed to retain or increase their original asset value, and they are assumed to provide a financial return. Therefore there is exposure to the risk of those assumptions not happening.

  - The objectives of non-treasury investments by their nature are not the same as treasury investments, and therefore they may not prioritise security and liquidity as highly as treasury investments do.

8.3 Although the Council will not pursue investments purely for the objective of financial return, the Council will pursue investments in order to meet objectives as set out in Section 3, and in doing so accepts higher risks with respect to security and liquidity.

8.4 Higher risk is associated with higher reward. Investors will seek to find opportunities receiving higher returns for lower risk, while organisations seeking investment will seek opportunities paying lower returns for higher investor risk. These competing requirements result in a market-norm rate of return for a given level of risk. Rates of return will have regard to this, ensuring that rates of return are not so low as to breach state aid/subsidy rules and not so high as to be unviable to counterparties. Rates should be market normative and enough to reward the investment risk taken.

8.5 The majority of traditional treasury management investment (currently approximately £320m) is very low risk and very low return, for example loans to other local authorities, and money market funds designed to preserve capital. There are some small investments in higher risk investments including the Threadneedle Social Bond Fund (currently £34m) and CCLA Property Fund (currently £10m). These two investments are held over a longer timeframe in order to provide access to higher rates of interest in return for accepting less liquidity and higher risk. The WPDG (£160m planned gross investment over the 5 year MTFS period) will be further up the risk/return spectrum again, however this positioning is driven by the primary objectives of the WPDG being amplify the opportunity to deliver organisational policy objectives.

8.6 Before entering into an investment, and whilst and investment is in place certain protocols will be followed to manage risks. These are detailed at Annex 3.

9. Proportionality

9.1 Any particular investment will carry its own risks, driven by the investment itself and the counterparty it relates to. The risk and return associated with any particular investment will vary.

9.2 In addition, there is the aggregate risk that the Council is exposed to when considering all investments in totality. This is a function of the total amount of assets and income at risk of loss, and the extent to which the Council is dependent upon those assets and that income.

9.3 This Investment Strategy sets out maximum limits for non-treasury investments in order to limit total risk exposure.

9.4 The Medium-Term Financial Strategy sets out the extent to which the overall Council budget is supported by income from non-treasury investments. However, when considering exposure to financial risk, there is also the risk of loss of principal, and where this occurs this may impact on the income and expenditure account directly.

9.5 Two indicators are required by Government guidance to be used to set limits that cannot be exceeded in order to manage proportionality. These measures are:

- Gross debt as a proportion of net service expenditure
- Commercial income as a percentage of net service expenditure

9.6 These measures are incorporated into the indicators detailed in Annex 5 and Annex 6.

10. Capacity, Skills and Culture

10.1 Non-Treasury investments carry particular risks, and the nature and scale of proposed investments in the WPDG and WRIF create new risks. We will ensure we have the appropriate capacity, culture and skills to manage non-Treasury investments through a range of specific actions and policies as set out in Annex 4.

11. Prudential Indicators and Limits

11.1 A range of measures will be used in order to report on and control exposure to financial risk exposure from investment decisions. Annex 5 sets out definitions of the measures that will be used.

11.2 Measures are classified as either “Indicators” or “Limits” and the distinction is set out below:

- Indicators (Annex 6) – these are measures to monitor a particular financial parameter which will provide insight into performance and/or risk.

- Limits (Annex 7) - these measures which set hard limits on certain financial parameters in order to control and limit exposure to risk.

11.3 The most important measures are the limits on gross investment set out in Annex 7. These provide the fundamental control over maximum exposure to risk.

11.4 Over time, the use of measures will be reviewed and measures that are initially used for monitoring purposes may in the future used for control purposes.

11.5 The measures used, and any targets or limits, will be updated at a minimum annually when the Investment Strategy is updated.

11.6 The indicators have been chosen having regard to MHCLG guidance.

12. Warwickshire Property Development Group

12.1 In 2019/20 Council approved a commercial strategy setting out the intention to explore new approaches to the delivery of organisational objectives.

12.2 During 2020, detailed proposals for the development of a Warwickshire Property Development Company (WPDG) have been developed, .

12.3 WPDG is being developed with the following objectives:

- To undertake regeneration and place making activities within the county of Warwickshire. This should include delivery of major schemes, prioritising regeneration activities and delivering specific regeneration plans across the county.

- To undertake activities that progress Warwickshire County Council’s key policy objectives, for example mitigating climate change, promoting sustainable and inclusive economic growth in Warwickshire, improving quality of life, and improving Warwickshire’s 5G network and connectivity.

- To undertake activities with a view to generating new short- and long-term financial returns from the Council’s property assets as appropriate and establishing and maintaining momentum in such activities.

- To operate in effective partnership with public sector stakeholders, in particular district and borough councils, NHS bodies, Warwickshire Police, universities, West Midlands Combined Authority, Coventry and Warwickshire Local Enterprise Partnership and Homes England.

12.4 WPDG investments may be of the following nature:

- Equity Investment
- Commercial Loans
- Corporate Guarantees
- Partnerships (Joint Venture)

12.5 The value of any loan guarantees will be included in counting of the total value of loans issued as they allow a third party to call on a loan unilaterally.

12.6 Any investments of a convertible nature between equity and debt will be counted as the actual type of investment that they are at the given time.

12.7 The detailed proposals for the WPDG are subject to a full business plan which is to be presented to Cabinet in January 2021. This will include detailed arrangements for the proposed governance of the fund. The arrangements for the governance of the fund must comply with the requirements of this Investment Strategy. If there are any areas of discrepancy, the Investment Strategy will be followed until and unless it is changed by Council.

12.8 For the management of risk, limits will be set by the Investment Strategy controlling the following:

- How much can be invested in each year.
- How much may be equity, capital, and revenue in nature.
- The maximum duration of investments will be as set out in the detailed business plan.

12.9 Annex 7 specifies the limits for investment in the WPDG. These limits are specific for the next year, and indicative for the following 4 years.
The WPDG business plan includes potential investments over a significantly longer period of time, however actual approval for it is subject to viable detailed business cases for each individual investment and is also subject to the approval of an Investment Strategy with appropriate investment limits being approved at the necessary time. For completeness, the indicative total gross investments proposed for the WPDG are currently as follows:

Indicative Gross Investment £m	**2021/22**	**5 Years**	**Whole Life**
Equity	14.1	29.4	55.0
Working Capital Loans (Revenue)	0.0	120.1	408.3
Capital Loans	0.6	8.5	33.2
Total	**14.7**	**158.0**	**496.5**

12.10 All individual investments will be subject to bespoke business cases and due diligence as required by the specified governance arrangements.

12.11 The investment profile will be updated each year on a rolling basis. Therefore, before the actual investment limits for 2022/23 are proposed in the next annual Investment Strategy, they will be informed by experience to date of investments made in 2021/22.

13. Warwickshire Recovery and Investment Fund

13.1 A business case and strategy have been put to Council in respect of setting up a Warwickshire Recovery and Investment Fund (WRIF) with the objective of providing finance to support business start-ups and business growth within Warwickshire and supporting the councils strategic goals and priorities are set out in the Warwickshire Council Plan 2025, Covid 19 Recovery Plan, Economic Strategy, Commercial Strategy, and Play Shaping Programme.

13.2 Although the primary objective of this fund is to deliver service objectives (specific examples being job creation and job safeguarding, leveraging additional resources funding into the county, and increasing social value) the fund will operate on a commercial basis and will therefore generate financial returns for the council.

13.3 The majority of investments are expected to be senior debt in nature, other forms of investment including mezzanine debt and equity will be considered. A detailed business plan and investment strategy specifically relating this to this fund have been developed and require member approval in order for the fund to proceed to make investments.

13.4 The business plan and investment strategy for this specific fund must fit within all of the controls and governance requirements set out in this overarching non-Treasury Investment Strategy. For the avoidance of doubt, should there be any conflict this strategy/policy would prevail, and should there be a need or desire to invest outside of the boundaries set out in this policy, that would require bringing this policy back to Council to approve the changes first. In this way members and full council retain direct control of the overall level of risk being taken.

13.5 Annex 7 sets out the limits on gross investment within each fund each year. These limits are designed to control exposure to risk. The WRIF is made up of three sub funds with different risk profiles and therefore each sub fund has its own limit as follows:

	Maximum Investment Over The 5 Year Period
Business Growth Fund (BGF)	£90m
Property and Infrastructure Fund	£40m
Local Communities Enterprise Fund (LCEF)	£10m
Total	£140m

13.6 The business plan for the WRIF sets out an explanation of the nature and risks to do with these funds in detail.

13.7 In addition to having a limit on the amount that can be invested over the five-year period, other constraints are also placed on investment activity in order to control exposure to risk as follows :

- Limits for the amount that can be invested in each financial year (Annex 7.1)
- Limits on how much investment may be equity or working capital loans, which carry different risk profiles to debt invested in capital (Annex 7.5 and 7.6)
- Limits on how long a loan may stay out with a third party before it must be paid back (Annex 7.4)

13.8 No limits will be set on net debt however net debt will be monitored, and in addition to the monitoring of these strategic indicators there will be detailed monitoring of the investment portfolio.

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14. Existing Non-Treasury Investments

14.1 The Council already holds a number of investments that are non-treasury by nature. These investments are managed under existing procedures and protocols. This section sets out these investments.

Company Shares

14.2 The Council currently holds shares and debt with the following companies for the purposes of promoting the achievement of organisational objectives. These companies may provide a return on investment but that is not the primary reason for their existence.

- Warwickshire Legal Services Trading Ltd
- Educaterers Ltd
- University of Warwick Science Park Innovation Centre Ltd
- Warwick Technology Park Management Company Ltd
- Warwick Technology Park Management Company (No2) Ltd

- Eastern Shires Purchasing Organisation (ESPO)
- SCAPE Group Ltd
- Coventry and Warwickshire Local Enterprise Partnership
- Coventry and Warwickshire Waste Disposal Company
- UK Municipal Bond Agency PLC
- Border to Coast Pension Partnership Ltd

14.3 The share value relating to the above companies recorded in the 2019/20 accounts was £2.046m, with dividend income of £0.991m.

Company Loans

14.4 In addition to the above the Council currently operates two wholly owned Local Authority Trading Companies:

- Warwickshire Legal Services Trading Ltd
- Educaterers Ltd

14.5 The total shareholder value of these companies in their most recent accounts is a net liability of £2.7m (primarily relating to relating to increases in pension fund liabilities for Educaterers). There is a £1.8m loan facility in place with Educaterers at a rate of return of base rate + 5.75% to provide support to the company’s cash flow.

14.6 The capital programme already includes allocations available for the purposes of making a loans to local businesses who cannot raise funds through other means such as banks. This includes the following capital programme forecasts as at Quarter 2 for 2020/21.

Forecast £m	Up to 2020/21	2021/22	2022/23 Onwards	Total
Capital Growth Fund Business Loans and Grants	1.982	0.275	0.444	2.701
Capital Investment Fund/Duplex Fund	0.900	0.960	0.140	2.000
Total	**2.882**	**1.235**	**0.584**	**4.701**

14.7 These funds support the delivery of the Council’s objective to ensure Warwickshire’s economy is vibrant and is developed, supported by the right jobs, training, skills and infrastructure. These investments achieve this by being targeted to small and medium-sized businesses located within Warwickshire, supporting and developing the local economy and helping to create and safeguard jobs.

14.8 Loans and grants are managed via the Coventry and Warwickshire Reinvestment Trust (CWRT), this includes arrangements for assessing loans, issuing loans, and recovery.

14.9 In addition to the above established lending arrangements, loans to the value of £3m have been committed to in respect of Coronavirus Business Interruption Scheme (CBILS). This strategy sets a limit of £4m for lending of this nature (Annex 7.1).

Property Investment

14.10 The Council does not currently invest in property for the purposes of generating commercial income, however the Council does currently hold some assets for the purpose of generating future capital receipts.

£m	31/03/2020
NUNEATON/Land at former Holly Tree Farm,	16.337
NUNEATON/Land at former Magistrates Courts, Vicarage Street	0.272
NUNEATON/Land Adjoining 51 Queens Road, Queens Road	0.002
Attleborough Fields Industrial Estate Slingsby Close	0.519
NUNEATON/Former Manor Park Community School, Beaumont Road	1.575
ARLEY/ARC School (Former Herbert Fowler Junior School)	0.903
RUGBY/Great Central Industrial Estate, Great Central Way	1.070
ALCESTER/Former Area Library, Priory Road	0.301
ALCESTER/Meadow View H.E.P. (Independently funded), Kinwarton Road	0.000
ASTON CANTLOW/3 The Gables, Burbage Road	0.243
Kineton/ River Meadows Care Home	0.244
WARWICK/Land At Heathcote Hill Farm (Europa Way)	0.008
WARWICK/Former Ridgeway Special School, Montague Road	2.100
Total	**23.574**

14.11 Activity during 2019/20 included £2.35m in capital receipts from sales, and approximately £50k of income generated.

14.12 In addition, changes due to revaluation amounted to +£241k and gains/losses relating to sales amounted to +£364k.

14.13 The value of these assets can change, and these assets generate a small amount of incidental income (approximately £50k in 2019/20). The properties classified as investment property had an asset value of £23.5m as at March 2020, which is 2% out of a full asset value in the balance sheet of £1.162bn.

14.14 Where any of these properties in future come under the auspices of the WPDG, the governance arrangements in place for the WPDG will apply.

15. Environmental, Social, and Governance Policy

15.1 As a responsible investor, the Council is committed to considering environmental, social, and governance issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

15.2 The impact of an investment in respect of climate change may be a consideration for investment decisions, with investments that help to prevent climate change, or help to cope with its impact, or which are resilient to it’s effects being desirable. Measurement of impact such as via carbon footprint will be undertaken where practical.

15.3 Investments that have a social impact benefit, either on a local scale or more widely may be considered.

15.4 The ESG policy of fund managers and investment partners may be considered when making decisions, with the preference being for fund managers and partners who share similar values around ESG.

Public Works Loan Board – Lending Objectives **Annex 1**

Type	Description
Service	Normal local authority capital spending, for example education, highways, transport, social care, public health, cultural services, environmental services, regulatory services, and Fire and Rescue Services, as would be captured in the MHCLG Capital Outturn Return.
Housing	Normal local authority general fund or housing revenue account activity, as would be captured in the housing sections of the MHCLG Capital Outturn Return. In principle this includes land release, housing delivery, and subsidising affordable housing.
Regeneration	• Addressing economic or social market failure by providing services, facilities, or other amenities of value to local people which would not otherwise be provided by the private sector • Preventing negative outcomes including through buying and conserving assets of community value that would otherwise fall into disrepair • Investing significantly in assets beyond the purchase price, developing assets to improve them and/or change their use • Generating significant additional activity that would not otherwise happen without the local authority's intervention, for example creating jobs and/or social or economic value • Investments that recycle income to related projects with similar objectives rather than income being applied to wider services
Treasury Management	Restructuring or extending existing debt from any source, including the restructuring of internal financing
Prevention of Social or Economic Decline	• Investments that prevent a negative outcome, for example conserving assets of community value that would otherwise fall into disrepair, or providing support to maintain economic activity that would otherwise cease • Investment where there is no realistic prospect of support from any other source • investments with a defined exit strategy so that investments are not held for any longer than is necessary to achieve their objective

MHCLG issued guidance following the 2020 PWLB consultation stating that authorities that invest make Non-Treasury investments for the above reasons will have access to PWLB lending.

Local authorities that choose to invest for other reasons, or who choose to invest purely or primarily for yield will not be allowed to access PWLB lending for a period of time. In these cases, lending will be available from other sources, however it is foreseeable that the credit rating and risk profile of a local authority will be adversely impacted where it been refused access to the PWLB, and this would foreseeably impact on the lending rates and terms made available to the local authority.

Investment Categories **Annex 2**

Investment Type	Description
Specified Investments	Generally lower risk. These are sterling denominated, short-term, not capital by nature, and are made with counterparties with high credit ratings The Investment Strategy, will use the same criteria for the determination of specified investments as the Treasury Management Strategy
Loans	Generally higher risk than specified investments. In order to mitigate risk: • Credit risk and expected credit loss models will be used for loans and receivables. • Documented credit control arrangements will be used. • The value of loan guarantees will be counted against total lending exposure, whether or not a loan facility has been fully utilised. • Where a loan may be convertible to equity this can only be at the Council's discretion. No loans will be offered with any contractual commitment to convert them to equity.
Non-Specified Investments	This category covers all investments which are not specified investments, for example equity.
Non-Treasury Investments	This relates to physical assets which can be realised to recoup the capital invested. In order to mitigate risk: • The Council will monitor on an annual basis whether assets retain sufficient value to provide security. • Where security is sufficient, a statement should be made to this effect. • Where security is insufficient, a plan detailing the mitigating actions being taken to protect capital invested should be produced. • Where a loss is recognised in the accounts, the impact of this loss should be reported in an updated Investment Strategy. • Where the initial directly attributable purchase costs are greater than the realisable value of an asset, a statement setting out the timescales expected for the asset value to provide security for the sums invested will be made.

Risk Management **Annex 3**

Risk	Risk Management
Business market itself is not sound	• Review of the wider market in which the counterparty operates
Counterparty is not financially sound or well governed	• Use of independent credit ratings or credit assessments • Review of published financial reports and accounts • Review of the wider business plans of the organisation • Review of the counterparty's business case for seeking Council investment • Undertaking bespoke due diligence on the counterparty's financial and governance position where appropriate. •
The counterparty investment plan is not sound	• Reviewing the specific investment business case methodology, rationale, and assumptions • Review of the specific market environment • Undertaking bespoke due diligence where appropriate.
The investment is not repaid	• Establishing security against counterparty assets where appropriate • Including appropriate wordings in loan agreements • Regular monitoring of loan repayments, with the information required from the counterparty being specified • Use of credit control processes • Regular monitoring of counterparty financial metrics • Use of shareholder powers in respect of shareholdings, for example voting rights, reserved shareholder powers, board membership rights, and access to company information. • Utilising internal expertise and external expertise to monitor and review investment risk. • Where appropriate providing information, guidance, and support to counterparties to assist them in navigating difficulties in making repayments. • Use of the expected credit loss model to account for investments. • Having exit strategies built into the investment plan.
The Council does not adequately understand an investment	• Commissioning of experts and external advisers where internal expertise is not available. • Use of competitive procurement processes to secure external advisers. • Use of specified contract terms and objectives, and proactive contract management, to direct external advisers. • Investments in new markets or endeavours will be profiled with lower investments in the initial years to provide proof of concept and organisational learning before investment levels are scaled up

Capacity, Skills, and Culture - Policies and Actions **Annex 4**

	Actions
Capacity	• For investment funds ensuring adequate capacity is resourced at conception to deliver the fund objectives. • For individual investments, ensuring business cases include regard to the capacity required to deliver investment objectives for the Council and the counterparty. • Ensuring that investment costs are accounted for and covered by gross investment returns before net returns are counted.
Skills	• An annual training plan for Members closely involved in investment governance but noting that Members are not expected to be investment experts and require appropriate support and advice from experts. • Specific training on the prudential framework for officers and other stakeholders involved in negotiating investments • Commissioning of external expertise where internal expertise is not available • The use of appropriately qualified and experienced internal staff where necessary
Culture	• Reporting to Members and senior officers of lessons learned from other local authorities, where public reports are made available. • Ensuring no investment or counterparty is ever perceived to be “too big to fail”. • Ensuring that unsuccessful investments are identified and accepted as such as early as possible and that robust decisions are taken to prevent further losses, for example by investing further into an unviable project. • Ensuring a positive support and challenge culture. • A robust culture promoting consistent application of investment controls • Investment appraisals consider the long-term and the whole investment life-cycle. • Investment funds consider intergenerational fairness. • Conflicts of interest are transparent and proactively managed. • Risk management and performance management will be evidence based.

Indicator Definitions **Annex 5**

Title	Purpose
Gross debt as a proportion of net service expenditure (to be monitored)	Demonstrates the scale of debt in comparison to the financial size and strength of the authority Indicates proportionality and whether the authority is taking too much risk in aggregate
Commercial income as a proportion of net service expenditure (to be monitored)	Demonstrates the dependence of the authority on commercial income associated with investments Indicates proportionality and whether the authority is taking too much risk in aggregate Note this indicator only relates to commercial income associated with non-treasury investments, therefore for example it excludes income from normal trading with third parties such as schools.
Loan to value ratio (to be monitored)	Demonstrates the amount of debt issued compared to the total associated underlying asset value Indicates risk of exposure to losses
Gross and net investment limits	To manage risk, limits will be set with respect to how much can be invested in non-treasury investments profiled across the medium term financial planning horizon at a high level, and provide a more detailed limits around investment durations for investments to be made in the coming year Gross limits are a hard limit in-year Net limits if breached will prompt a review of the gross limits for following years
Non-treasury investment net borrowing as a percentage of net financing need (to be monitored)	Total non-treasury investments as a proportion of total capital financing requirement, assuming non-treasury related capital receipts reduce non-treasury related borrowing.
The expected net rate of return (to be monitored)	The overall expected net rate of return for investments This is the gross rate of return, less costs and fees, and less expected credit loss Returns are not risk-free, therefore higher rates of return indicate higher levels of risk

Investment Strategy Indicators **Annex 6**

6.1 Gross debt as a proportion of net service expenditure

		2021/22	2022/23	2023/24	2024/25	2025/26
Gross Debt	£m	398.870	494.922	534.599	578.608	578.948
Net Service Expenditure	£m	468.531	489.028	502.161	510.922	526.778
Gross debt as % of net service expenditure	%	85.1%	101.2%	106.5%	113.2%	109.9%

6.2 Commercial income as a proportion of net service expenditure

		2021/22	2022/23	2023/24	2024/25	2025/26
Commercial income (gross)	£m	-	0.553	3.134	5.272	9.330
Net Service Expenditure	£m	468.531	489.028	502.161	510.922	526.778
Commercial income as % of net service expenditure	%	0.00%	0.11%	0.62%	1.03%	1.77%

Note - gross income represents income before having regard to costs

6.3 Loan to value

		2021/22	2022/23	2023/24	2024/25	202526
Total Loans (Capital)	£m	20.000	43.716	57.216	71.153	58.015
Asset Value	£m	to be monitored				
Loan to value	%					

Note - asset values will depend on lending opportunities, these will initally be monitored rather than a limit being set.

6.4 Non-treasury investment net borrowing as a percentage of net financing need

		2021/22	2022/23	2023/24	2024/25	2025/26
Net Borrowing Relating to Non Treasury Activity	£m	17.650	33.566	14.869	28.489	- 19.595
Total Net Borrowing Requirement	£m	131.514	111.816	59.282	65.201	23.294
Non Treasury Borrowing as % of Total	%	n/a	n/a	25.1%	43.7%	-84.1%

Note - in 2025/26 repayment of principal exceeds loans issues hence a net negative figure

6.5 Expected Gross Rate of Return

	Average Rate of Return
WPDG	6%
WRIF - BGF	5%
WRIF - Property Fund	6.5%
WRIF - LCEF	6%-15%

Investment Strategy Prudential Limits **Annex 7**

7.1 Annual Gross Investment Limits - Medium Term

		2021/22	2022/23	2023/24	2024/25	2025/26	Total
WPDG - Equity	£m	14.128	4.130	-	2.117	9.029	29.404
WPDG - Development Loans	£m	-	13.716	27.216	41.153	38.015	120.100
WPDG - Revenue Loans	£m	0.556	1.007	0.718	1.813	4.382	8.476
Sub Total - WPDG	£m	14.683	18.853	27.934	45.083	51.426	157.980
WRIF - BGF	£m	20.000	20.000	20.000	20.000	10.000	90.000
WRIF - LCEF	£m	2.000	2.000	2.000	2.000	2.000	10.000
WRIF - Property	£m	-	10.000	10.000	10.000	10.000	40.000
Sub Total - WRIF	£m	22.000	32.000	32.000	32.000	22.000	140.000
Total	£m	36.683	50.853	59.934	77.083	73.426	297.980

		2021/22	2022/23	2023/24	2024/25	2025/26	Total
Local Authority Controlled Company Loans	£m	8.000	7.000	4.000	7.000	3.000	
CBILS Loans	£m	4.000	tbd	tbd	tbd	tbd	

7.2 Cumulative Gross Investment Limits - Medium Term

		2021/22	2022/23	2023/24	2024/25	2025/26
WPDG - Equity	£m	14.128	18.258	18.258	20.375	29.404
WPDG - Development Loans	£m	-	13.716	40.932	82.085	120.100
WPDG - Revenue Loans	£m	0.556	1.562	2.281	4.094	8.476
Sub Total - WPDG	£m	14.683	33.536	61.470	106.554	157.980
WRIF - BGF	£m	20.000	40.000	60.000	80.000	90.000
WRIF - LCEF	£m	2.000	4.000	6.000	8.000	10.000
WRIF - Property	£m	-	10.000	20.000	30.000	40.000
Sub Total - WRIF	£m	22.000	54.000	86.000	118.000	140.000
Total	£m	36.683	87.536	147.470	224.554	297.980

7.3 Cumulative Net Investment Limits - Medium Term

		2021/22	2022/23	2023/24	2024/25	2025/26
WPDG - Equity	£m	14.128	18.220	7.482	9.106	10.077
WPDG - Development Loans	£m	-	13.716	25.698	44.378	29.894
WPDG - Revenue Loans	£m	0.556	1.388	0.037	1.813	0.229
Sub Total - WPDG	£m	14.683	33.325	33.217	55.297	40.200
WRIF - BGF	£m	17.650	12.210	8.203	6.936	- 1.478
WRIF - LCEF	£m	1.708	0.946	0.465	0.465	0.465
WRIF - Property	£m	-	7.678	5.422	3.366	4.424
Sub Total - WRIF	£m	19.358	20.834	14.090	10.767	3.411
Total	£m	34.041	54.159	47.307	66.064	43.611

Investment Strategy Prudential Limits **Annex 7**

7.4 Maximum Duration Limits

WPDG - Equity		Investment durations will be specified by each business case, subject to the investment limits set out in this strategy. The net investment limits above align with investment duration limits over the period of the MTFS.
WPDG - Development Loans		
WPDG - Revenue Loans		Revenue loans are short term by nature. The balance each year represents the lending facility available.
WRIF - BGF	£m	10 years
WRIF - LCEF	£m	5 years
WRIF - Property	£m	10 years

7.5 Gross Investment Limits - 2021/22 By Type and Duration

		Up to 1 year	Up to 3 years	Up to 5 years	Up to 10 years	Over 10 years
Equity	£m	Investment durations will be specific to each business case presented.				
Development Loans	£m					
Working Capital Loans (WPDG)	£m	0.556	-	-	-	-
Working Capital Loans (WRIF)		-	-	2.000	-	-
Total	£m	0.556	-	2.000	-	-

7.6 Equity Limits

	Equity Limits
WPDG	As specified by each business case, and subject to the specific limits set out in this strategy. If an equity investment is in the form of pre-existing owned property then the investment may go ahead if a higher value is due to revaluation only.
WRIF	No more than 10% of the gross investment budget for each year may be equity in nature

7.7 Maximum Investment Per Counterparty

WPDG		As per the gross investment values in Table 7.1
WRIF - BGF		£10m
WRIF - LCEF		£500k
WRIF - Property		£10m

Treasury Management Strategy Statement

Warwickshire County Council

2021/22

Index

1 Introduction

1.1 Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning, to ensure that the Council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any debt previously drawn may be restructured to meet Council risk or cost objectives.

The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities. These are separate from day to day treasury management activities and are covered by a separate Investment Strategy.

1.2 Reporting requirements

1.2.1 Treasury Management reporting

The Council is currently required to receive and approve, as a minimum, three main treasury reports each year, which incorporate a variety of policies, estimates and actuals.

a. **Prudential and treasury indicators and treasury strategy** (this report) - The first, and most important report is forward looking and covers:
   - the capital plans, (including prudential indicators);

- a minimum revenue provision (MRP) policy, (how residual capital expenditure is charged to revenue over time);
- the treasury management strategy, (how the investments and borrowings are to be organised), including treasury indicators; and
- an investment strategy, (the parameters on how investments are to be managed).

b. **A mid-year treasury management report** – This is primarily a progress report and will update members on the capital position, amending prudential indicators as necessary, and whether any policies require revision.

c. **An annual treasury report** – This is a backward looking review document and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.

1.2.2 Capital Strategy and Investment Strategy

The Treasury Management Strategy Statement (TMSS) interacts with both the Capital Strategy and the Investment Strategy.

Capital Strategy

The CIPFA 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report which will provide the following:

- a high-level long-term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

The aim of the capital strategy is to ensure that there is a robust strategy that meets organisational objectives with appropriate governance arrangements, and that the strategy is transparent and understandable to elected members.

The Capital Strategy is reported separately, and the headline capital financing requirements (the need to borrow) feed into this Treasury Management Strategy.

Investment Strategy

The Council is required to set out separately an Investment Strategy (IS) in relation to non-treasury investments. Non-treasury investments must consider security, liquidity, and yield, however the relative priority of these 3 factors does not have to follow treasury management principles as non-treasury investments are by their nature not intended to deliver treasury management objectives.

The Council's Investment Strategy is a separate document, however it does interrelate with the Treasury Management Strategy and Capital Strategy.

The table below summarises these different strategies.

Capital Strategy	Treasury Management Strategy – including Treasury Investment Strategy	Investment Strategy
Traditional capital expenditure to directly meet service objectives.	Management of cash and debt to service the delivery of day to day operations and the long-term financing of investments.	Non-treasury investments with the primary objective of meeting service objectives.

1.3 Treasury Management Strategy for 2021/22

The strategy for 2021/22 covers two main areas:

Capital issues

- the capital expenditure plans and the associated prudential indicators;
- the minimum revenue provision (MRP) policy.

Treasury management issues

- the current treasury position;
- treasury indicators which limit the treasury risk and activities of the Council;
- prospects for interest rates;
- the borrowing strategy;
- policy on borrowing in advance of need;
- debt rescheduling;
- the investment strategy;
- creditworthiness policy; and
- the policy on use of external service providers.

These elements cover the requirements of the Local Government Act 2003, the CIPFA Prudential Code, Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance, the CIPFA Treasury Management Code and MHCLG Investment Guidance.

1.4 Treasury management consultants

The Council uses Link Group, Treasury solutions as its external treasury management advisor.

The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon the services of external service providers.

The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

The scope of investments within the Councils operations includes treasury, service and commercial investments. Specialist advice is sought as appropriate for the undertaking of different types of investment.

2 Prudential Indicators

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

2.1 Capital expenditure

This prudential indicator is a summary of the Council's capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. More detail is provided in the Capital Strategy, the high-level headlines are reproduced below:

Table 1 – Total Capital Programme

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital Expenditure	132.528	253.196	127.106	67.427	59.451	65.628
Non-Treasury Investment WPDG*	0.000	0.000	13.716	27.216	41.153	38.015
Non-Treasury Investment WRIF*	0.000	20.000	30.000	30.000	30.000	20.000
Total	**132.528**	**273.196**	**170.822**	**124.643**	**130.604**	**123.643**

***WPDG Warwickshire Property and Development Group**

***WRIF Warwickshire Recovery and Investment Fund**

The table below summarises the above capital expenditure plans and how these plans are being financed by capital or revenue resources. Any shortfall of resources results in a need to borrow.

Table 2 – Financing of Capital Expenditure

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Capital receipts	(28.613)	(15.292)	(3.907)	0.000	0.000	0.000
Capital grants	(104.022)	(121.912)	(44.949)	(23.014)	(22.739)	(22.739)
Self Financed Borrowing	1.919	(0.995)	0.000	0.000	0.000	0.000
Revenue	(1.811)	(1.133)	0.000	0.000	0.000	0.000
Sub Total - General Capital Programme Funding	(132.528)	(139.332)	(48.857)	(23.014)	(22.739)	(22.739)
Capital Receipts from WPDG	0.000	0.000	(0.038)	(25.972)	(22.966)	(60.557)
Capital Receipts from WRIF	0.000	(2.350)	(10.112)	(16.375)	(19.698)	(17.054)
Sub Total - WPDG and WRIF Investment Related Income	0.000	(2.350)	(10.150)	(42.347)	(42.664)	(77.610)
Total Capital Funding/Income	(132.528)	(141.682)	(59.007)	(65.361)	(65.403)	(100.349)
Total Capital Expenditure	132.528	273.196	170.822	124.643	130.604	123.643
Net financing need for the year	**0.000**	**131.514**	**111.816**	**59.282**	**65.201**	**23.294**
Minimum Revenue Provision (MRP)	(11.396)	(10.941)	(15.763)	(19.606)	(21.193)	(22.953)
Borrowing Requirement	**(11.396)**	**120.573**	**96.052**	**39.677**	**44.009**	**0.341**

** MRP is a revenue provision made each year to contribute towards financing costs, so reducing the need for new borrowing

The net financing need split between capital expenditure and non-treasury investments is shown below in order to show the relative scale of non-treasury investment.

Table 3 – Financing of Non-Treasury Investments

£m	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
WPDG Capital Investment	0.000	13.716	27.216	41.153	38.015
Less: WDPG Related Receipts and Repayments	0.000	(0.038)	(25.972)	(22.966)	(60.557)
WRIF Capital Investment	20.000	30.000	30.000	30.000	20.000
Less: WRIF Related Receipts and Repayments	(2.350)	(10.112)	(16.375)	(19.698)	(17.054)
Net financing need for the year	**17.650**	**33.566**	**14.869**	**28.489**	**(19.595)**
Percentage of total net financing need %	100.0%	30.0%	25.1%	43.7%	0.0%

Further details in respect of non-treasury investments are set out in a separate Investment Strategy document.

2.2 The Council's borrowing need (the Capital Financing Requirement)

The Capital Financing Requirement (CFR) represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third-party contributions at the time of spending. The CFR measures the Authority's underlying need to borrow externally for a capital purpose.

Table 4 – Capital Financing Requirement

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2023/24 Estimate	2025/26 Estimate
CFR – Capital Programme	278.297	381.220	443.706	468.514	484.034	503.970
CFR - WPDG	0.000	0.000	13.678	14.922	33.109	10.567
CFR - WRIF	0.000	17.650	37.538	51.163	61.465	64.412
Total CFR	**278.297**	**398.870**	**494.922**	**534.599**	**578.608**	**578.948**
Movement in CFR - Capital Programme		102.923	62.486	24.808	15.520	19.936
Movement in CFR - WPDG		0.000	13.678	1.243	18.187	(22.542)
Movement in CFR - WRIF		17.650	19.888	13.625	10.302	2.946
Movement in CFR - Total		**120.573**	**96.052**	**39.677**	**44.009**	**0.341**
Movement in CFR represented by						
Net financing need for the year	0.000	131.514	111.816	59.282	65.201	23.294
Less MRP and other financing movements	(11.396)	(10.941)	(15.763)	(19.606)	(21.193)	(22.953)
Movement in CFR net of MRP	**(11.396)**	**120.573**	**96.052**	**39.677**	**44.009**	**0.341**

*The MRP calculation is explained in section 2.4 of this report.

The CFR is increasing significantly as a result of general capital programme plans plus new non-treasury investment plans.

2.3 Core funds and expected investment balances

The application of resources (capital receipts, reserves etc.) to either finance capital expenditure or other budget decisions to support the revenue budget will have an ongoing impact on investments unless resources are supplemented each year from new sources (asset sales etc.). Detailed below are estimates of the year-end balances for each resource and anticipated day-to-day cash flow balances.

Table 5 – Expected Investments

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Fund balances / reserves	193.023	186.200	160.200	143.200	134.200	125.200
Capital receipts	20.200	0.000	0.000	0.000	0.000	0.000
Other	4.300	4.300	4.300	4.300	4.300	4.300
Total core funds	**217.523**	**190.500**	**164.500**	**147.500**	**138.500**	**129.500**
Working capital	137.000	125.000	125.000	125.000	125.000	125.000
(Under)/over borrowing	43.109	(77.464)	(123.516)	(123.193)	(137.202)	(127.542)
Expected treasury investments	**397.632**	**238.036**	**165.984**	**149.307**	**126.298**	**126.958**

2.4 Minimum Revenue Provision (MRP) Policy

Capital expenditure is generally expenditure on assets which have a life expectancy of more than one year e.g. buildings, vehicles, machinery etc. It would be impractical to charge the entirety of such expenditure to revenue in the year in which it was incurred and so such expenditure is spread over several years so as to try to match the years over which such assets benefit the local community through their useful life. The manner of spreading these costs is through an annual Minimum Revenue Provision (MRP).

The MRP should be designed to make prudent provision to redeem debt liabilities over a period which is reasonably commensurate with the associated capital expenditure benefits.

Having regard to these requirements, the MRP provision will be calculated as set out below.

2.4.1 MRP for Capital Programme Expenditure

The MRP provision will be calculated on the average remaining useful life of the Council's asset portfolio. We will calculate and apply the remaining useful life over two categories of asset:

- Land, buildings and infrastructure;
- Vehicles, plant and equipment and intangible assets.

The proportion of debt outstanding in each category of asset will be determined by the value of assets included in the balance sheet at the end of each financial year.

The 2020 review shows that the remaining useful life of our assets is now 22 years. By using an average life of 25 years for our assets equates to an annual provision of 4% straight line MRP.

For vehicles, plant and equipment, the remaining useful life is assumed to be 6 years e.g. 5 years average remaining useful life will result in 20% straight line MRP.

2.4.2 MRP for the Warwickshire Property Development Group (WPDG)

Unlike mainstream capital spending where provision for purchase of replacement assets has to be made in order to have funding available for replacement assets, expenditure (investment) in the WPDG will at a later date be repaid in full.

It is possible to assume that these repayments of principal amount to the necessary revenue provision. However, there is a risk that repayment of principal is not made, or not made in full. In order to mitigate this risk the MRP policy for the WPDG will be to make a provision as follows:

- No MRP will be charged to the revenue account on any equity land or asset transfers into Wholly Owned subsidiaries.
- No MRP will be charged on working capital loans. Any anticipated impairments will be treated following the relevant accounting standards (namely IFRS9 - Financial Instruments), and not charged through the capital financing regime.
- MRP on development loans made to DevCo (a subsidiary of WPDG) will be charged over 25 years of equivalent to 4% per year, in line with the existing MRP policy for the capital programme.
- MRP on loans to ManCo (a subsidiary of WPDG for purchase of assets from DevCo) will be charged to the revenue account over 25 years (4% per year) in order to match the repayment profile of senior lending and operating life of those assets.
- Any capital receipts then received as repayment of the loan principal from ManCo and Dev Co will be used to offset "traditional" borrowing requirements for financing the wider capital programme.

2.4.3 MRP for the Warwickshire Recovery Investment Fund (WRIF)

Unlike mainstream capital spending where provision for purchase of replacement assets has to be made in order to have funding available for replacement assets, expenditure (investment) in the WRIF will at a later date be repaid in full.

It is possible to assume that these repayments of principal amount to the necessary revenue provision. However, there is a risk that repayment of principal is not made, or not made in full. In order to mitigate this risk the MRP policy for the WRIF will be to make a provision as follows:

- MRP on WRIF loans that are capital in nature will be 4% per year. This aligns with the intention for MRP to be associated with the underlying asset life rather than the duration of the loan.

- Any capital receipts then received as repayment of the loan principal from WRIF will be used to offset "traditional" borrowing requirements for financing the wider capital programme.

2.4.4 MRP Calculation

The actual calculation of MRP will be based on the [Total Capital Financing Requirement x 4%]. This is deemed to be a prudent overall level of provision based upon the requirements set out above.

The Council has the option to directly and specifically link internal borrowing to specific investments and where this is the case a MRP would not be made. This would mean that repayments associated of the loan would not be capital and would therefore not be ringfenced to financing capital spending. Any anticipated impairments will be treated following the relevant accounting standards (namely IFRS9 - Financial Instruments), and not charged through the capital financing regime. However, the default position is that specific funding sources are not directly linked to specific investments therefore an express decision to link specific funding to a specific investment would need to be made for this to happen.

3 Borrowing

Capital expenditure plans are set out in detail in the Capital Strategy. The treasury management function ensures that the Council's cash is managed in accordance with the relevant professional codes, so that sufficient cash is available to meet the Council's capital strategy and revenue service activity. This will involve both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The strategy covers the relevant treasury / prudential indicators, the current and projected debt positions and the annual treasury investment strategy.

The council currently holds an over borrowed position (meaning external borrowing is greater than the total capital financing requirement), however this is forecast to change based on capital expenditure plans in the coming years. The need for further borrowing will be kept under review.

3.1 Current portfolio position

The overall treasury management portfolio as at 31st March 2020 and 31st December 2020 are shown below for both borrowing and investments.

Table 6 Investment and Borrowing Portfolio

Treasury Portfolio				
	actual 31.03.2020 £m	actual 31.03.2020 %	**actual 31.03.2021 £m**	**actual 31.03.2021 %**
Treasury investments				
Banks	-	0%	20.021	5%
Building Societies	-	0%	50.004	13%
Local Authorities	175.222	47%	128.157	32%
DMADF (H.M.Treasury)	29.000	8%	-	0%
Lloyds Secondary Account and Cash	38.833	10%	5.004	1%
Subtotal - managed in house	**243.055**	**65%**	**203.186**	**51%**
Money Market Funds	88.779	24%	148.702	38%
CCLA Property Fund	10.285	3%	10.211	3%
Columbia Threadneedle Social Bond Fund	32.125	9%	33.520	8%
Subtotal - managed externally	**131.189**	**35%**	**192.433**	**49%**
Total treasury investments	**374.244**	**100%**	**395.619**	**100%**
Treasury external borrowing				
PWLB	342.000	100%	321.406	100%
Total external borrowing	**342.000**		**321.406**	
Net treasury investments / (borrowing)	**32.244**		**74.213**	

Annex 2 sets out the current maturity profile of investments held, and the borrowing portfolio. Currently there is a significant concentration of debt maturities across the period 2050-2060.

The Council's forward projections for borrowing are summarised below. The table shows the actual external debt, against the underlying capital borrowing need, (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

Table 7 – External Debt Forecast

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt						
Debt at 1 April	341.406	321.406	321.406	371.406	411.406	441.406
New Debt			50.000	40.000	30.000	10.000
Debt Repaid	- 20.000		-	-	-	
Other long-term liabilities (OLTL)	-	-	-	-	-	-
Expected change in OLTL	-	-	-	-	-	-
Actual gross debt at 31 March	**321.406**	**321.406**	**371.406**	**411.406**	**441.406**	**451.406**
The Capital Financing Requirement	278.297	398.870	494.922	534.599	578.608	578.948
Under / (over) borrowing	**- 43.109**	**77.464**	**123.516**	**123.193**	**137.202**	**127.542**

Internal Debt

The Council will seek to hold efficient levels of cash and will therefore run down external investment balances and use cash to finance a share of the Capital Financing Requirement. This is referred to as internal borrowing and when implemented it will improve our annual net interest costs, as the loss of interest on investment is currently lower than the cost of interest on external loans. The level of internal borrowing will be kept under review to ensure that the level of total treasury investments (a liquidity buffer) does not fall below £125m.

Table 8 – Internal Debt Forecast

£m	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
External Debt	321.406	321.406	371.406	411.406	441.406	451.406
Internal Debt (internal borrowing)	-	77.464	123.516	123.193	137.202	127.542
Internal borrowing as % of CFR	**0.0%**	**19.4%**	**25.0%**	**23.0%**	**23.7%**	**22.0%**

Where it is deemed appropriate to add to the level of current external loan finance, any risks associated with such borrowing will be subject to prior appraisal (including borrow now or borrow later analysis) and subsequent reporting through the mid-year or annual reporting mechanism.

The prudential indicators set out a number of key indicators to ensure that the Council operates its activities within well-defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue or speculative purposes.

The Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in this report.

3.2 Treasury Prudential Indicators: limits to borrowing activity

The operational boundary. This is the limit which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund borrowing by other cash resources.

Table 9 – Operational Boundary

£m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
External Debt	321.406	398.870	494.922	534.599	578.608	578.948
Total	**321.406**	**398.870**	**494.922**	**534.599**	**578.608**	**578.948**

The authorised limit for external debt. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

1. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.
2. The Council is asked to approve the following authorised limit:

Table 10 – Authorised Borrowing Limit

£m	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
External Debt	386.000	479.000	594.000	642.000	694.000	695.000
Total	**386.000**	**479.000**	**594.000**	**642.000**	**694.000**	**695.000**

Note that the net debt position is affected by capital receipts and the repayment of debt principal. Where income such as this is not received, the requirement to borrow is increased. For non-treasury investments, where all investments are expected to be repaid ultimately, it is possible for non-repayment of investments to result in the authorised limit being reached and no further borrowing being possible. This mechanism limits exposure to risk.

The chart below illustrates the relationship between actual debt, the CFR, and the prudential limits.

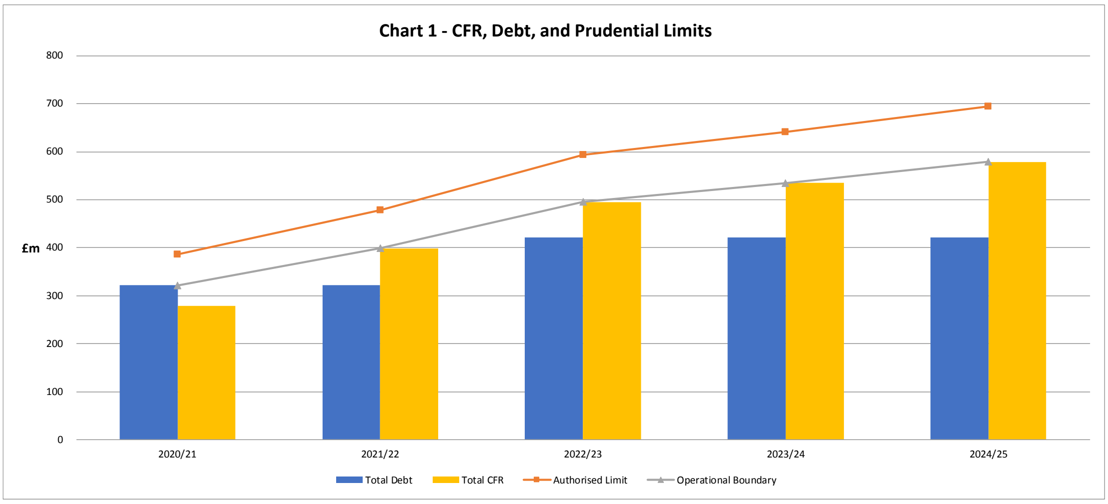


Chart 1 - CFR, Debt, and Prudential Limits
£m
800
700
600
500
400
300
200
100
0
2020/21
2021/22
2022/23
2023/24
2024/25
Total Debt
Total CFR
Authorised Limit
Operational Boundary

3.3 Prospects for interest rates

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates. Link provided the following forecasts on 9.2.21. These are forecasts for certainty rates, gilt yields plus 80 bps.

Link Group Interest Rate View	8.3.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it subsequently left Bank Rate unchanged at its subsequent meetings, including its last meeting on 4th February 2021, although some forecasters had suggested that a cut into negative territory could happen. However, at that last meeting, we were informed that financial institutions were not prepared for implementing negative rates. The Monetary Policy Committee (MPC), therefore, requested that the Prudential Regulation Authority require financial institutions to prepare for such implementation if, at any time in the future, the MPC may wish to use that as a new monetary policy tool. The MPC made it clear that this did not in any way imply that they were about to use this tool in the near future. As shown in the forecast table above, no increase in Bank Rate is expected in the near-term as it is unlikely that inflation will rise sustainably above 2% during this period so as to warrant increasing Bank Rate.

3.4 Gilt yields / PWLB rates

Pre the pandemic. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was a heightened expectation that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.

The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin was that bond prices were elevated as investors would have been expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

March 2020 crisis. Gilt yields had, therefore, already been on a generally falling trend up until the coronavirus crisis hit western economies during March 2020. After gilt yields spiked up in March 2020, we have subsequently seen these yields fall sharply to unprecedented lows as investors panicked during March 2020 in selling shares in anticipation of impending recessions in western economies, and moved cash into safe haven assets i.e. government bonds. However, major western central banks took rapid action to deal with excessive stress in financial markets during March, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in "normal" times would have caused bond yields to rise sharply.

April 2020 to date. Gilt yields and PWLB rates were at remarkably low rates during the first three quarters of 2020/21. However, since the start of 2021 there has been a major swing of sentiment in financial markets which are now focused on the increased risks of rising inflation in the US as a result of the victory of the Democrats in the US Presidential and Congress elections. In addition to the passing of a $900bn stimulus package in December (pre-Biden), the new administration has subsequently pushed through another $1.9 trn coronavirus rescue package in March 2021 which provides additional shorter term stimulus to economic recovery. This could be followed in late 2021 by a longer term $2trn 10 year infrastructure renewal package. There are widespread concerns that all this stimulus on top of that already provided by the Fed with its quantitative easing (QE) purchases of $120bn of bonds per month, could rapidly eliminate excess capacity in the economy during 2021 and so drive up asset prices as buyers compete for scarce resources. In previous years, this would have caused the Fed to counter rising inflation by tapering or stopping QE purchases, and/or raising the Fed Rate so as to cool the economy down. However, the Fed has repeatedly made clear since September 2020, that its new average inflation targeting policy means that it will tolerate transitory peaks of inflation above its inflation target of 2% to counter balance periods when inflation has been below its target. It has also emphasised that it now has a wider mandate beyond just inflation, in terms of targeting full employment across all sectors of society, including disadvantaged sectors. There is, therefore, tension in financial markets about how this is all going to work out in practice and during Q1 2021, bond yields have risen significantly in anticipation that the time is drawing closer when the Fed will have to start tapering its own stimulus programme of QE purchases of bonds. There is currently no sign that the Fed will take any action to suppress this rise in bond yields, though that remains a potential option if they were to rise further significantly.

During 2021, a sharp rise in US bond yields has caused bond yields to rise in many western countries. However, in the UK, the MPC meeting of 4th February ruled out the use of negative interest rates for at least six months and was optimistic in its forecasts of economic recovery. This gave an earlier impetus to rises in gilt yields which have also risen more than in Europe as a result of economic recovery being expected earlier in the UK. The UK Budget will also have added further optimism to the prospects of the domestic economic recovery in the UK. Meanwhile, the avoidance of a "no deal" Brexit at the close of 2020 had also removed some market concerns over the economic outlook.

Forecasts for PWLB rates. As the interest forecast table for PWLB certainty rates above shows, there is expected to be little upward movement in PWLB rates over the next two years as government bond yields of major countries around the world are expected to rise little during this time in an environment where central bank policy rates are also expected to remain low for some years; this is the result of a change of inflation targeting policy of central banks to one based on average inflation over a number of years, (see appendix 5.3 for further explanation). From time to time, gilt yields, and therefore PWLB rates, can be subject to exceptional levels of volatility due to geo-political, sovereign debt crisis, emerging market developments and sharp changes in investor sentiment, (as shown on 9th November 2020 when the first results of a successful COVID-19 vaccine trial were announced). Such volatility could occur at any time during the forecast period.

3.5 Investment and Borrowing Rates

- **Investment returns** are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

- **Borrowing interest rates** fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were negative during most of the first half of 20/21. The policy of avoiding new borrowing by running down spare cash balances has served local authorities well over the last few years. The unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps in October 2019, required an initial major rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for reviewing the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. *(Please note that Link has concerns over this approach, as the fundamental principle of local authority borrowing is that borrowing is a treasury management activity and individual sums that are borrowed are not linked to specific capital projects.)* It also introduced the following rates for borrowing for different types of capital expenditure: -

  - **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
  - **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- As a consequence of these increases in margins, many local authorities decided to refrain from PWLB borrowing unless it was for HRA or local infrastructure financing, until such time as the review of margins was concluded.

- On 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme. The new margins over gilt yields are as follows: -.

  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
  - **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
  - **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

- **Borrowing for capital expenditure.** As Link's long-term forecast for Bank Rate is 2.00%, and all PWLB rates are under 2.00%, there is now value in borrowing from the PWLB for all types of capital expenditure for all maturity periods, especially as current rates are at historic lows. However, greater value can be obtained in borrowing for shorter maturity periods so the Council will assess its risk appetite in conjunction with budgetary pressures to reduce total interest costs. Longer-term borrowing could also be undertaken for the purpose of certainty, where that is desirable.

3.6 Borrowing strategy

The Council is currently maintaining an over-borrowed position. This means that more external borrowing exists than is necessary which results in higher cash balances being held by the council. However the borrowing position is forecast to change based on the capital expenditure planned over the next 5 years and beyond, switching to an "under-borrowed" position. This is planned in order to make efficient use of cash balances. By, in effect, borrowing from internal balances the cost of borrowing is lower than borrowing from an external lender.

Against this background and the risks within the economic forecast, caution will be adopted with the 2021/22 treasury operations. Interest rates will be monitored in financial markets and a pragmatic approach taken to changing circumstances:

- if it was felt that there was a significant risk of a sharp FALL in borrowing rates, then borrowing will be postponed.

- if it was felt that there was a significant risk of a much sharper RISE in borrowing rates than that currently forecast, perhaps arising from an acceleration in the rate of increase in central rates in the USA and UK, an increase in world economic activity, or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Fixed rate funding would be likely to be drawn if interest rates are considered to be lower than they are projected to be in the next few years.

Any borrowing decisions will be reported to the appropriate decision-making body at the next available opportunity.

With the current over-borrowed position, but also being mindful of the volatile economic outlook for 2021/22 the following assumptions will be adopted in the borrowing strategy:

- The cheapest borrowing will be internal borrowing by running down cash balances and foregoing interest earned at historically low rates.

- Internal borrowing will be weighed against potential long-term costs that will be incurred if market loans at long term rates are higher in future years.

- Long term fixed rate market loans at rates significantly below PWLB rates will be considered where available, to ensure the best rates and to maintain an appropriate balance between PWLB and market debt in the debt portfolio. A list of the possible sources of borrowing is detailed in point 3.7.

- PWLB borrowing for periods under ten years will be considered where rates are expected to be significantly lower than rates for longer periods. This offers a range of options for new borrowing which will spread debt maturities away from a current concentration in longer dated debt.

- To ensure that the Council considers all options to secure long term certainty, the Council may also look to make use of forward starting loans as this will allow us to lock into a known financing rate out of a future date. These loans tend to be offered by Financial institutions (primarily insurance companies and pension funds but also some banks, where the objective is to use the forward loan with a mix of internal loans/temporary borrowing to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).

3.7 Policy on Borrowing in Advance of Need

The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure that value for money can be demonstrated and that the Council can ensure the security of such funds.

However, the Council may borrow in advance of need for risk management or borrowing efficiency purposes. In determining whether borrowing will be undertaken in advance of need, the Council will:

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to fund in advance of need;
- Ensure the ongoing revenue liabilities created, and the implications on future plans and budgets have been considered;
- Evaluate the economic and market factors that might influence the manner and timing of any decision;
- Consider the merits and demerits of alternative forms of funding;
- Consider the alternative interest rate bases available, the most appropriate time periods and repayment profiles;
- Consider the impact of temporarily increasing cash balances until cash is required to finance capital expenditure, and the consequent increase in exposure to counterparty and other risks.

3.8 Debt Rescheduling

As short-term borrowing rates are cheaper than longer term rates, there may be opportunities to generate savings by switching from long term debt to short term debt. However, these savings will need to be considered in the light of their short-term nature and the cost of debt repayments. Reasons for debt rescheduling would include:

- The generation of cash savings and/or discounted cash flow savings;
- Helping to fulfil the strategy
- Enhancing the balance of the portfolio, for example reducing concentration of the debt maturity profile.

The option to make repayment of some external debt to the PWLB in order to reduce the difference between its gross and net debt position will be kept under review. However, the penalty premiums that would be incurred by doing so means there currently is no net financial benefit from such early repayment.

3.9 New Financial Institutions as a Source of Borrowing and / or Types of Borrowing

Currently the PWLB Certainty Rate is set at gilts + 80 basis points for both HRA and non-HRA borrowing. However, consideration may still need to be given to sourcing funding from the following sources for the following reasons:

- Local authorities (primarily shorter dated maturities out to 3 years or so – still cheaper than the Certainty Rate).
- Financial institutions (primarily insurance companies and pension funds but also some banks, out of forward dates where the objective is to avoid a “cost of carry” or to achieve refinancing certainty over the next few years).
- Municipal Bonds Agency (possibly still a viable alternative depending on market circumstances prevailing at the time).

Our advisors will keep us informed as to the relative merits of each of these alternative funding sources.

4 Annual Treasury Investment Strategy

4.1 Investment Policy

The MHCLG and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy and the Investment Strategy.

The Council's treasury investment policy has regard to the following: -

- MHCLG's Guidance on Local Government Investments ("the Guidance")
- CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes 2017 ("the Code")
- CIPFA Treasury Management Guidance Notes 2018

The Council's treasury investment priorities will be security first, portfolio liquidity second and then yield, (return). The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments shorter term to ensure cover for cash flow needs. However, where appropriate (from an internal as well as external perspective), the Council will also consider the value available in periods up to 12 months with high credit rated financial institutions, as well as wider range fund options.

The above guidance from the MHCLG and CIPFA places a high priority on the management of risk. This authority has adopted a prudent approach to managing risk and defines its risk appetite by the following means: -

1. Minimum acceptable **credit criteria** are applied in order to generate a list of highly creditworthy counterparties. This also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the short term and long-term ratings.

2. **Other information:** ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To achieve this consideration the Council will engage with its advisors to maintain a monitor on market pricing such as **"credit default swaps"** and overlay that information on top of the credit ratings.

3. **Other information sources** used will include the financial press, share price and other such information pertaining to the financial sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

This authority has defined the list of **types of investment instruments** that the treasury management team are authorised to use. There are two lists in Annex 4 under the categories of 'specified' and 'non-specified' investments.

However, this authority will also pursue **value for money** in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance will be carried out during the year.

4.2 Creditworthiness Policy

The primary principle governing the Council's investment criteria is the security of its investments

- It maintains a policy covering both the categories of investment types it will invest in, criteria for choosing investment counterparties with adequate security, and monitoring their security. This is set out in the specified and non-specified investment sections below; and
- It has sufficient liquidity in its investments. For this purpose, it will set out procedures for determining the maximum periods for which funds may prudently be committed. These procedures also apply to the Council's prudential indicators covering the maximum principal sums invested.

  The Strategic Director for Resources will maintain a counterparty list in compliance with the following criteria and will revise the criteria and submit them to Council for approval as necessary.

  Credit rating information is supplied by the Link Group, our treasury advisors, on all active counterparties that comply with the criteria below. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating Watches (notification of a likely change), rating Outlooks (notification of the longer-term bias outside the central rating view) are provided to officers almost immediately after they occur and this information is considered before dealing.

The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

- Banks - good credit quality **–** the Council will only use banks which:
  1. are UK banks
  2. are non-UK and domiciled in a country which has a minimum sovereign Long Term rating of A-

  and have, as a minimum, the following Fitch Ratings:
  1. Short Term – F1
  2. Long Term – A-
- Banks 3 – The Council's own banker for transactional purposes if the bank falls below the above criteria, although in this case balances will be minimised in both monetary size and time invested.
- Building societies - The Council will use all societies which meet the ratings for banks outlined above;
- Money Market Funds (MMFs) CNAV – AAA
- Money Market Funds (MMFs) LVNAV – AAA
- Money Market Funds (MMFs) VNAV – AAA
- Property Funds - CCLA (refer to table D and E in annexes)
- Social Bond Funds - Threadneedle (refer to table D and E in annexes)
- Ultra-Short Dated Bond Funds with a credit rating of at least – AA
- Local authorities, parish councils (both spot and forward dates)
- Housing Associations?

Use of additional information other than credit ratings. Additional requirements under the Code require the Council to supplement credit rating information. Whilst the above criteria rely primarily on the application of credit ratings to provide a pool of appropriate counterparties for officers to use, additional operational market information will be applied before making any specific investment decision from the agreed pool of counterparties.

The time and monetary limits for institutions on the Council's counterparty list are detailed in Annex 4.

Creditworthiness- Although the credit rating agencies changed their outlook on many UK banks from Stable to Negative during the quarter ended 30th June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of major financial institutions, including UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into future quarters, more information will emerge on *actual* levels of credit losses. (Quarterly earnings reports are normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that banks went into this pandemic with strong balance sheets. This is predominantly a result of regulatory changes imposed on banks following the Great Financial Crisis. Indeed, the Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the UK banking sector to "somewhat less than £80bn". It stated that in its assessment, "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

All three rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on Negative Outlook, but with a small number of actual downgrades.

CDS prices- Although bank CDS prices (these are market indicators of credit risk) spiked upwards at the end of March / early April 2020 due to the heightened market uncertainty and ensuing liquidity crisis that affected financial markets, they have returned to more average levels since then. Nevertheless, prices are still elevated compared to end-February 2020. Pricing is likely to remain volatile as uncertainty continues. However, sentiment can easily shift, so it will remain important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

4.3 Other Investment Limits

Due care will be taken to consider the exposure of the Council's total investment portfolio to non-specified investments, countries, and sectors.

a) **Non-specified treasury management investment limit.** The Council has determined that it will limit the maximum total exposure non specified investments to £80m.

b) **Country limit.** The Council has determined that it will only use approved counterparties from the UK and from countries with a **minimum sovereign credit**

rating of *AA-* from Fitch Ratings. The list of countries that qualify using this credit criteria as at the date of this report are shown in Annex 3. This list will be added to, or deducted from, by officers should ratings change in accordance with this policy.

c) **Sector Limit. The Council has determined that it will limit the maximum exposure within different sectors of investments to the following-**

- £250m aggregate in overnight investments such as money market funds and instant access funds/bank accounts.
- Maximum holding in any one money market fund should not represent more than 2% of that fund's total asset value.
- £200m aggregate in short term investments such as 7-95 day lending deposit, call and notice accounts, and property and social bond funds.
- £100m aggregate in medium term investments such as 95-365 day lending, deposit, call and notice accounts.
- Additionally a maximum total limit of £250m held in Money Market Funds.
- Additionally a maximum total limit of £200m to other local authorities.
- Investments made with other Local Authorities may be agreed in advance of the loan issue date subject to the total duration of the loan and the notice to lend not being more than 18 months.

4.4 Treasury Management Investment Strategy

In-house funds. Investments will be made with reference to the core balance and cash flow requirements and the outlook for short-term interest rates (i.e. rates for investments up to 12 months). Greater returns are usually obtainable by investing for longer periods. While most cash balances are required in order to manage the ups and downs of cash flow, where surplus cash sums can be identified that could be invested for longer periods, the value to be obtained from longer term investments will be carefully assessed.

Investment returns expectations.
The Bank Rate is unlikely to rise from 0.10% for a considerable period. It is not possible to say with certainty when it may start rising so it is assumed that investment earnings from money market-related instruments will be below 0.50% for the foreseeable future.

The suggested budgeted investment earnings rates for returns on investments placed for periods up to about three months during each financial year are as follows (the long-term forecast is for periods over 10 years in the future):

Average earnings in each year	
2020/21	0.10%
2021/22	0.10%
2022/23	0.10%
2023/24	0.10%
2024/25	0.25%
Long term later years	2.00%

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside but is subject to major uncertainty due to the virus and how quickly successful vaccines may become available and widely administered to the population.

- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, or a return of investor confidence in equities, could impact gilt yields, (and so PWLB rates), in the UK.

Negative investment rates

While the Bank of England said in August / September 2020 that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, and in November omitted any mention of negative rates in the minutes of the meeting of the Monetary Policy Committee, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the COVID crisis; this has caused some local authorities to have sudden large increases in cash balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have already resorted to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a surfeit of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short-term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions for investments at the very short end of the yield curve.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home. This is magnified by the difficulty local authorities are facing over accurately forecasting the disbursements of funds received, and anticipation of any further large receipts from the Government.

4.5 Non Treasury Investment Strategy

A separate document entitled “Investment Strategy” covers the Council’s position in respect of non-treasury management investments held for service reasons or commercial reasons.

4.6 Investment Performance / Risk Benchmarking

A weighted average target return on treasury management investments is targeted to exceed the 30 day LIBID rate by 0.46%. This will maintain the current overall levels of return above LIBID, having regard to the first priorities being security and liquidity before return. The Council holds an interest rate volatility reserve to manage fluctuations in interest rates.

The Council is appreciative that the provision of LIBOR and associated LIBID rates is expected to cease at the end of 2021. It will work with its advisors in determining suitable replacement investment benchmark(s) ahead of this cessation.

4.7 End of Year Investment Report

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report. This will include a separate update on the Non-Treasury Investments held by the Council at the end of each financial year.

4.8 External Fund Managers

The County Council uses a number of external managers to spread risk and obtain maximum market exposure. Current external fund managers actively used during the last year are listed below. This list is not exhaustive and new fund managers may be engaged if necessary. Officers will periodically review the position, performance, and costs of external fund managers, and may meet with client relationship managers or fund managers as appropriate.

- Blackrock
- Deutsche Bank
- Goldman Sachs
- Insight
- Aberdeen
- Federated Hermes
- CCLA
- Threadneedle

4.9 Environmental, Social, and Governance Policy

As a responsible investor, the Council is committed to considering environmental, social, and governance (ESG) issues, and has a particular interest in taking action against climate change and pursuing activities that have a positive social impact.

However, the treasury management function is controlled by statute and by professional guidelines and the first priorities of treasury must remain security, liquidity, and yield. With those priorities kept in place, the following activity will be undertaken in respect of climate change and responsible investing. Steps will be taken to:

- Ensure an understanding of the degree to which investments may contribute towards climate change. This may take the form of measuring the carbon footprint or some similar measure.
- Identify and understand the extent to which investments are exposed to risks driven by climate change, for example investments in assets at risk of weather change (e.g. property or infrastructure at risk of flooding), assets at risk of becoming stranded (e.g. fossil fuel investments), or assets at risk from

geopolitical risks driven by climate change (e.g. water access, the capacity for food production, or economic conflict).

- Keep abreast of new investment opportunities that have regard to ethical investing and climate change as this is a quickly developing arena.
- Understand the ESG policies of funds when considering new investment opportunities.

4.10 Pension Fund Cash

This Council will comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, implemented 1 January 2010. With effect 1 April 2010, the Council does not pool pension fund cash with its own cash balances for investment purposes. Any investments made by the pension fund directly with this local authority after 1 April 2010 must comply with the requirements of SI 2009 No 393. The council has a separate statement for Pension Fund investment purposes.

ANNEXES

1. Prudential and Treasury Indicators
2. Treasury Management - Portfolio
3. Approved Sources of Long and Short Term borrowing
4. Treasury management - Practice
5. Approved Countries for Investments
6. Treasury Management - Scheme of Delegation
7. Treasury management - Role of the Section 151 Officer
8. Economic background

1. Prudential and Treasury Indicators

The Council's capital expenditure plans are the key driver of treasury management activity. The output of the capital expenditure plans is reflected in the prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

The following indicators are set out in the main body of the report:

Prudential Indicator	Reference
Capital Expenditure	Table 1
Gross Debt	Table 7
Capital Financing Requirement	Table 4
Over/Under Borrowing	Table 7
Borrowing - Operational Boundary	Table 9
Borrowing - Authorised Borrowing Limit	Table 10

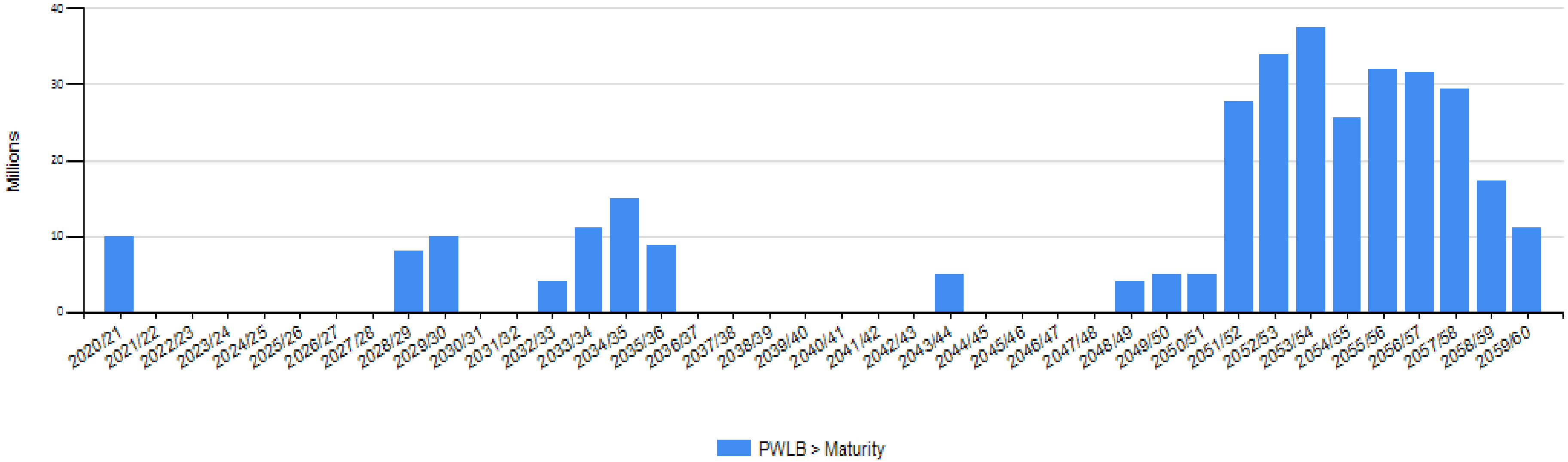
In addition, the prudential indicators below will be applied.

TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2020/21	2021/22	2022/23	2023/24	2024/25	2026/26
Upper limit for fixed interest rate exposure						
Net principal re fixed rate borrowing / fixed term investments	100%	100%	100%	100%	100%	100%
Upper limit for variable rate exposure						
Net principal re fixed rate borrowing / fixed term investments	25%	25%	25%	25%	25%	25%
Upper limit for total principal sums invested for over 365 days	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
(per maturity date)	80,000	80,000	80,000	80,000	80,000	80,000

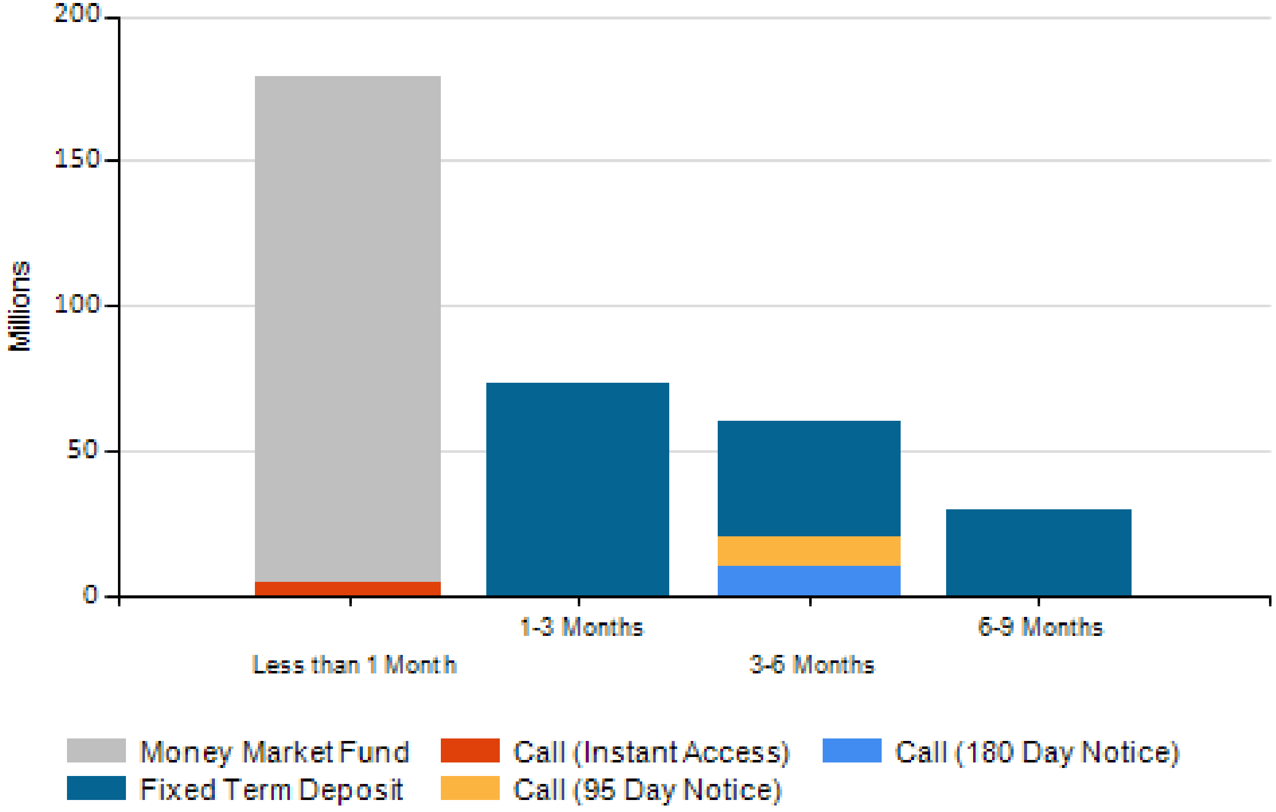
Maturity structure of new external borrowing during year	upper limit	lower limit
under 12 months	35%	0%
12 months and within 24 months	45%	0%
24 months and within 5 years	65%	0%
5 years and within 10 years	100%	0%
10 years and above	100%	0%

2. Treasury Management Portfolio

a. Debt Schedule



b. Investment Portfolio as at 31st March 2021



c. Balance Sheet Forecast

Warwickshire County Council
Balance Sheet Projections

2020/21 (£'000)		2021/22 (£'000)	2022/23 (£'000)	2023/24 (£'000)	2024/25 (£'000)	2025/26 (£'000)
CAPITAL FINANCING REQUIREMENT						
278,297	CFR Relating to General Fund	398,870	494,922	534,599	578,608	578,948
278,297	Total CFR	398,870	494,922	534,599	578,608	578,948
-	Finance Lease Liabilities		-	-	-	-
278,297	Underlying Borrowing Requirement	398,870	494,922	534,599	578,608	578,948
(341,406)	External Borrowing c/fwd	(321,406)	(321,406)	(371,406)	(411,406)	(441,406)
20,000	Loan Maturities					
-	New Loans	-	(50,000)	(40,000)	(30,000)	(10,000)
(321,406)	External Borrowing	(321,406)	(371,406)	(411,406)	(441,406)	(451,406)
(43,109)	Under / (Over) Borrowing	77,464	123,516	123,193	137,202	127,542
-15%	*Borrowing as a % of Requirement*	*19%*	*25%*	*23%*	*24%*	*22%*
RESERVES / BALANCES, INVESTMENTS & WORKING CAPITAL (£'000)						
21,223	General Fund Balance	21,200	21,200	21,200	21,200	21,200
-	Collection Fund Adjustment Account	-	-	-	-	-
171,800	Earmarked reserves	165,000	139,000	122,000	113,000	104,000
20,200	Capital Receipts Reserve	-	-	-	-	-
4,300	Provisions (exc. any accumulating absences)	4,300	4,300	4,300	4,300	4,300
-	Capital Grants Unapplied	-	-	-	-	-
43,109	Over / (Under) Borrowing	(77,464)	(123,516)	(123,193)	(137,202)	(127,542)
137,000	Working Capital	125,000	125,000	125,000	125,000	125,000
397,632	Expected Treasury Investments	238,036	165,984	149,307	126,298	126,958

YE balances currently estimated for 2020/21*

3. Approved Sources of Long and Short-Term Borrowing

On Balance Sheet	Fixed	Variable
PWLB	●	●
Municipal bond agency	●	●
Local authorities	●	●
Banks	●	●
Pension funds	●	●
Insurance companies	●	●
Market (long-term)	●	●
Market (temporary)	●	●
Market (LOBOs)	●	●
Stock issues	●	●
Local temporary	●	●
Local Bonds	●	
Local authority bills	●	●
Overdraft		●
Negotiable Bonds	●	●
Internal (capital receipts & revenue balances)	●	●
Commercial Paper	●	
Medium Term Notes	●	
Finance leases	●	●

4. Treasury Management – Practice

4.1 Counterparty Limits

	Fitch Long term Rating	Money Limit	Transaction limit	Time Limit
Banks	***A***	**£20m**	**£20m**	**1yr**
Local authorities	**N/A**	**£10m**	**£10m**	**1yr**
DMADF	**UK sovereign**	**unlimited**	**unlimited**	**6 months**
Other Institutions limit	**N/A**	**£10m**	**£10m**	**1yr**
	Fund rating**	**Money Limit**	**Transaction Limit**	**Time Limit**
Money Market Funds CNAV	**AAA**	**£60m**	**£60m**	**liquid**
Money Market Funds LVNAV	**AAA**	**£60m**	**£60m**	**liquid**
Money Market Funds VNAV	**AAA**	**£60m**	**£60m**	**liquid**
Ultra-Short Dated Bond Funds	**AA**	**£60m**	**£60m**	**liquid**
Property Fund	**N/A**	**£15m**	**£15m**	**90 day**
Social Bond Funds	**N/A**	**£40m**	**£40m**	**90 day**

4.2 Loans to Local Authority Trading Companies

Loans to LATCs	2021/22	2022/23	2023/24	2024/25	2025/26
Lending Limit £m's	**8.00**	**7.00**	**4.00**	**7.00**	**3.00**

4.3 Specified Investments

Investment Type	Credit Criteria (Fitch Ratings)	Limits (per institution)	Use
DMO Deposit Facility	--	No Limit	In-house
Term deposits: Local Authorities	--	£10m	In-house
Nationalised Banks	Short-term F1, Support 1	£20m	In-house and External Manager
Term deposits: UK Banks	Short-term F1, Long-term A, Viability a, Support 3	£20m	In-house and External Manager
Term deposits: Bank Council uses for current account	--	£20m	In-house and External Manager
Term deposits: UK Building Societies	Top five largest societies as reported annually. (To be continually monitored)	£20m	In-house and External Manager
Term deposits: Overseas Banks	Short-term F1+, Long-term AA- Viability aa, Support 1	£20m	In-house and External Manager
Certificates of deposits issued by UK banks and building societies	Short-term F1, Long-term A, Viability a, Support 3	£20m	External Manager
Money Market Funds	AAA	£60m	In-house and External Manager
Ultra Short Dated Bond Funds	AA	£40m	In-house and External Manager
UK Government Gilts, Treasury Bills	--	No Limit	External Manager
Gilt Funds and Bond Funds	Long-term A	No Limit	External Manager

(All such investments will be sterling denominated, with **maturities up to a maximum of 1 year**, meeting the minimum 'high' rating criteria where applicable)

4.4 Non-Specified Investments

Investment Type	Credit Criteria (Fitch Ratings)	Limits (per institution)	Use
Term deposits: UK banks and building societies with maturities in excess of one year with a maximum of three years allowed for in-house deposits	Short-term F1, Long-term A, Viability a, Support 3	£15m	In-house and External Manager
Fixed Term Deposit with Variable Rates and Variable Maturities	Short-term F1, Long-term A, Viability a+, Support 3	£15m	In-house and External Manager
Certificates of Deposits issued by UK banks and building societies	Short-term F1, Long-term A, Viability a, Support 3	£15m	External Manager
UK Government Gilts with maturities in excess of 1 year	--	£15m	External Manager
Local Government Association Municipal Bond Agency	--	£15m	--
CCLA Property Fund	--	£15m	--
Threadneedle Social Bond Fund	--	£40m	--
Local Authority wholly owned trading company	--	£3.9m	In-house

5. Approved Countries for Investments

Investments may be made in UK and in the following countries. This list is based on those countries which have sovereign ratings of AA- or higher, (we show the lowest rating from Fitch, Moody's and S&P) and also, (except - at the time of writing - for Hong Kong, Norway and Luxembourg), have banks operating in sterling markets which have credit ratings of green or above in the Link credit worthiness service.

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Luxembourg
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Hong Kong
- Qatar
- U.K.

6. Treasury Management - Scheme of Delegation

(i) Council

- approval of annual strategy.
- budget consideration and approval.
- approval of the division of responsibilities.

(ii) Cabinet

- scrutinise the proposed annual strategy.
- approval of/amendments to the organisation's adopted clauses, treasury management policy statement and treasury management practices.
- Receiving and reviewing monitoring reports and acting on recommendations.

(iii) Resources and Fire & Rescue Overview and Scrutiny Committee

- Overview and scrutiny of treasury management policy, practice, and activity as required.

7. Treasury Management - Role of the Section 151 Officer

The S151 (responsible) officer

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.
- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- Recommending the MRP policy.

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8. Economic Background

- **UK.** The key quarterly meeting of the Bank of England Monetary Policy Committee kept **Bank Rate** unchanged on 5.11.20. However, it revised its economic forecasts to take account of a second national lockdown from 5.11.20 to 2.12.20 which is obviously going to put back economic recovery and do further damage to the economy. It therefore decided to do a further tranche of **quantitative easing (QE) of £150bn**, to start in January when the current programme of £300bn of QE, announced in March to June, runs out. It did this so that "announcing further asset purchases now should support the economy and help to ensure the unavoidable near-term slowdown in activity was not amplified by a tightening in monetary conditions that could slow the return of inflation to the target".
- Its forecasts appeared, at that time, to be rather optimistic in terms of three areas:
    - The economy would recover to reach its pre-pandemic level in Q1 2022
    - The Bank also expected there to be excess demand in the economy by Q4 2022.
    - CPI inflation was therefore projected to be a bit above its 2% target by the start of 2023 and the "inflation risks were judged to be balanced".
- Significantly, there was no mention of **negative interest rates** in the minutes or Monetary Policy Report, suggesting that the MPC remains some way from being persuaded of the case for such a policy, at least for the next 6 -12 months. However, rather than saying that it "stands ready to adjust monetary policy", the MPC this time said that it will take "whatever additional action was necessary to achieve its remit". The latter seems stronger and wider and may indicate the Bank's willingness to embrace new tools.
- One key addition to **the Bank's forward guidance in August** was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate. Our Bank Rate forecast currently shows no increase, (or decrease), through to quarter 1 2024 but there could well be no increase during the next five years as it will take some years to eliminate spare capacity in the economy, and therefore for inflationary pressures to rise to cause the MPC concern. **Inflation** is expected to briefly peak at just over 2% towards the end of 2021, but this is a temporary short lived factor and so not a concern.
- However, the minutes did contain several references to **downside risks**. The MPC reiterated that the "recovery would take time, and the risks around the GDP projection were judged to be skewed to the downside". It also said "the risk of a more persistent period of elevated unemployment remained material". Downside risks could well include severe restrictions remaining in place in some form during the rest of December and most of January too. **Upside risks** included the early roll out of effective vaccines.

- **COVID-19 vaccines.** We had been waiting expectantly for news that various COVID-19 vaccines would be cleared as being safe and effective for administering to the general public. The Pfizer announcement on 9th November was very encouraging as its 90% effectiveness was much higher than the 50-60% rate of effectiveness of flu vaccines which might otherwise have been expected. However, this vaccine has demanding cold storage requirements of minus 70c that impairs the speed of application to the general population. It has therefore been particularly welcome that the Oxford University/AstraZeneca vaccine has now also been approved which is much cheaper and only requires fridge temperatures for storage. The Government has 60m doses on order and is aiming to vaccinate at a rate of 2m people per week starting in January, though this rate is currently restricted by a bottleneck on vaccine production; (a new UK production facility is due to be completed in June).

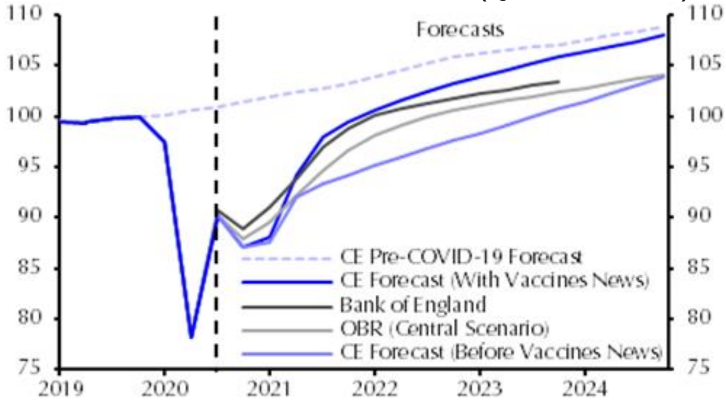
- These announcements, plus expected further announcements that other vaccines could be approved soon, have enormously boosted confidence that **life could largely return to normal during the second half of 2021**, with activity in the still-depressed sectors like restaurants, travel and hotels returning to their pre-pandemic levels; this would help to bring the unemployment rate down. With the household saving rate having been exceptionally high since the first lockdown in March, there is plenty of pent-up demand and purchasing power stored up for these services. A comprehensive roll-out of vaccines might take into late 2021 to fully complete; but if these vaccines prove to be highly effective, then there is a possibility that restrictions could start to be eased, beginning possibly in Q2 2021 once vulnerable people and front-line workers have been vaccinated. At that point, there would be less reason to fear that hospitals could become overwhelmed any more. Effective vaccines would radically improve the economic outlook once they have been widely administered; it may allow GDP to rise to its pre-virus level a year earlier than otherwise and mean that the unemployment rate peaks at 7% in 2021 instead of 9%.

- **Public borrowing** was forecast in November by the Office for Budget Responsibility (the OBR) to reach £394bn in the current financial year, the highest ever peace time deficit and equivalent to 19% of GDP. In normal times, such an increase in total gilt issuance would lead to a rise in gilt yields, and so PWLB rates. However, the QE done by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan). This means that new UK debt being issued, and this is being done across the whole yield curve in all maturities, is locking in those historic low levels through until maturity. In addition, the UK has one of the longest average maturities for its entire debt portfolio, of any country in the world. Overall, this means that the total interest bill paid by the Government is manageable despite the huge increase in the total amount of debt. The OBR was also forecasting that the government will still be running a budget deficit of £102bn (3.9% of GDP) by 2025/26. However, initial impressions are that they have taken a pessimistic view of the impact that vaccines could make in the speed of economic recovery.

- Overall, **the pace of recovery** was not expected to be in the form of a rapid V shape, but a more elongated and prolonged one. The initial recovery was sharp after quarter 1 saw growth at -3.0% followed by -18.8% in quarter 2 and then an upswing of +16.0% in quarter 3; this still left the economy 8.6% smaller than in Q4 2019. It is likely that the one month national lockdown that started on 5th November, will have caused a further contraction of 8% m/m in November so the economy may have then been 14% below its pre-crisis level.

- **December 2020 / January 2021**. Since then, there has been rapid back-tracking on easing restrictions due to the spread of a new mutation of the virus, and severe restrictions were imposed across all four nations. These restrictions were changed on 5.1.21 to national lockdowns of various initial lengths in each of the four nations as the NHS was under extreme pressure. It is now likely that wide swathes of the UK will remain under these new restrictions for some months; this means that the near-term outlook for the economy is grim. However, the distribution of vaccines and the expected consequent removal of COVID-19 restrictions, should allow GDP to rebound rapidly in the second half of 2021 so that the economy could climb back to its pre-pandemic peak as soon as late in 2022. Provided that both monetary and fiscal policy are kept loose for a few years yet, then it is still possible that in the second half of this decade, the economy may be no smaller than it would have been if COVID-19 never happened. The significant caveat is if another mutation of COVID-19 appears that defeats the current batch of vaccines. However, now that science and technology have caught up with understanding this virus, new vaccines ought to be able to be developed more quickly to counter such a development and vaccine production facilities are being ramped up around the world.

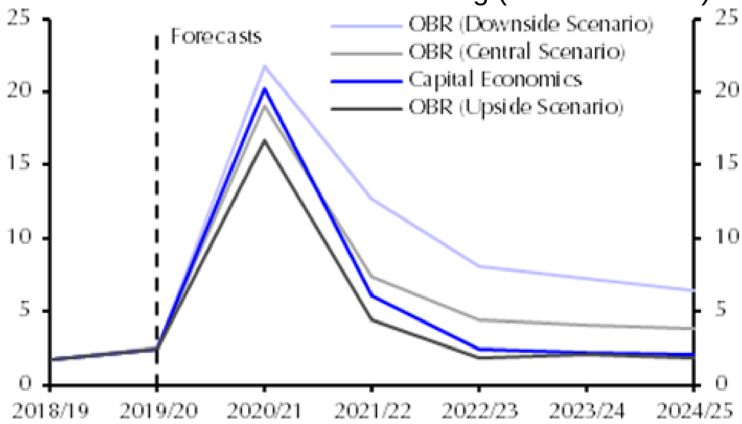
Chart: Level of real GDP (Q4 2019 = 100)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

This recovery of growth which eliminates the effects of the pandemic by about the middle of the decade would have major repercussions for public finances as it would be consistent with the government deficit falling to around 2.5% of GDP without any tax increases. This would be in line with the OBR's most optimistic forecast in the graph below, rather than their current central scenario which predicts a 4% deficit due to assuming much slower growth. However, Capital Economics forecasts assumed that there is a reasonable Brexit deal and also that politicians do not raise taxes or embark on major austerity measures and so, (perversely!), depress economic growth and recovery.

Chart: Public Sector Net Borrowing (as a % of GDP)



(if unable to print in colour…... the key describing each line in the above graph is in sequential order from top to bottom in parallel with the lines in the graph.

- There will still be some **painful longer term adjustments** as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever, even if vaccines are fully successful in overcoming the current virus. There is also likely to be a reversal of globalisation as this crisis has exposed how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.

- **Brexit.** While the UK has been gripped by the long running saga of whether or not a deal would be made by 31.12.20, the final agreement on 24.12.20, followed by ratification by Parliament and all 27 EU countries in the following week, has eliminated a significant downside risk for the UK economy. The initial agreement only covers trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis. As the forecasts in this report were based on an assumption of a Brexit agreement being reached, there is no need to amend these forecasts.

- **Monetary Policy Committee meeting of 17 December.** All nine Committee members voted to keep interest rates on hold at +0.10% and the Quantitative Easing (QE) target at £895bn. The MPC commented that the successful rollout of vaccines had reduced the downsides risks to the economy that it had highlighted in November. But this was caveated by it saying, “Although all members agreed that this would reduce downside risks, they placed different weights on the degree to which this was also expected to lead to stronger GDP growth in the central case.” So, while the vaccine is a positive development, in the eyes of the MPC at least, the economy is far from out of the woods. As a result of these continued concerns, the MPC voted to extend the availability of the Term Funding Scheme, (cheap borrowing), with additional incentives for small and medium size enterprises for six months from 30.4.21 until 31.10.21. (The MPC had assumed that a Brexit deal would be agreed.)

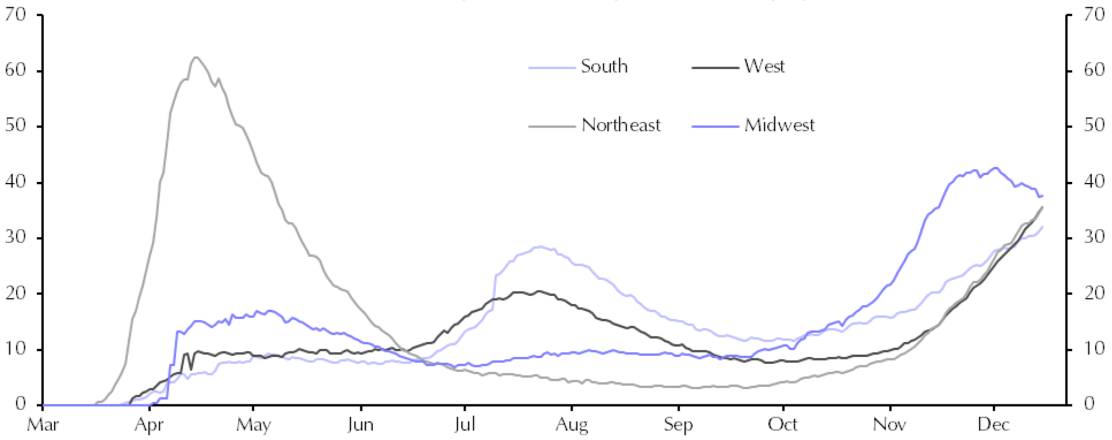
- **Fiscal policy.** In the same week as the MPC meeting, the Chancellor made a series of announcements to provide further support to the economy: -
    - An extension of the COVID-19 loan schemes from the end of January 2021 to the end of March.
    - The furlough scheme was lengthened from the end of March to the end of April.
    - The Budget on 3.3.21 will lay out the “next phase of the plan to tackle the virus and protect jobs”. This does not sound like tax rises are imminent, (which could hold back the speed of economic recovery).

- The **Financial Policy Committee** (FPC) report on 6.8.20 revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment, “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.

- **US.** The result of **the November elections** meant that while the Democrats gained the presidency and a majority in the House of Representatives, it looks as if the Republicans could retain their slim majority in the Senate provided they keep hold of two key seats in Georgia in elections in early January. If those two seats do swing to the Democrats, they will then control both Houses and President Biden will consequently have a free hand to determine policy and to implement his election manifesto.

- **The economy** had been recovering quite strongly from its contraction in 2020 of 10.2% due to the pandemic with GDP only 3.5% below its pre-pandemic level and the unemployment rate dropping below 7%. However, the rise in new cases during quarter 4, to the highest level since mid-August, suggests that the US could be in the early stages of a fourth wave. While the first wave in March and April was concentrated in the Northeast, and the second wave in the South and West, the third wave in the Midwest looks as if it now abating. However, it also looks as if the virus is rising again in the rest of the country. The latest upturn poses a threat that the recovery in the economy could stall. This is **the single biggest downside risk** to the shorter term outlook – a more widespread and severe wave of infections over the winter months, which is compounded by the impact of the regular flu season and, as a consequence, threatens to overwhelm health care facilities. Under those circumstances, states might feel it necessary to return to more draconian lockdowns.

COVID-19 hospitalisations per 100,000 population



- The restrictions imposed to control the spread of the virus are once again weighing on the economy with employment growth slowing sharply in November and retail sales dropping back. The economy is set for further weakness in December and into the spring. However, a $900bn fiscal stimulus deal passed by Congress in late December will limit the downside through measures which included a second round of direct payments to households worth $600 per person and a three-month extension of enhanced unemployment insurance (including a $300 weekly top-up payment for all claimants). GDP growth is expected to rebound markedly from the second quarter of 2021 onwards as vaccines are rolled out on a widespread basis and restrictions are loosened.

- After Chair Jerome Powell unveiled the **Fed's adoption of a flexible average inflation target** in his Jackson Hole speech in late August 2020, the mid-September meeting of the Fed agreed by a majority to a toned down version of the new inflation target in his speech - that *"it would likely be appropriate to maintain the current target range until labour market conditions were judged to be consistent with the Committee's assessments of maximum employment and inflation had risen to 2% and was on track to moderately exceed 2% for some* *time."* This change was aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade, (and this year), so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting. The FOMC's updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

- The Fed's meeting on **5 November** was unremarkable - but at a politically sensitive time around the elections. At its **16 December** meeting the Fed tweaked the guidance for its monthly asset quantitative easing purchases with the new language implying those purchases could continue for longer than previously believed. Nevertheless, with officials still projecting that inflation will only get back to 2.0% in 2023, the vast majority expect the fed funds rate to be still at near-zero until 2024 or later. Furthermore, officials think the balance of risks surrounding that median inflation forecast are firmly skewed to the downside. The key message is still that policy will remain unusually accommodative – with near-zero rates and asset purchases – continuing for several more years. This is likely to result in keeping Treasury yields low – which will also have an influence on gilt yields in this country.

- **EU.** In early December, the figures for Q3 GDP confirmed that the economy staged a rapid rebound from the first lockdowns. This provides grounds for optimism about growth prospects for next year. In Q2, GDP was 15% below its pre-pandemic level. But in Q3 the economy grew by 12.5% q/q leaving GDP down by "only" 4.4%. That was much better than had been expected earlier in the year. However, growth is likely to stagnate during Q4 and in Q1 of 2021, as a second wave of the virus has affected many countries: it is likely to hit hardest those countries more dependent on tourism. The €750bn fiscal support package eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support, and quickly enough, to make an appreciable difference in the countries most affected by the first wave.

- With inflation expected to be unlikely to get much above 1% over the next two years, **the ECB** has been struggling to get inflation up to its 2% target. It is currently unlikely that it will cut its central rate even further into negative territory from -0.5%, although the ECB has stated that it retains this as a possible tool to use. The ECB's December meeting added a further €500bn to the PEPP scheme, (purchase of government and other bonds), and extended the duration of the programme to March 2022 and re-investing maturities for an additional year until December 2023. Three additional tranches of TLTRO, (cheap loans to banks), were approved, indicating that support will last beyond the impact of the pandemic, implying indirect yield curve control for government bonds for some time ahead. The Bank's forecast for a return to pre-virus activity levels was pushed back to the end of 2021, but stronger growth is projected in 2022. The total PEPP scheme of €1,850bn of QE which started in March 2020 is providing protection to the sovereign bond yields of weaker countries like Italy. There is therefore unlikely to be a euro crisis while the ECB is able to maintain this level of support. However, as in the UK and the US, the advent of highly effective vaccines will be a game changer, although growth will struggle before later in quarter 2 of 2021.

- **China.** After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and then into Q3 and Q4; this has enabled China to recover all of the contraction in Q1. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy has benefited from the shift towards online spending by consumers in developed markets. These factors help to explain its comparative outperformance compared to western economies. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns in the longer term. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

- **Japan.** A third round of fiscal stimulus in early December took total fresh fiscal spending this year in response to the virus close to 12% of pre-virus GDP. That's huge by past standards, and one of the largest national fiscal responses. The budget deficit is now likely to reach 16% of GDP this year. Coupled with Japan's relative success in containing the virus without draconian measures so far, and the likelihood of effective vaccines being available in the coming months, the government's latest fiscal effort should help ensure a strong recovery and to get back to pre-virus levels by Q3 2021 – around the same time as the US and much sooner than the Eurozone.

- **World growth.** World growth will have been in recession in 2020. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

- Until recent years, world growth has been boosted by increasing **globalisation** i.e. countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. However, the rise of China as an economic superpower over the last thirty years, which now accounts for nearly 20% of total world GDP, has unbalanced the world economy. The Chinese government has targeted achieving major world positions in specific key sectors and products, especially high tech areas and production of rare earth minerals used in high tech products. It is achieving this by massive financial support, (i.e. subsidies), to state owned firms, government directions to other firms, technology theft, restrictions on market access by foreign firms and informal targets for the domestic market share of Chinese producers in the selected sectors. This is regarded as being unfair competition that is putting western firms at an unfair disadvantage or even putting some out of business. It is also regarded with suspicion on the political front as China is an authoritarian country that is not averse to using economic and military power for political advantage. The current trade war between the US and China therefore needs to be seen against that backdrop. It is, therefore, likely that we are heading into a period where there will be a **reversal of world globalisation and a decoupling of western countries** from dependence on China to supply products. This is likely to produce a backdrop in the coming years of weak global growth and so weak inflation.

Summary

Central banks are, therefore, likely to support growth by maintaining loose monetary policy through keeping rates very low for longer. Governments could also help a quicker recovery by providing more fiscal support for their economies at a time when total debt is affordable due to the very low rates of interest. They will also need to avoid significant increases in taxation or austerity measures that depress demand in their economies.

If there is a huge surge in investor confidence as a result of successful vaccines which leads to a major switch out of government bonds into equities, which, in turn, causes government debt yields to rise, then there will be pressure on central banks to actively manage debt yields by further QE purchases of government debt; this would help to suppress the rise in debt yields and so keep the total interest bill on greatly expanded government debt portfolios within manageable parameters. It is also the main alternative to a programme of austerity.

INTEREST RATE FORECASTS

Brexit. The interest rate forecasts provided by Link in paragraph 3.3 were predicated on an assumption of a reasonable agreement being reached on trade negotiations between the UK and the EU by 31.12.20. There is therefore no need to revise these forecasts now that a trade deal has been agreed. Brexit may reduce the economy's potential growth rate in the long run. However, much of that drag is now likely to be offset by an acceleration of productivity growth triggered by the digital revolution brought about by the COVID crisis.

The balance of risks to the UK

- The overall balance of risks to economic growth in the UK is probably now skewed to the upside, but is still subject to some uncertainty due to the virus and the effect of any mutations, and how quick vaccines are in enabling a relaxation of restrictions.
- There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.

Downside risks to current forecasts for UK gilt yields and PWLB rates currently include:

- **UK government** takes too much action too quickly to raise taxation or introduce austerity measures that depress demand in the economy.
- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- A resurgence of the **Eurozone sovereign debt crisis.** The ECB has taken monetary policy action to support the bonds of EU states, with the positive impact most likely for "weaker" countries. In addition, the EU agreed a €750bn fiscal support package. These actions will help shield weaker economic regions for the

next two or three years. However, in the case of Italy, the cost of the virus crisis has added to its already huge debt mountain and its slow economic growth will leave it vulnerable to markets returning to taking the view that its level of debt is unsupportable. There remains a sharp divide between northern EU countries favouring low debt to GDP and annual balanced budgets and southern countries who want to see jointly issued Eurobonds to finance economic recovery. This divide could undermine the unity of the EU in time to come.

- Weak capitalisation of some **European banks**, which could be undermined further depending on extent of credit losses resultant of the pandemic.
- **German minority government & general election in 2021.** In the German general election of September 2017, Angela Merkel's CDU party was left in a vulnerable minority position dependent on the fractious support of the SPD party, as a result of the rise in popularity of the anti-immigration AfD party. The CDU has done badly in subsequent state elections but the SPD has done particularly badly. Angela Merkel has stepped down from being the CDU party leader but she will remain as Chancellor until the general election in 2021. This then leaves a major question mark over who will be the major guiding hand and driver of EU unity when she steps down.
- **Other minority EU governments.** Austria, Sweden, Spain, Portugal, Netherlands, Ireland and Belgium also have vulnerable minority governments dependent on coalitions which could prove fragile.
- **Austria, the Czech Republic, Poland and Hungary** now form a strongly anti-immigration bloc within the EU, and they had threatened to derail the 7 year EU budget until a compromise was thrashed out in late 2020. There has also been a rise in anti-immigration sentiment in Germany and France.
- **Geopolitical risks,** for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates

- **UK -** a significant rise in inflationary pressures e.g. caused by a stronger than currently expected recovery in the UK economy after effective vaccines are administered quickly to the UK population, leading to a rapid resumption of normal life and return to full economic activity across all sectors of the economy.
- The **Bank of England is too slow** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to build up too strongly within the UK economy, which then necessitates a rapid series of increases in Bank Rate to stifle inflation.

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WARWICKSHIRE RECOVERY & INVESTMENT FUND

PROSPECTUS

DRAFT V2

WHAT IS THE WARWICKSHIRE RECOVERY & INVESTMENT FUND (WRIF)?

The WRIF is a significant new access to finance initiative that Warwickshire County Council has launched to support the economic recovery and future growth of Warwickshire. Over the five-year period 2021/22-2025/26, the County Council is planning to invest £140m into three funding streams to provide new and additional finance options for businesses looking to invest and grow in the county. The County Council wishes to use this investment fund to drive the future growth of Warwickshire, with a particular interest in businesses that will help support our journey to a net-zero carbon emission economy, and investments that will deliver wider social value along with economic growth.

Warwickshire County Council is looking for a full return on the totality of its investment and will therefore be predominantly looking at debt finance for suitable businesses and investment opportunities. While other options may be available, such as equity or mezzanine finance, this will be considered on a case by case basis and the expectation is that most investments will be through secured loans.

The administration of the Funds is through a mixture of direct delivery by the County Council and commissioned third-party providers.

WHY ARE WE DOING THIS?

The pandemic has, and will continue to have, a significant impact on the national and local economy. Our economic forecasts show that, due to the structure and make-up of Warwickshire's business base, the county is expected to experience a larger than average decline in economic output (GVA), and a higher than average increase in unemployment. We recognise that many businesses will have had to invest significantly to adapt and survive through this period and may struggle to access the finance they need to fully recover and prosper in the post-pandemic economy. Banks are likely to be more risk adverse in the near term, further restricting the availability of finance which are research has shown was already constrained within the local economy. The WRIF will therefore look to fill an identified gap in provision of finance to businesses looking to invest in the county.

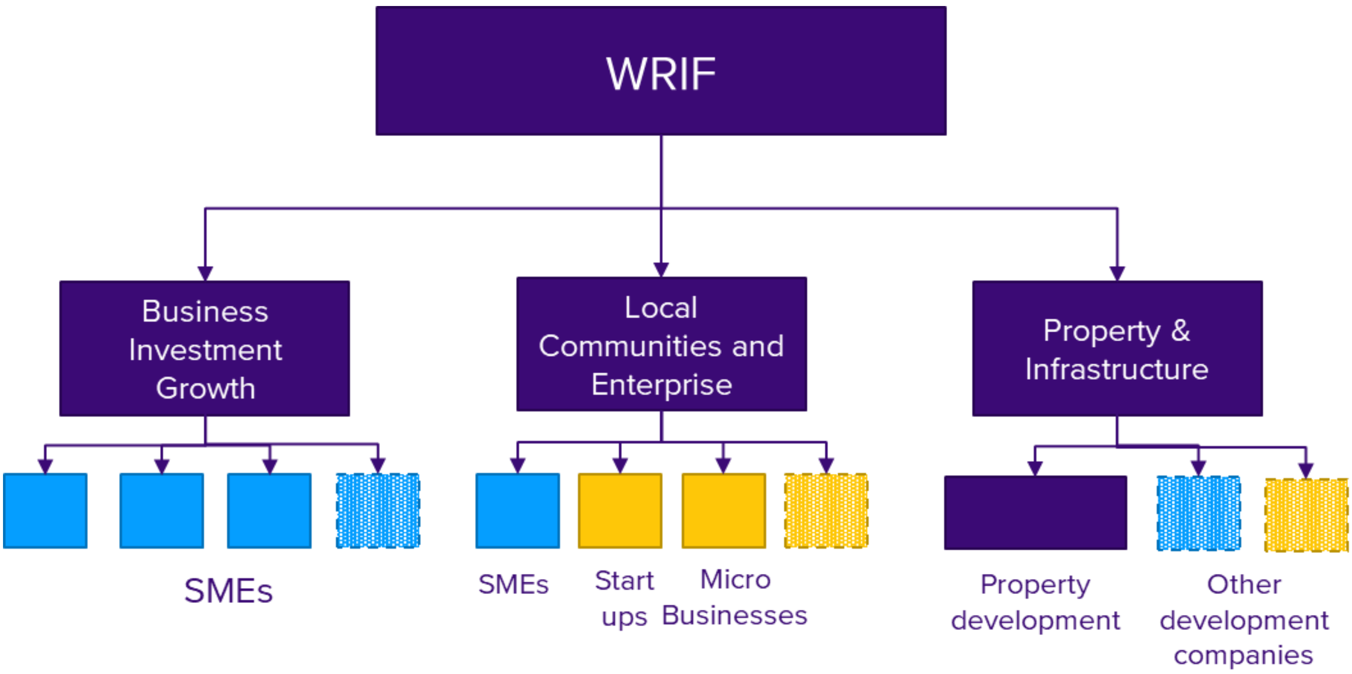
However, in the decade to 2020, Warwickshire had one of the fastest growing economies in the UK. The economic fundamentals that underpinned this growth (including our very strong knowledge and innovation base; sectoral strengths and industrial clusters that exist locally; highly skilled population; strong business start-up rates, high quality environment and transport accessibility) all remain in place.

A key priority for Warwickshire County Council is to support Warwickshire's economy to ensure it remains vibrant and is supported by the right jobs, training, skills and infrastructure. We are therefore looking to use the County Council's financial position to create the Warwickshire Recovery & Investment Fund to help deliver the Council's policy objectives to facilitate and support our economy recovery and future growth, safeguarding and creating new jobs within the county, drive productivity growth in the economy, and ensuring that Warwickshire is best placed to exploit the new opportunities that will undoubtedly exist as we move forward. As a local authority, we have a wider interest than just economic growth, and therefore keen to utilise the WRIF as an opportunity to promote and lever wider social value from our investments, which could include, for example, provision of apprenticeship opportunities, helping tackle inequality and poverty, supporting vulnerable groups, or enabling environment improvements.

Warwickshire County Council has also declared a climate change emergency, and we regard it as vital that our future is based on a low carbon economy, helping us move to our collective net zero ambition. We therefore will seek to use this fund to help encourage and support this shift to a more sustainable, net zero carbon economy.

WHAT ARE WE LOOKING TO INVEST IN?

The WRIF is comprised of three component parts, which have different objectives and areas of focus.



1. BUSINESS GROWTH FUND

This fund is looking to support existing businesses in Warwickshire, or those who are wishing to locate within the county, who are looking at growth or new market opportunities. We are particularly interested in businesses and sectors that will help drive the future of Warwickshire's economy, and those business activities that will help support our commitment towards a net-zero carbon economy. Priority sectors of interest to the County Council under this fund are:

Future Growth Sectors:

- Automotive Technology
- Digital Creative & Digital Technologies
- Future of Mobility
- Low carbon technologies

Other key priority sectors:

- Advanced manufacturing
- Culture, Tourism & Hospitality
- Modern methods of construction
- Health & Wellbeing
- Agri-tech and rural based businesses
- Businesses in the supply chain that support delivery of the Council's priority outcomes for people, for example public health, social care and education.

Focused on Medium Sized Enterprises (50-250 employees), but open to smaller or larger businesses on a case by case basis.

Investment proposals from businesses outside these sectors will be considered on a case by case basis, but most focus on innovation and future growth opportunities and will need to demonstrate a clear commitment to low carbon activities.

This fund will be looking to make a limited number of higher value investments over the five-year period. Investments will be predominantly debt finance, with loans expected to range up to a maximum of £10m. We are therefore expecting to invest in medium-sized businesses (50-250 employees, although we will consider larger or smaller businesses); that are at least 3 years old (or can demonstrate a track record of operations that demonstrate growth potential) ; can clearly demonstrate the growth potential of the business proposal; and can offer a good level of security over the investment. Alternative forms of investment, such as equity or mezzanine finance, may be considered on an exceptional basis.

Key objectives for this fund are:

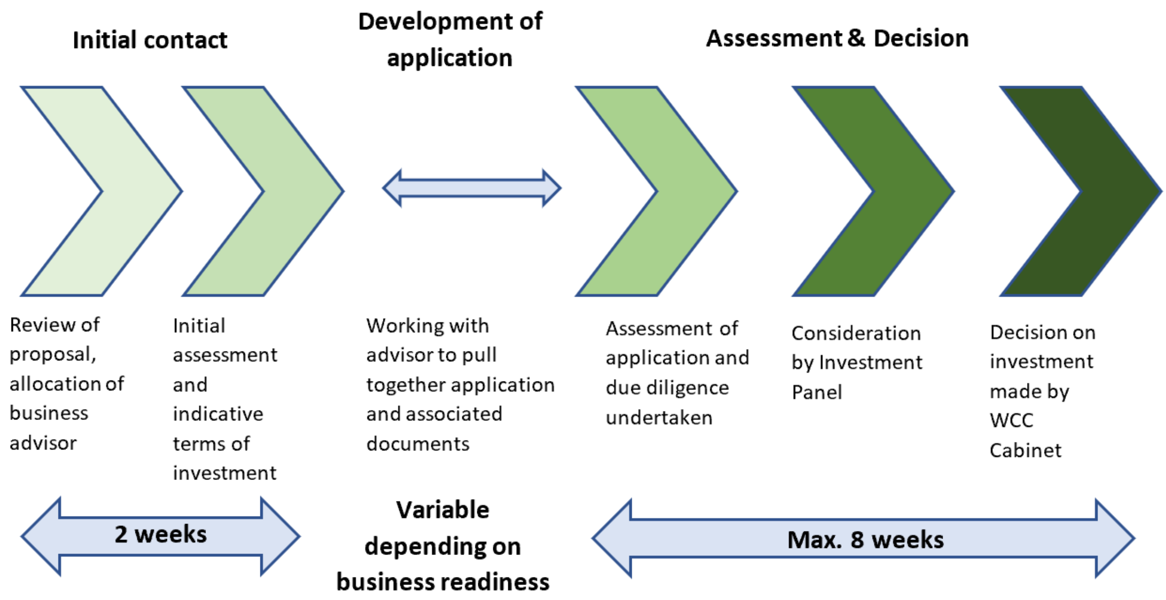
- Creating new jobs within the county
- Increasing economic output
- Levering additional investment into the county
- Increasing level of business rates
- Supporting transition to a low carbon economy

Process for applying:

Businesses who feel they meet the aims and ambitions of this fund are encouraged to make contact with the Business Growth team at Warwickshire County Council in the first instance to provide an initial view on the suitability of the fund. Subject to a basic eligibility test, a specialist advisor will then be appointed to work with you to review the investment proposal, assess the business plan and provide an initial indication on the broad terms on which an investment may be provided. If this is satisfactory, then more detailed work will then be undertaken with you to develop the application and collate all the information that will be needed for a detailed appraisal of the proposal and due diligence to be undertaken. Further information on the documentation that is likely to be needed is contained in the section "XX".

Following this review process, the investment proposal will be taken to an Investment Panel for consideration. The Investment Panel will be comprised of Warwickshire County Council officers and external advisors who will make a recommendation to the County Council's Cabinet for approval of the investment.

Our aim is for this process to be as streamlined and as quick as possible. Our intention is that, subject to all the relevant documentation and evidence being provided, a decision will be made within 8 weeks of submission of the application for funding. An overview of the process and timescale is shown below.



Key Information:

The predominant form of finance through this fund will be via commercial loan. The interest rate that be charged on such a loan will be determined through both a detailed assessment of the creditworthiness of the applicant, and the level of security that can be provided. The following matrix can be used as a high-level guide, but a more accurate assessment of the likely terms of a specific loan will be provided by our specialist advisors following a review of the investment proposal being offered.

2. LOCAL ENTERPRISE INVESTMENT FUND

Overview

This fund is aimed at smaller businesses, new business start-ups, early phase businesses, and social enterprises. Our focus is on micro (less then 10 employees) and small businesses (less than 50 employees) but will consider applications from medium-sized enterprises up to 250 employees on a case by case basis. Applications from businesses larger than this are not eligible for this fund.

The fund is open to all business sectors, but priority will be given to the following sectors that are particularly important and prevalent in our economy:

Building on our strengths:

- Advanced manufacturing & engineering
- Digital Creative & Digital Technologies
- Culture, Tourism & Hospitality
- Low carbon technologies

Other key priority sectors:

- Retail
- Community based enterprises
- Creative industries
- Health & wellbeing
- Social care or other supply markets to the Council

Focused on start-ups, micro and small businesses (less than 50 employees)

In addition, applications from under-represented groups, including female-led businesses, young people, care leavers, and from minority communities are particularly welcomed and will be given additional weighting when proposals are being assessed.

We are looking to make a larger number of smaller investments through this fund, and this would be predominantly debt finance through loans. We would expect that investments would not exceed £100k per business, although larger investments might be possible subject to a compelling proposal.

Key objectives for the council for this fund are:

- New business starts
- Helping small businesses grow and scale
- Helping establishment of social enterprises and community-based businesses
- Creation of new jobs (particularly including apprenticeship opportunities)
- Safeguarding jobs
- Supporting transition to the low carbon economy
- Support climate change adaptation and mitigation
- Delivering wider social value in line with the Council’s objectives

Process for applying:

Businesses who feel they meet the aims and ambitions of this fund are encouraged to make contact with the Business Growth team at Warwickshire County Council in the first instance to provide an initial view on the suitability of the fund. Subject to a basic eligibility test, a specialist advisor will then be appointed to work with the business, individual or group to further explore the proposal and assess the business plan. If needed, specialist support can be provided free of charge to help develop these ideas and business plan, helping develop robust investment proposals and advise on complementary finance options.

The County Council will be procuring a third-party provider(s) to manage and administer this fund on our behalf. Further information on the process for reviewing and approving applications for finance through this fund will be provided in due course.

Key Information:

The predominant form of finance through this fund will be via commercial loan. The interest rate that be charged on such a loan will be determined through both a detailed assessment of the creditworthiness of the applicant, and the level of security that can be provided. The following matrix can be used as a high-level guide, but a more accurate assessment of the likely terms of a loan will be provided by our specialist advisors following a review of the investment proposal being offered.

3. PROPERTY & INFRASTRUCTURE FUND

This is a flexible investment scheme that can be deployed to help the development of new employment land or commercial space to support the growth of our economy. Our focus is on supporting new development that will help provide the platform for the future growth of our economy and will therefore be linked to supporting growth in our key priority sectors. In particular, we are interested in supporting schemes that will help grow and expand our provision of property for the following key priority sectors:

Creating space for future growth:

- Automotive technology
- Digital Creative & Digital Technologies
- Future of Mobility
- Low carbon technologies

- R&D and innovation facilities
- New start-up, incubator and accelerator space

Other key priorities:

- New/upgraded spaces within our town centres, incl. retail, hospitality, culture, leisure, health & wellbeing, community-based enterprises, co-working/flexible work space
- Health & social care facilities

A flexible fund to help bring forward new employment land and commercial space.

Proposals that support sectors outside of the above will be considered on a case by case basis but must deliver on the key objective of creating net new employment opportunities within Warwickshire.

In general, investments will be undertaken by the County Council (or via a procured third party) to develop or bring forward new employment land/commercial space for businesses within these key sectors. We are therefore interested to hear from businesses who are looking for space within the County – these can be existing businesses or businesses committed to locating within Warwickshire.

Key objectives for this fund are:

- Creation of net new employment in the county
- Development of new employment land
- Development of new commercial space
- Supporting the transition to a low carbon economy

Process for applying:

Anyone interested in this element of the WRIF are encouraged to make contact with the Business Growth team at Warwickshire County Council in the first instance to discuss potential opportunities for investment.

HOW TO GET IN CONTACT?

Further details, information and news about the WRIF can be accessed through our website: www.warwickshire.gov.uk/wrif

Anyone interested in discussing their investment proposals should use the following contact details. All enquires will be responded to within 2 working days.

Warwickshire Recovery & Investment Fund Communications Plan 2021-22

Campaign Details

Communications:	Rachel Killian/Richard Harkin
Project Leads:	David Ayton-Hill/Richard Ennis
Link to Council Plan:	Warwickshire's economy is vibrant and supported by the right jobs, training, skills and infrastructure
Link to Recovery Plan:	Support existing business, attract new business and grow the economy: Build confidence in local businesses and provide our residents with employment opportunities in a thriving economy. Re-purpose town centres and create the conditions for business innovation and investment to drive economic growth Stimulate job creation and skills: Work with our partners in the Local Enterprise Partnership and higher and further education, to invest in getting people back into employment, or starting their careers, supporting skills, training and re-learning Invest in regeneration and a sustainable future: Invest in the regeneration of local areas, support housing growth, a fit for the future digital infrastructure and sustainable transport Make sustainability and tackling climate change central to our recovery so that we lay the foundations for a sustainable long-term future. **Link to Economic Growth Strategy 2020-2025** Our ambition is for strong economic growth, with seven strategic priorities and particular focus given to four sectors: automotive technology, advanced manufacturing, digital creative/video game development, and tourism

Context

The Covid-19 pandemic has had a significant impact on the economy in Warwickshire. Despite showing growth in several areas such as high tech and automotive, the county's economy has seen a sharp downturn both in terms of its output and rates of employment (the Council expects that unemployment could rise from 7,000 at the start of 2020 to over 30,000 by the time the effects of the third national lockdown are fully felt).

For Warwickshire, much of this downturn will be due to the restrictions imposed on the tourism, retail, hospitality and leisure sectors. Similarly, these sectors have a supply chain that will also have been very badly affected by their customers not being able to fully operate.

In response to this, Warwickshire County Council is launching a number of projects across Warwickshire, backed up by budget priorities, around economic recovery and business growth.

Foremost among this will be the Warwickshire Recovery Investment Fund, a £140m scheme which will, over the next five years, offer loans and other financial investments to existing and new Warwickshire businesses to help their long-term recovery and growth, create and safeguard jobs, and attract new inward investment into the county.

It will sit alongside the £160m Warwickshire Property Development Group which will deliver new affordable and market-priced homes and a range of commercial and mixed-use properties using the Council's existing land and property assets to drive growth and regeneration and create an environment and premises suited for businesses.

Objectives

- Raise awareness amongst residents and businesses in Warwickshire that WCC is investing time and money into the economic recovery of the county
- Raise awareness of WRIF funding among medium sized, and smaller Warwickshire businesses to increase interest in applying for loans initially, then attract applications when they are available
- Promote our local residents' skills to attract business into Warwickshire
- Increase interest amongst other businesses in partnering with WCC as part of strategy to lever external investment

- Increase local business confidence, highlighting success stories and countering the damage done to business morale by the repeated lockdowns and their impact upon the local economy
- Position WCC as an ambitious, innovative, forward-thinking and commercially-minded local authority on a regional and national level

Audience Insight

Our target audiences include:

- Businesses operating for more than three years demonstrating growth potential - Business Investment Pillar
- New and growing Warwickshire SMEs, who will be applying for smaller portions of funding - Local Communities and Enterprise Pillar
- Developers of housing, office and employment space to enable and accelerate development of property and infrastructure schemes – Property and Infrastructure Pillar
- Industry / business media, including property / construction sector to promote opportunities through WPDG, increase awareness around WRIF and improve confidence around Warwickshire as a destination for businesses

Those who need to be aware:

- Residents to instil confidence in WCC commitment to economic recovery
- Members
- Partners (LEP, Chamber of Commerce, Federation of Small Businesses, Warwickshire Towns Network, West Midlands Combined Authority, Midlands Engine, West Midlands Growth Company, British Business Bank)
- MPs, District and Borough Councillors, Town and Parish Councillors

Strategy

Our strategy to achieve our objective of behaviour change is based on the AIDA marketing model:

Awareness

Engage with our audience (residents, local businesses and local stakeholders) – promote the narrative of Warwickshire County Council as an authority which leads economic change.

This message should sit alongside that the County will do this while maintaining its targets on Carbon reduction and supporting proposals that have a positive social value ie create job opportunities at entry level

Integrate the WRIF and Warwickshire's ambitions for its economy, businesses, places and workforce into all communications where applicable.

Increase visibility of the WRIF on our owned, earned and paid channels and reach new audiences in partnership with other business organisations.

Create interest

Create opportunities for direct engagement between businesses to generate local awareness of each other and keep more business in Warwickshire e.g. webinars, LinkedIn

Create a narrative around how the Fund will encourage ventures that have a link to climate change and Carbon reduction, in line with Warwickshire's Climate Change strategy

Create interest among potential applicants who will bring a benefit and shape the place within Warwickshire ie those that will make the county more attractive a place to live, work and invest

Suite of FAQs linked to the WRIF webpage to engage and maintain interest. Signpost to other sources of support e.g. FSB, Chamber, Growth Hub, DWP

Share progress on rollout of loans with a ready reckoner of jobs created/safeguarded against value of loans awarded through existing schemes to show value of loans/grants

Desire

Share case studies showing success of enterprises and case studies of employees to showcase WCC role as initiator of employment.

Thought leadership – sharing information and experience tips on applying for grants/loans, information on latest stages of the WRIF at warwickshire.gov.uk/wrif

Action

Promote opportunities to apply for loans

Gather and share stories to generate further interest among local businesses and potential national investors

Gather and maintain a database of potential applicants and interested businesses and enterprises for future engagement

Implementation

After the initial announcement of the WRIF and the Warwickshire Property Development Group (WPDG) which sits alongside it and which will help to drive economic growth, there will be a period in which little can be added around those two initiatives as the local election will delay the process for it to go to Cabinet for ratification.

However, the additional funding streams made available will create opportunities for mention and avoid a loss of momentum. Cabinet of June 17 should see full approval of the WRIF Investment Growth Pillar at which point a full launch can be undertaken. We will use news releases for local, national and trade media, WCC social media, website articles, public facing newsletters, case studies on our own and on partners' websites to externally promote the breadth of projects supporting recovery across Warwickshire.

A webinar with key speakers can be arranged for this period to announce, explain and promote the scheme. Guest speakers might include WCC officers, portfolio holder for Economy, Representatives from partner agencies and recipients of existing economic recovery funding.

Partner events will also be sought where WCC officers can engage with regional business partners and organisations, directly promoting the WRIF to business leaders and benefitting from the promotion and links of these organisations.

This will run alongside messages being shared internally using the Intranet, appropriate communications from the Chief Executive, Assistant Directors and managers, internal blogs and newsletters and Working for Warwickshire.

Key messages for these platforms include:

- Warwickshire has a sound financial position that will underpin the WRIF enabling it to be more ambitious in its scope.
- Warwickshire will invest in access to finance for local businesses to enable them to be sustained and safeguard jobs in the short term, then grow and diversify creating jobs in the medium to longer term.
- Warwickshire will support local businesses by reshaping town centres to create positive places and conditions for business innovation and economic growth
- Warwickshire will invest and work with local partners to give people skills and training to get them into employment
- The proposed loans will be in line with the County's policies on Carbon reduction
- Among the criteria for loans will be strong business cases which incorporate social value ie creating job opportunities for unemployed, disadvantaged, young people into their proposals

We will also make greater use of partner channels e.g. Chamber of Commerce website, newsletters and social media accounts; FSB webinars and proactively seek slots for WCC subject matter experts to talk about the availability of loans.

We will build a repository of good news stories that can be immediately accessed by Marcomms and Economy and Skills officers, to enable quick reactive measures to capitalise on any opportunities or respond to requests.

Month	Key activity	Content plan
March	• Warwickshire Means Business (WMB) • Media releases and associated social media	• WRIF announcement • WPDG launch • Survive Sustain and Grow case study • Adapt and Diversify progress report • Announcement of additional funding for CBILS
April	• WMB • Media releases and associated social media	• Ongoing promotion of funding streams such as Adapt and Diversify; Survive, Sustain and Grow; Community Renewal Fund *While not directly associated with the WRIF, promotion of these activities will drive traffic through to our website and social media channels to enhance the audience for when we can announce the WRIF properly.*
May	• WMB • Media releases and associated social media • Partner newsletters and social media channels • Website updates • Local media • Trade and Municipal media	• 17 May: Further relaxation of restrictions in hospitality with links to existing support *Again, while not directly associated with WRIF, this will maintain continued engagement with the business community ahead of launch.* • Mid-late May: Potential appointments to WPDG Board (dependent upon availability of appointees to commence

	• Email	immediately – if not, then will be later than this) • 18-31 May: Start contact with national media, trade and business media, entrepreneurial websites and titles and industrial/financial correspondents, as well as partner organisations in and around Warwickshire to engage their support, in preparation for announcement via draft email and suggested talk with project managers
	• Internal comms channels W4W, SD briefing to staff	• w/c 31 May: Leader decision to commence procurement of WRIF fund manager
June	• Research potential for involvement in partner webinars e.g. Chamber of Commerce, LEP, FSB • WMB • Media releases and associated social media • Piece in Municipal Journal • Possible virtual event to promote the launch • WMB • Media releases and associated social media • Attendance at event • Sharing of content of event on social media channels	• w/c 31 May: Partner events/webinars • Ratification of WRIF and WPDC at Cabinet of 17 June (Call in ends 24 June) • 21 June: Reopening of tourism sector as social contact restrictions lifted link to grants and support available to that sector. Use this opportunity to push WRIF in the messaging. • 30 June: Potential to get WCC keynote speaker at Champions Event
July	• WMB • Media releases and associated social media	• Early July: Invitation to smaller businesses to apply for loans

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<td>Partner websites and social media outlets e.g. Chamber of Commerce, CWLEP, FSB
Explanatory PDF on application process for interested parties to request (enabling WCC to capture database of businesses/enterprises
Testimonials/case studies of previous recipients of WCC funding to encourage/inspire potential applicants (to go on WRIF website)
Testimonials, endorsements from local MPs, business leaders (e.g. Chair of CWLEP, Chamber, Chief Executive of Gigafactory, JLR) for website, media releases</td>
<td>Salaried appointments to WPDG commence in post (potentially July/August, dependent upon talent pool and successful candidates' notice periods)
launch of Business Investment Growth Pillar – Business Growth Fund</td>
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<tr>
<td>August</td>
<td>WMB
Trade and municipal media
Local and regional media</td>
<td>Salaried appointments to WPDG commence in post (potentially July/August, dependent upon talent pool and successful candidates' notice periods)</td>
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<tr>
<td>September</td>
<td>WMB
Event at company premises – this may not be appropriate or even possible for September so timeframe should be fluid
Local, national and trade media
WCC and partner websites
WCC social media outlets and website
Partner social media outlets and websites
WMB
Local, national and trade media</td>
<td>Possible announcement of first successful applications to WRIF. The first investment is expected to be approved by Cabinet in Autumn
Appointment of WRIF fund manager (LCE pillar)</td>
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	• WCC and partner websites • • Local, national and trade media • WCC and partner websites • WCC social media outlets and website • Partner social media outlets and websites • WMB • Blog from conference • Supply of graphics for WCC/CWLEP representatives to use on site • Additional promotional tool including banners, brochure to be designed	• Launch of Local and Community Enterprise Pillar – Small Business Fund • MIPIM Conference 7, 8 Sept
October	• WMB • Local, national and trade media • WCC and partner websites • WCC social media outlets and website • Partner/entrepreneurial social media outlets and websites	• Continued announcements of successful applications to WRIF Pillar 1 • • Appointment of WRIF fund manager (P&I pillar)
November		
December		
January 2022		
February		
March	WMB Blog from conference Supply of graphics for WCC/CWLEP representatives to use on site Video including successful applicants to BIG, testimonials from reps of key sectors eg battery site, creative industry	MIPIM Conference 15-18 March

Scoring and Evaluation

We will measure success by the following:

- Volume of appropriate WRIF applications (i.e. from businesses that have a reasonable chance of meeting the WRIF investment criteria)
- Audience reach of 1,000 unique visitors per month to the Warwickshire WRIF webpage (output)
- Achieve an additional 200 sign-ups to Warwickshire Means Business by December 2021 (output)
- Create a database of businesses signing up to receive further information and to engage with WCC on an ongoing basis.
- Achieve an increase in audience on WCC LinkedIn of 5% (outtakes)
- Inform and attract the target number of applications or expressions of interest for loans (behaviour change).